TRUMP UNIVERSITY

MARKETING 101

Newly Revised & Expanded Second Edition

How to Use the Most Powerful Ideas in Marketing to Get More Customers and Keep Them

DON SEXTON, PHD

WITH NEW ADVICE ON MARKETING IN A SLOW ECONOMY!

TRUMP UNIVERSITY

MARKETING 101

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TRUMP UNIVERSITY MARKETING 101

How to Use the Most Powerful Ideas in Marketing to Get More Customers and Keep Them

SECOND EDITION

DON SEXTON, PHD

WILEY

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To my terrific family,
Laura, Mitra, Daniel, Jonathan, Matt, Ian, Maya, and Nan
who are patient with me most of the time

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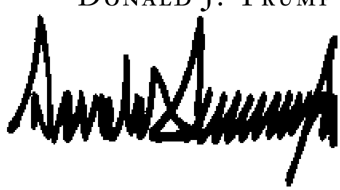
Foreword to the Trump University 101 Series

People often ask me the secret to my success, and the answer is simple: focus, hard work, and tenacity. I've had some lucky breaks, but luck will only get you so far. You also need business savvy—not necessarily a degree from Wharton, but you do need the desire and discipline to educate yourself. I created Trump University to give motivated businesspeople the skills required to achieve lasting success.

The Trump University 101 Series explains the most powerful and important ideas in business—the same concepts taught in the most respected MBA curriculums and used by the most successful companies in the world, including the Trump Organization. Each book is written by a top professor, author, or entrepreneur whose goal is to help you put these ideas to use in your business right away. If you're not satisfied with the status quo in your career, read this book, pick one key idea, and implement it. I guarantee it will make you money.

Donald J. Trump



Preface

Since the first edition of *Marketing 101* was published, the world economy has changed considerably. While the principles of marketing work in a variety of situations, we felt that it would be valuable to devote special attention to how to market in tough economic times. It turned out that there was a lot to say about how to survive and even thrive in an economic downturn. What began as a single chapter ended up as three chapters and an entire section of this book.

We have taken the opportunity presented by a new edition to add new chapters on marketing real estate. When I was writing *Branding 101* (Wiley, 2008), I found that there was almost nothing written about branding real estate and not too much more on marketing. Many of the books about marketing real estate—and there are several good books on the topic—focus more on the selling process than on marketing. In this book, I have provided chapters on both marketing and selling different types of real estate that utilize the marketing concepts and approaches explained earlier in the book.

Even if you are not interested in marketing or selling real estate, you may find those chapters very interesting and valuable as they provide many illustrations of how to put a marketing/selling plan into action, especially for a small business.

We have also added a final chapter on how to motivate and manage individuals and teams, which many readers had requested.

May all your marketing efforts be successful!

Don Sexton
New York City

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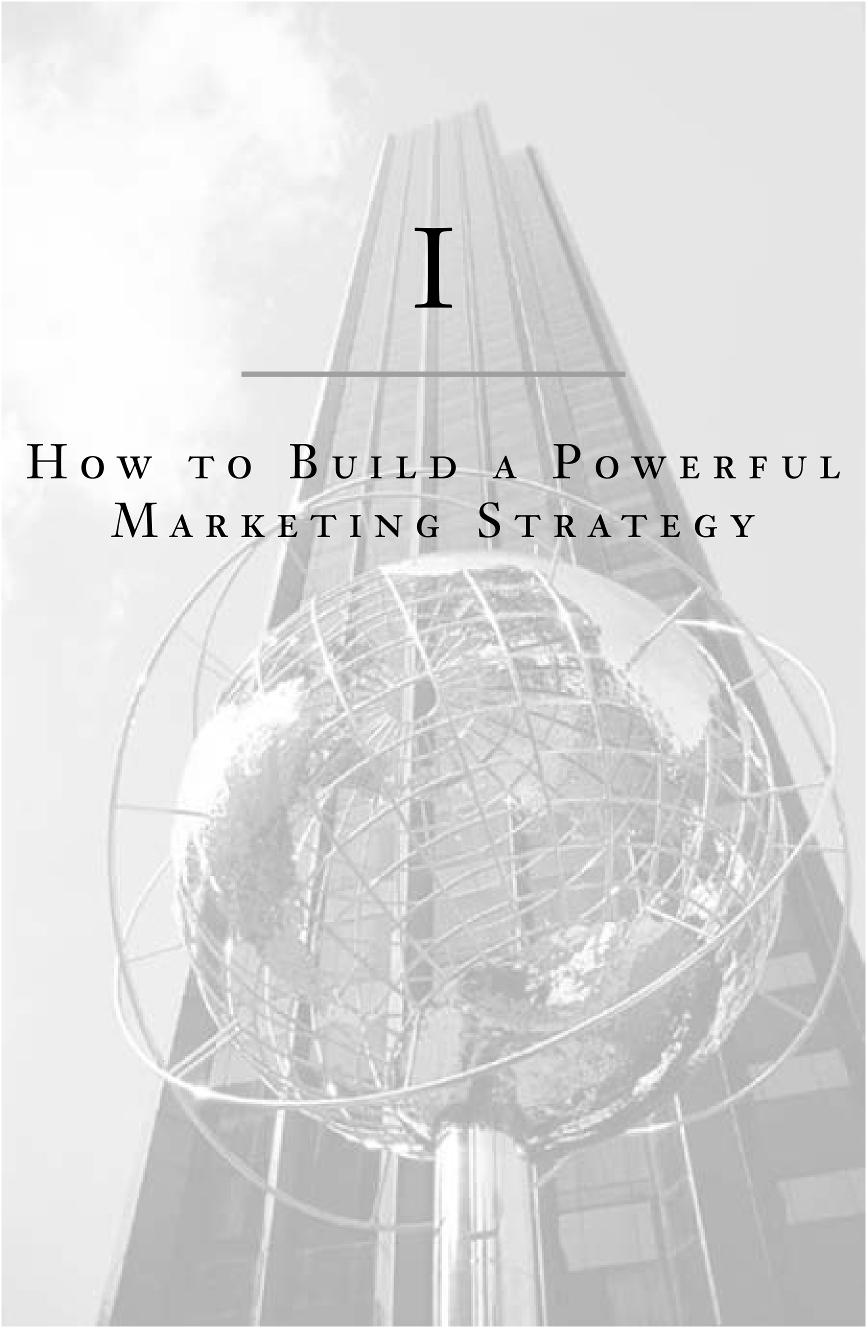
Much appreciation to many people: Donald Trump for his marketing passion, demanding standards, and ongoing support; many current and former executives of The Trump Organization who generously gave their time to provide examples and answer questions—Lark Anton, Michael Cohen, Jill Cremer, Tom Downing, Cathy Hoffman Glosser, Rhona Graff, Craig Isaacs, Susan James, Josef Katz, Selma Langer, Virginia McDowell, Michael Martin, Amanda Miller, Sara Nemerov, George Ross, Daniel Schutzenhofer, Paula Shugart, Donald Trump, Jr., Ivanka Trump, and Barry Weisselberg; and others who provided valuable examples: Anne du Boucheron, Robert Dugan, Barbara Hamlin, Babs Harrison, Mike Graham, DeAnn Kennygarrett, Iverson Moore, Corinne Nicolas, Dusan Reljin, James Runkle, and Amelia Vega; and Michael Sexton, the president of Trump University, for his stimulating vision and entrepreneurial energy. Special thanks and much gratitude to Meredith McIver, executive of The Trump Organization and accomplished author, for help way above and beyond all expectations. At Wiley, thanks to Richard Narramore, senior editor, who always knows what to do and how to do it best, and Ann Kenny, for all her support and follow-up. Thanks to all.



I

How to Build a Powerful Marketing Strategy

1

Trump on Marketing

Donald Trump

I believe passionately in my products and the high quality I provide my customers. That is the foundation for all my marketing. That passion should be the foundation for anyone in marketing. You must truly believe in your product and its ability to satisfy your customers if you are going to succeed in marketing.

Ultimately, marketing always starts with a product. Rarely will you see someone market something really well that is not a good product. The best advice for anybody looking to do a good job in marketing is to have a good product. It makes your life a whole lot easier.

You need a great product—one that your customers want and will pay for. I think a great example of marketing is what I did with The Apprentice. From a show that everyone said would not be on the air long, I made it the number one show on television. I had a product I believed in and I marketed it. How do you make a strong product? A lot of it is in the details, and a lot of it is in the quality—whether it is super high-end or low-end. Attention to details really can make the difference.

You build great products by paying attention to all the details that customers care about. Some people seem to confuse marketing with promotion.

I recently built a $300 million building. It was very tough to build because I needed zoning changes, I needed financing, I needed the construction, I needed to make deals with unions—I had to go through all of this. I ended up building something that was a great success and everybody said, "Oh, what a great promotion job he did." It had nothing to do with promotion. The project became a success because it was a great building. Many people who do not know me think that I am a great promoter, but the fact is that what I do best is build. I build a great product and then it sells and everyone gives me credit for being a good promoter. To me, a great promoter is a person who can take a piece of garbage and sell it. That's not me. I build really high-quality buildings. I think I do well in promotion because I start with a great product.

Promotion works—but only if you start with a great product.

I see many people who do things wrong in marketing. I know one developer who can never understand why I get so much more per square foot than he does. He just finished this building where he has tiny little windows and a terrible color brick. It is an unattractive building both from the outside looking in and the inside looking out. And he goes around telling people he does not understand why Trump gets higher prices than he does. The guy doesn't have a clue. The mistakes in marketing often have to do with mistakes in the product.

Your brand is your reputation—and comes from the strength of your products over time. Branding is an important part of marketing. The Trump brand stands for very high quality and very high confidence. People feel secure in the brand. That's why my building in Las Vegas is so successful. Other builders are not doing well and I am doing very well.

Because of the Trump brand, people buy in my buildings without ever having seen the units. They don't do that with other builders. My customers know the building is going to be the highest quality, the best architecture, and the best location.

A strong brand gives customers confidence—and leads to higher prices and higher demand. Great marketers are born with a marketing instinct. Although I have known people who developed into good marketers, I think that, like an athlete, it helps to be born with a marketing sense. If you don't have that intuition, you'll never be great in marketing. You can make yourself good, but you'll never make yourself great.

Trump World Tower skyline and the Manhattan waterfront.
Photo credit: The 7th Art, 1998. Photo courtesy of the Trump Organization.

A strong brand gives customers confidence—and leads to higher prices and higher demand.

You have in your hands a powerful introduction to all the most important ideas in marketing from a top marketing professor and consultant. If you do not have that marketing instinct, this book will help you learn it—and become a good marketer. If you were lucky enough to be born with it, this book will help you become a great marketer. Read on!

2

What Is Marketing?

Marketing is about people. It is about understanding what people want, then trying to give it to them at a price that they are willing to pay and a price that will provide you with an acceptable profit.

Marketing is about targeting. It is about strategically choosing which customers you want to try to satisfy.

Marketing is about positioning. It is about designing a product or service that has benefits that people want and cannot get elsewhere, then building your reputation—your brand—based on those things that you do well.

Marketing is also about advertising and pricing and promoting and distributing and many other marketing programs. But foremost it is about people and targeting and positioning—the strategic aspects of marketing. Without knowing to whom you want to sell and what you want to give them, you really cannot know how to advertise or price or promote or distribute effectively. Stop right now and ask yourself these three questions:

1. What do my customers want from my product or service?
2. Am I targeting the right customers?
3. What is the unique benefit of my product or service that my customers cannot get elsewhere?

POSITIONING TRUMP INTERNATIONAL HOTEL & TOWER

Trump International Hotel & Tower, New York City.
Photo credit: Jon Ortner, 2002. Photo courtesy of the Trump Organization.

The Trump Organization is a leader in building and marketing luxury hotel/condominiums in many locations, including New York City, Chicago, and Las Vegas. The positioning of each Trump International Hotel & Tower is the same as all Trump endeavors: "best of the best" and "exclusivity." For example, the Trump International Hotel & Tower in New York City, which has a five-star rating, was voted the best hotel in New York City by Travel & Leisure magazine.

Trump International Hotel & Tower is also an example of great marketing. Each building is designed with targeted high-end customers clearly in mind and terrific attention to all the details that those customers want. According to George Ross (co-star of The Apprentice, and executive vice president for the Trump Organization), the building design philosophy is "put your money where it can be seen." As a result, Trump condominiums are known for their smart layouts, impressive views, and top-tier fixtures and appliances.

Besides marketing to hotel guests, Trump International Hotel & Tower also targets buyers who want an apartment in the city, but not necessarily for full-time use. To reach these customers, Trump uses a creative new financial incentive, which is also a key marketing feature. Owners can use their units any time they wish and enjoy the exclusive services of the hotel and the security and privacy of the most exclusive apartment buildings in the city, but they also have the option to let Trump International Hotel rent out their units to hotel guests—and share in the income—whenever they are not occupying the unit. So owners enjoy rental income without the headaches of landlording.

At the New York City property, the buyers are from many parts of the world. In Chicago, the buyers are often from the suburbs and looking for a pied-à-terre, while elsewhere they may be retirees. Besides the hotel's amenities and services they enjoy when they stay at the International Hotel & Tower, these customers also share financially in the success of the property.

This book will help you sharpen and improve your answers to these questions.

Marketing Failures

Many large and famous disasters in business were failures in marketing. The Edsel was a car with styling no one wanted. Both the RCA VideoDisc and Polaroid's Polavision were products technologically inferior to competing products. The U.S. Air Force and U.S. Navy did not purchase the Northrop Tigershark fighter aircraft because it was designed without important input from them.

What all these disasters had in common were managers who thought they knew what their customers wanted when, in fact, they did not. Unfortunately for those managers, their mistakes of not knowing what their customers wanted cost millions or billions of dollars and perhaps their jobs.

Small Business Marketing Mistakes

The mistakes of large companies are repeated every day—with much less publicity—by owners and managers of small businesses.

Many small businesses do not think about marketing. They do not target their efforts to specific customers or position their services on specific benefits. They simply open up their doors and hope for the best.

Think about the dry cleaners in your area—Are they known for anything special? Think of the mom-and-pop grocery stores—Are they known for anything special? Think of the auto repair shops—Are they known for anything special? Think of the hardware stores—Are they known for anything special?

If they are known for anything special, then they know something about marketing—whether by instinct or by training. If not, then they are offering the world commodities—the worst word in marketing. A product or service that has nothing special about it is a commodity and can compete only on price. You need luck to survive if you are selling commodities.

Any business can be special to its customers. A dry cleaner can be known for its ability to remove any stain. A mom-and-pop food store can be known for stocking healthy foods. An auto repair store can be known for finishing work when promised. A hardware store can be known for providing do-it-yourself advice.

As I was growing up, my family's business consisted of installing water systems—pumps and pipes for housing developments, farms, and country clubs. Sometimes I worked with my father. He was known for something special—honesty, integrity, and willingness to go out anytime someone was without water—not always to my mother's delight.

When I was growing up, I had no clue what marketing was and what my father was doing. Today I understand.

Every business needs to have a way to make itself special to customers—a way to differentiate itself—and every business needs to focus on certain customers. In marketing, "You can't be everything to everyone"—you have to focus your efforts on those customers you wish to attract.

This book is designed to help anyone develop marketing strategies that target customers in attractive markets, with products or services that have great appeal, and that are implemented with well-designed programs such as pricing and advertising. In short, this book teaches marketing success.

Marketing in Good Times and Bad Times

During difficult economic times, marketing is especially important because it will determine the future of the organization. In prosperous times, customers often seem to come from everywhere and sometimes marketing decisions get sloppy. Marketing expenditures may be made without full analysis of their return. However, in difficult times, you need to allocate your marketing efforts very carefully because neither you nor your customers have all the resources you would like.

Some organizations make a grave mistake in tough times—they cut their marketing expenditures across the board, without taking the time to consider the results. Certainly marketing costs should be evaluated in a difficult economy, but uniform cuts applied everywhere are almost always a bad idea. Such cuts will typically have a negative effect on future sales from which the organization may not recover.

During tough times, marketing expenditures should be scrutinized for their likely effects. For example, one of the most important tasks of marketing is to retain current customers, but all current customers are not worth the same to you. You need to consider which customers are the most profitable in the long run for your organization and make sure you are satisfying them as well as you can. You can also consider new customers or new products and services, but again, you need to determine which options will provide you with the most return for your efforts.

For example, a car dealer should look carefully at their customer lists and determine those who have provided the most revenue and profits over time and those who might be expected to do so in the future. They can use personal notes and letters to show their ongoing support for those customers and ways they can help during an economic downturn. One auto dealer showed support for their customers during an economic downturn by offering loaner cars for anyone needing to get to a job interview. Such actions may not cost much but signal your customers that you are their partner.

Marketing Strategy/Marketing Tactics

Unfortunately, many people think of marketing too narrowly—as a bag of "tactics" and not central to their business strategy. Many marketing textbooks perpetuate this narrow view of marketing by defining marketing as the "4 Ps": product, price, place, and promotion.[1]

What is wrong with defining marketing as the "4 Ps"? The Ps are not all equal. One of them, product, is really a strategic choice, and must come before the other Ps. The three other Ps—price, place, and promotion—are tactics. If the product is not designed to meet customer needs, then a terrific price, a convenient place, and an exciting promotion will not save it.

What is missing in the "4 Ps" are many important strategic decisions, such as targeting markets and targeting competitors, which are addressed in this book. The tactical bias represented by the use of the "4 Ps" definition tends to marginalize marketing and remove marketers from discussions of strategy. Marketing is first about strategy, then about tactics.

To help get past this belief that marketing is just about tactics, when I'm conducting a workshop, I start by asking participants: "What kinds of

Exhibit 2.1 Selected Marketing Actions, Decisions, and Responsibilities

Strategic Areas	Tactical Areas
Understanding customers	Advertising
Identifying segments	Packaging
Targeting segments	Sales promotion
Designing the product or service	Personal selling
Positioning the product or service	Public relations
Establishing the brand	Internet marketing
Understanding organizational capabilities	Pricing
Understanding competitors	Distributing
Understanding the macroenvironment	Customer service

Source: "Arrow Guide—The Marketing Challenge," The Arrow Group, Ltd., New York, NY, 2008. Used with permission.

actions, decisions, and responsibilities do you think of when you think of marketing?"

I write their answers on two flip charts, sorting them into two lists—those answers dealing with strategy and those dealing with tactics. The typical responses I obtain are shown in Exhibit 2.1.

Marketing includes both strategy and tactics, but keep in mind that strategy must come before tactics. If the strategy is wrong—wrong target market, wrong positioning, and wrong target competitor—then it really does not make much difference how great the advertising or selling or distribution or pricing is, the product or service will fail eventually. In fact, the more effective the tactics, the quicker a poor product will disappear. There is a saying in advertising: If the product is poor, great advertising will cause it to fail even faster—as more people are persuaded to use it, more people will find out that they don't like it.

How Marketing Has Changed

Back in the 1950s and 1960s, marketing was mainly about tactics. If you examine the marketing textbooks from that era, most of the chapters were devoted to tactics such as pricing, advertising, and sales force decisions. Tactics were emphasized because the competitive environment of the 1950s and 1960s in the United States was what you might call a "quiet time" when, at least in comparison with today, competition was less intense and technology seemed to be moving more slowly. During the quiet time, well-implemented tactics could lead to success.

However, the competitive environment today is a "noisy time"—intense, widespread competition, fast-changing technologies, and ever more well-informed customers searching for deals on the Internet. During the noisy time, you need both well-developed strategies and well-implemented tactics to succeed. If you look at a marketing text today, you will see how marketing has changed. Current marketing texts devote a considerable amount of space to customers, competitors, targeting, and positioning—they emphasize strategy before tactics.

Customers and Their Perceptions

When Paul Simons took over a troubled Woolworth in Australia, he said, "If we were going to revitalize Woolworth, we had to start with understanding the customer."[2] All marketing strategy starts with understanding your customers and prospective customers, and how they perceive your products and your services. Customers behave according to their perceptions of products and services, not according to managers' opinions of the products and services they are trying to sell.

Customers' perceptions can be summarized as perceived value. Perceived value is not some fuzzy theoretical concept. In this book, perceived value is defined in a very practical way:

> *Perceived Value:* The maximum a customer or prospective customer will pay for your product or service.

Perceived value is not the price you charge—it is the ceiling on the price you can charge:

- Perceived value can be estimated and measured in monetary terms. In fact, an entire chapter (see Chapter 5) is devoted to just that.
- Perceived value varies across customers according to their needs and priorities. These groups are called *market segments.* (See Chapters 9 and 10 for further discussion.)
- Perceived value can be managed with both strategy and tactics.
- The higher the perceived value of your product or service, the higher your sales, profits, and cash flow will be.

A New Definition of Marketing

Everything you do in marketing affects perceived value. All the decisions, actions, and responsibilities in Exhibit 2.1 affect perceived value.

That is why the definition of marketing is definitely not just what is covered in the "4 Ps."

Marketing is managing perceived value. To manage perceived value, you must understand your competitive environment, target markets, position products and services, build strong brands, satisfy customers, set price, develop advertising, organize sales efforts, arrange distribution, forecast results, and motivate your people—and do all those things extremely well.

Marketing is managing perceived value.

That's what successful marketers do well. That's what this book is about.

Conclusions

Marketing consists of both strategy and tactics. Over time, marketing has moved from tactical decisions to both strategic and tactical decisions. Understanding the customer's needs and perceptions is the foundation of marketing. Marketing is managing the value perceived by the customers.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

3

Building a Marketing Strategy

A marketing strategy is the blueprint for how you will allocate your resources to achieve your business objectives. Without a marketing strategy, there is no clear focus on which customers you will pursue. Without a marketing strategy, there is no clear definition of what is special about your organization's products or services and why the target customers should buy them.

You need a marketing strategy to organize all your marketing efforts over time. You also need a marketing strategy because people you will ask for money—lenders, investors, donors—want to know what you will be doing with their money.

Organizations of any size need a marketing strategy. In fact, small organizations especially need a strategy because they may need to concentrate whatever resources they have against much larger opponents. In difficult economic times, you need a marketing strategy to guide the allocation of your scarce resources.

An effective marketing strategy can be summarized in just one page (Exhibit 3.1). In this chapter, we describe exactly what should be included on that page. In the chapters that follow, we move step-by-step through every element of the marketing strategy.

Exhibit 3.1 Product or Service Market Strategy

Product or Service: ____________ **Market Segment:** ______________

		Year			
		1	**2**	**3**	**4**
Objectives	Share				
	Profitability				
	Cash flow				
Positioning	Target DMU† member				
	Target competitor				
	Benefit advantage				
	Competitive advantage				
Programs	Design				
	Advertising				
	Identifiers				
	Promotion				
	Selling				
	Public relations				
	Pricing				
	Distribution				

†DMU: Decision-Making Unit (Chapter 4)

Source: "Arrow Guide—Market Strategy Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used with permission.

A blank version of this exhibit can be downloaded from www.trumpuniversity.com/arrowgroup and customized for your personal use.

What a Strategy Should Do for You

A good strategy delivers the three Cs—the main reasons for preparing a strategy:

1. Coordinate
2. Concentrate
3. Communicate

A strategy *coordinates* all your organization's resources and actions so that they are intended for the same goals. People you work with may have different views as to how they should run their functions. For example, a production manager may want just one version of the product to lower costs, whereas a sales manager may want many versions to please customers. A marketing strategy provides the opportunity for all views to be balanced so that all the functions of an organization are coordinated.

Targeting and Positioning: Trump International Hotel & Tower, New York City

Breakfast overlooking Central Park, at Trump International Hotel & Tower, New York City.

Photo courtesy of the Trump Organization.

The two most crucial components of a marketing strategy are the target market and the positioning. The strategy of the Trump International Hotel & Tower in New York City illustrates how they are defined and how they are intertwined.

Trump International Hotel & Tower provides high-income hotel guests and residents the Trump attention to detail and impeccable service that they demand. George Ross, executive vice president of the Trump Organization, says that in their construction, they use only perfect mirrored steel and only the finest marble (and each piece must match). The New York City Trump International Hotel & Tower includes the five-star restaurant Jean Georges (which provides room service) and unparalleled food for guests.

(*continued*)

(*continued*)

Overall cleanliness is given high priority—windows and carpets are cleaned much more often than in the properties of others.

The entire staff is extraordinarily attentive to customer needs. A former general manager of the New York City Trump International Hotel & Tower, recalls one incident of typical beyond-the-call-of-duty service where "A guest, a musician, had checked out of our hotel and was already at the airport before realizing he had left his prized guitar behind in his suite. He was on his way to a concert and could not perform without it, and did not have time to return to the hotel himself for fear of missing his flight. Our security staff located the guitar and a bellman personally brought it in a car to the airport to reunite it with the guest before he boarded his flight. The concert went on as planned!"

Achieving goals requires that efforts be concentrated on specific products, services, and markets. A long-time military precept is "concentrate your firepower." This precept holds in marketing as well. If you think everyone is your customer, then no one is your customer. If you never say no to anyone, you do not have a marketing strategy because you have not focused your efforts.

Finally, a strategy must communicate to all members of an organization what they are supposed to do. If your employees do not understand the marketing strategy, how can you expect them to implement it?

Marketing Strategy—Restaurant Example

Suppose you are running an Italian restaurant. You have done well so far without any special marketing strategy because yours is the only Italian restaurant in the neighborhood. However, recently, a national chain of Italian restaurants opened a new restaurant in your geographical area. What are you going to do?

You need a marketing strategy!

Before developing your strategy, you might consider what you know about your customers and potential customers. Perhaps many young families are in your area, or perhaps many seniors are in your area. You would want to think over what type of restaurant each of these groups might prefer.

You also need to imagine how the chain restaurant will compete. You would certainly go there and look over its menu. You would also probably anticipate that it will use some form of promotion to acquire new customers.

After you have collected your thoughts on your market and competition, you can then begin to consider different options. A useful way to do that is to imagine scenarios if you were to target particular groups of customers (known as target market segments; see Chapters 9 and 10). For example, you might choose to focus your efforts on young families because you think they are becoming more numerous in your area. If so, what items should be on your menu? How should your restaurant look? How should your waitstaff treat your customers? For what should your restaurant be known? All these decisions concern what is known as the positioning of your product or service (see Chapter 11).

As you go through this analysis, you should also be thinking about how the chain restaurant might react to your actions. You'd like to find a scenario where it will be at a disadvantage. For example, you would not want to engage in a price war because the chain restaurant likely has more financial resources than you do.

Your marketing strategy begins with your choice of target market, for example, young families, and your positioning, perhaps the tastiness of your food and the friendliness of your waitstaff. You may communicate this strategy by establishing your brand as "your favorite local Italian restaurant—we've known you for years." In turn, the target market, positioning, and branding would guide your advertising, promotion, and pricing. You would advertise in local newspapers read by members of these young families, aim promotions toward their children, and price accordingly. If your cash is short, you want to be sure whatever advertising and promotion you do is focused on your target customers. Money spent on customers who are outside your target market will not be as effective for you as money spent on customers who are in your target market.

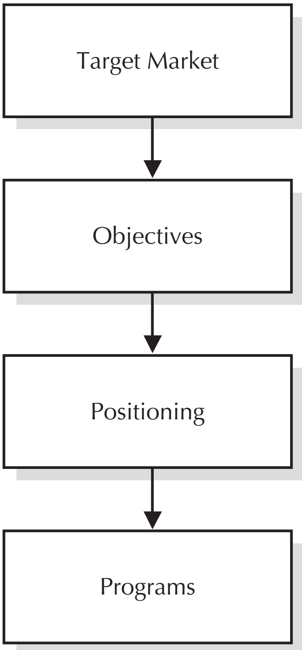
Whether you defeat the national chain depends on how well you execute your strategy. But if you and your employees follow your strategy, you will coordinate, concentrate, and communicate your efforts so that you are making the best use of your resources and will have the highest chance of defeating the competitor.

Components of a Product/Market Strategy

A marketing strategy has four major components (Exhibit 3.2):

1. *Target market:* This is the specific group of customers who will be the focus of your strategy.
2. *Business objectives:* These are the reasons you are in business. They are usually stated in terms of financial results such as revenue, profits, or cash flow, but also are stated as units sold or market share.

Exhibit 3.2 Components of a Market Strategy



Source: "Arrow Guide—Market Strategy Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used with permission.

3. *Positioning:* This is the one or two key benefits of your product or service selected to be the core of the strategy. The positioning serves to coordinate all the programs.
4. *Programs:* These are the actions you pursue to implement the strategy. Sometimes called tactics or the *marketing mix*, these actions concern activities such as advertising, personal selling, pricing, and distribution.

Target market and positioning are the heart of the marketing strategy. Without specifying your target market and positioning, your strategy cannot coordinate, concentrate, or communicate.

In the course of consulting with Fortune 500 companies, I have been asked to review countless marketing plans and provide comments. Half of the plans I reviewed did not clearly set forth their target market or positioning. These plans did not describe marketing strategies—they described tactics. They did not represent strategic marketing, they represented tactical marketing—an inadequate and likely dangerous approach during a noisy competitive environment. Determining tactics without having a clear strategy means you are making decisions without knowledge of their broader impact, an especially dangerous practice in tough economic times.

Suppose, for example, that you have an automobile repair shop. If you have made no choices regarding the types of cars on which you will work and the types of repairs you will do, then you have no basis for composing newspaper ads, designing direct mail pieces, or offering promotions. Instead, you may end up with generic marketing—trying to appeal to anyone who has a car problem. The difficulty with that is that you will be competing with every automobile repair shop in your area, and you will not be presenting the customers with some of the best arguments to come to you—your expertise with their type of car or their type of problem. In contrast, consider the chains that do lubrication or fix transmissions. By concentrating on their specialty, they attract a number of customers who very clearly know what to expect from them. As the owner of an automobile repair shop, you have to make sure your abilities are known by your potential customers. I happen to own an old British car and for many years patronized a mechanic whose shop was called "British Car Service." Was he an expert in British cars? I think so; certainly I believed he was, and that persuaded me to take my British car to his shop for routine and non-routine automobile work. For his marketing strategy to work, there needed to be enough British car owners in the area, but it seemed there were because his shop was successful.

This type of concentration is always important in marketing, but it is especially important during an economic downturn when cash is scarce among business owners and among customers. You need to maximize the return from your cash spent on marketing efforts and you do that by developing a strategy with a high degree of focus.

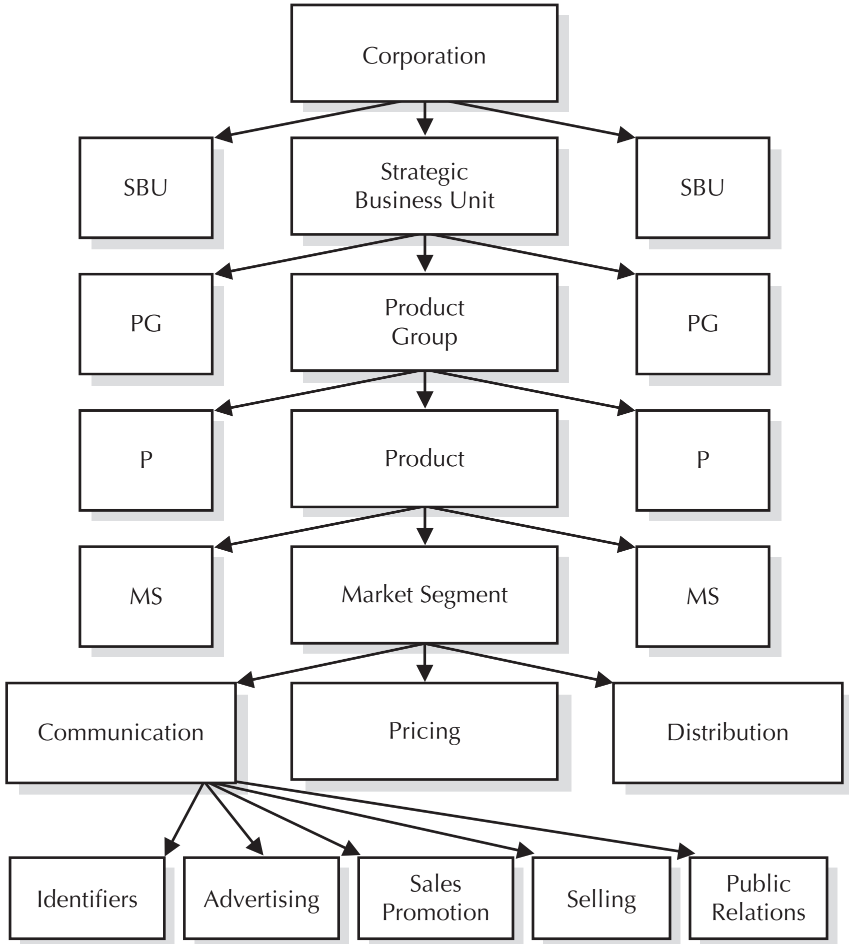
If you do nothing else about marketing strategy, make sure you determine your target markets and your positioning!

If you do nothing else about marketing strategy, make sure you determine your target markets and your positioning!

Hierarchy of Strategies

In many organizations—even small ones—there are often many levels and many strategies at each level. This is called the *hierarchy of strategies* (Exhibit 3.3).

Exhibit 3.3 Hierarchy of Strategies



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used with permission.

The broadest strategy in your business is your corporate or organization strategy. That is the strategy for all the activities, all the products and services, and all the markets in which the organization is involved. Not only is it the broadest strategy, it should also be the strategy that looks the furthest into the future because it should indicate how and where the entire organization should grow.

Below the organization strategy is the strategy for what are often called *strategic business units*, or SBUs. A strategic business unit is a collection of businesses that have something in common—resources, technologies, raw materials, customers, or competitors. General Electric (GE) has strategic business units such as Industrial, Infrastructure, and Consumer Finance. However, much smaller organizations may have strategic business units as well. For example, a restaurant may provide catering services and a dry cleaner may provide tailoring services.

Strategic business units typically consist of collections of products or services—that is, product groups. For example, GE Infrastructure has businesses that deal with aviation, rail, and energy, and each would have its own strategy. MasterCard has groups that deal with consumers and groups that deal with companies. Universities have marketing departments and finance departments. A restaurant may provide catering for children's birthday parties and catering for adult dinner parties.

Product groups, in turn, consist of specific products or services. The GE aviation business has several engines, each for different types of aircraft. A university marketing department may have courses in pricing and in advertising. A restaurant may have numerous meat entrees or fish entrees. Each of the products and services may be targeted to different groups of customers. For example, the GE 90 engine was specifically designed for the Boeing 777. Advertising courses might be targeted to students interested in careers marketing consumer products. Fish entrees might be targeted to health-conscious diners.

A strategy for a specific product or service focused on a specific target market is known as the *product/market strategy.*

Role of the Product/Market Strategy

Whether you are in a large organization or a small organization, the product/market strategy is the atom of strategic planning. It is the basic unit of planning for marketing and is not divisible.

More to the point, the effectiveness of your product/market strategies determines whether you make money. Organization strategies should be built from the product/market strategies. Objectives may be set from the top down, but to achieve those objectives, organizations must win customers—that is what the product/market strategy does.

The product/market strategy is the strategy for marketing a specific product or service to a specific group of customers. For example, a computer manufacturer might focus on universities or a glass manufacturer might focus on breweries. Among smaller organizations, a dentist might focus on children's parents, a food store on seniors, and a dry cleaner on customers who go to work early and need to find the cleaner open at those hours. These specific groups of customers are the *target markets.*

The product/market strategy is the strategy for marketing a specific product or service to a specific group of customers.

The *positioning* for each target market is the reason the marketer gives the potential customers in that group to buy their product or service. The computer manufacturer might provide proprietary software to the university and the glass manufacturer might provide fast delivery time to the breweries. The dentist might provide a child-friendly environment with toys and other diversions, the food store might have a broad selection of single-serving foods desired by seniors, and the dry cleaner might open earlier than its competitors.

Whether the organization is large or small, the product/market strategies must make clear the target markets and the positioning. How well they do that determines whether the organization succeeds or fails.

Program Strategies

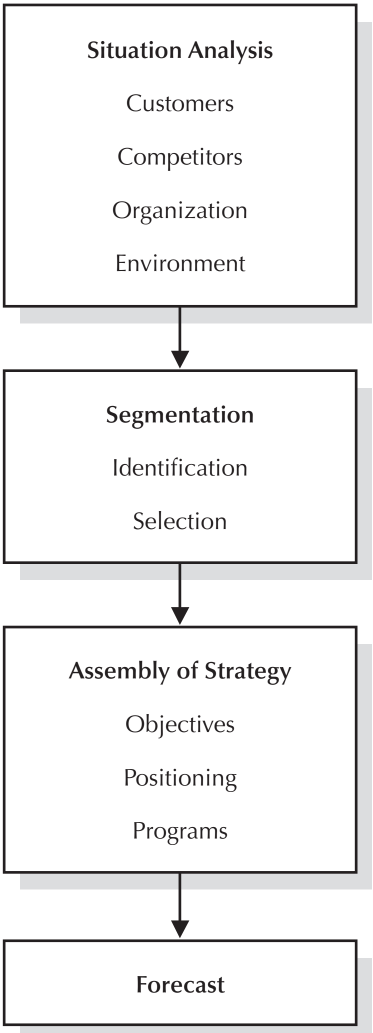
Programs include design, advertising, promotion, selling, public relations, Internet marketing, pricing, customer service, and all other actions involved in implementing the strategy. Overall, the programs are typically known as the *marketing mix.* Each program has a strategy that is discussed in later chapters.

Your target market and positioning decisions described in your product/market strategy coordinates all your programs. For example, Neiman Marcus and Wal-Mart have different marketing strategies that are reflected in their merchandise selection, advertising, and price points. Ritz-Carlton Hotels and Motel 6 have different marketing strategies that are reflected in their design, services, and price points.

How to Develop a Product/Market Strategy

Developing a product/market strategy requires several related steps (Exhibit 3.4). As you pull together your strategy, sometimes you must return to an earlier step and redo a particular analysis or change a particular decision. Real life is

Exhibit 3.4 Developing a Product/Market Strategy



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used with permission.

messy—not as simple and linear as the diagram in Exhibit 3.4. Developing a marketing strategy may require you to repeat some steps several times until everything fits together.

Each step is covered in later chapters. This chapter provides you with an overview of the process of developing the product/market strategy.

The first stage is known as the *Situation Analysis.* The Situation Analysis is when you develop a foundation for the product/market strategy by evaluating your competitive environment. You define *customers* and examine their needs. You identify *competitors* and predict their actions. You evaluate your *organization* with respect to its capabilities. You explore changes in the *macro-environment* such as demographic, technological, economic, social, or political trends that might affect you.

For example, to develop a strategy in the Italian restaurant example, you considered customers, the new chain competitor, and your own restaurant, as well as possible changes in the demographics of the area—more young families moving in.

The Situation Analysis usually produces three to five *key planning assumptions* on which the strategy will be based. If any of those key planning assumptions change, you need to review your strategy.

Segmentation consists of two activities: *identifying* market segments and *selecting* market segments. At this point, you make a tentative choice of a target market.

Assembling the strategy involves setting objectives, determining positioning, and outlining programs. All decisions are tentative until you finalize the product/market strategy.

The final step is *forecasting* the outcomes of the strategy—especially the business objectives. If the forecasts based on the strategy at least meet the business objectives, then this strategy is a viable strategy. If they do not meet the business objectives, then it is necessary to go through the process again—and again—and maybe again—until a viable strategy is found.

Finding a Marketing Strategy That You Like

Sometimes you can't find a strategy that delivers the business objectives you need. One option is just to lower the business objectives. Although sometimes you may have to do that, it is usually not the first option you want to consider.

Even if you find a strategy that you think will achieve your business objectives, you still should consider going through the strategy development steps again because you may find another strategy that is superior to the one you already found. To improve your strategy or to find a better one, reverse the steps of the development process.

You first might want to review your marketing programs. Perhaps you can improve your communications or your pricing. If that does not work, then you might examine your positioning. Perhaps you might focus on a different benefit or a different target competitor. If changing positioning does not help, then you might reconsider your target market or even how you segmented the market.

If you were trying to improve the strategy in the Italian restaurant example, you might first reevaluate your advertising plans or your pricing. Next, if necessary, you might reconsider your positioning on taste and friendliness, and perhaps focus on portion quantity and friendliness instead. If that does not help improve your strategy, then you might try to avoid the national chain and compete with another restaurant, perhaps the local pizzeria. Finally, you might decide to target young singles or even try an entirely new segment of the market. Each of those adjustments will change your marketing strategy and have an impact on the objectives you can expect to achieve.

You can change any part of your marketing strategy to find one that might be more successful. However, a product/market strategy is like a complicated piece of machinery: all the components must work together. You need to be systematic about any changes in your strategy, making sure that your target market and positioning are always clear so all the components remain coordinated.[1]

Conclusions

The product/market strategy coordinates all efforts of the organization to get and keep customers, concentrates the organization's efforts on specific markets, and communicates to all involved what must be done to get and keep customers. The heart of the strategy is the target market and the positioning.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

4

Understanding Your Customers

Understanding customers is the heart of marketing. All the major failures in the history of marketing can be traced to a lack of knowledge about customers' needs and wants. If you don't know the needs and wants of your customers, how can you possibly satisfy them? This chapter focuses on how to think about customers so you can be successful in marketing to them.

Why Managers Forget to Talk to Customers

Why do some managers neglect to talk to their customers when they develop a marketing strategy? Here are a few of the reasons:

- *Pressure to get short-term results:* Some organizations demand that their managers obtain profits in a very short period of time. Often this can lead to major marketing mistakes that end up killing profits in the long term. Such pressure is particularly pernicious during an economic downturn, when there is often pressure to cut costs to improve short-term profit—although profits may be improved in the short term, there may well be negative effects in the long term. Cost-cutting and ignoring its possible impact on customers can be very risky. For example, when an airline cuts amenities such as blankets and pillows, they may find that customers stop booking flights with them—they save pennies on pillows but lose dollars on fares.

- *Belief that they already know what the customer wants:* Customers are not always easy to figure out. They may see product advantages or disadvantages of which the marketing manager is unaware. Managers sometimes believe customers behave the same way as they do—that is not likely. And when economic conditions change—either down or up—customer behavior will likely change. Customers are always moving targets and their needs are tough enough to understand when you talk to them, but much more difficult to understand when you have little or no contact with them.
- *Unwillingness to contact customers:* When customers have nice things to say about your product or service, it is a pleasure to talk with them. However, when they have complaints, it is less pleasant. Customer complaints, in fact, should be treated as gold by organizations because they reveal ways in which performance can improve. Some companies, such as Xerox and Procter & Gamble, require their managers to read or listen regularly to complaints from customers. Recently, I had an unpleasant experience at a hotel. The hotel could have ignored my complaint, but instead the staff exchanged several e-mails with me and, hopefully, learned of a possible problem in their service offering. They accomplished this without spending a lot of money on a survey and just listening to a guest interested in helping them improve their service.
- *Belief in the product or service:* Some managers believe that their product or service is so terrific that every customer will demand it. On occasion, that can be true. Certain pharmaceutical products or certain electronic products, for example, may represent dramatic technological breakthroughs that provide benefits that everyone will want. However, even breakthrough products do not always succeed. Even when a product succeeds, you can expect competitors to imitate the pioneer product and improve on it. If you want to stay ahead of those competitors, then you need to be close to your customers and know their needs, especially if they are changing. One of the main reasons for a pioneering product to fail is not evolving the product

or service to keep pace with the customers' changing concerns and preferences.

- *Belief that it is not necessary to target customers:* There is a marketing joke where a sales representative gets into a taxi and says to the driver, "Take me anywhere. I have customers all over." It is a joke because the reality is that customers differ dramatically. Although everyone might be a potential customer, it is important to focus on the customers you want and the customers you believe you can satisfy better than your competitors can.

Benefits

Benefits represent the size of a customer's problem. Note that in marketing, a *customer problem* represents a golden opportunity—a customer need you hope to satisfy.

Why You Need to Talk to Your Customers

Atlantic City.
Photo courtesy of the Trump Organization.

Las Vegas and Atlantic City are the two largest destination markets for gaming in the United States, and both cities feature billion dollar properties where no expense was spared to create an atmosphere of upscale elegance. A former chief executive officer of an Atlantic City casino observed that the secret to managing these properties is simple—find out what is important to customers; then exceed their expectations.

While this may sound simple, the former CEO maintains that most companies never really invest the time or the resources to truly understand their customers, and make the serious mistake of assuming they know what customers want. For example, many gaming companies making significant capital investments in their facilities in an effort to improve results, when what is really needed are operational changes.

When you listen to customers, you sometimes get surprising results. In a recent comprehensive research study, customers of one casino were surveyed, as well as customers loyal to competitors in the Atlantic City market, Connecticut, and Delaware. The survey required customers to rank 19 different casino and service attributes in order of importance, then to rank each of the surveyed casinos on delivery or satisfaction.

The results? Customers' top priority was not headline entertainment, or free rooms, or free food. Not restaurants, or trendy retail shops, or the selection of slots and table games. The attribute most important to the loyal customers who were surveyed was cleanliness! This was a surprise to many who assumed that it was primarily the offers and amenities that customers wanted. "If you think about it, you won't be comfortable visiting any facility that is not clean, whether it is a movie theater, or a shopping mall, or a casino," explained an executive. "We know what is most important to our customers, quite simply because we asked them. And we listened to what they said." This gives us a competitive advantage in a very competitive market.

If you have an allergy, then your problem is how to feel better. Several benefits come to mind: getting rid of your headache, cough, or stuffy nose; getting rid of them quickly; and getting rid of them with no unpleasant side effects. All of these are dimensions of your problem.

If you are a working parent, then your problem may be finding a place to care for your young children while you are at work. The benefits you look for might include competence, responsiveness, and friendliness, as well as a pleasant environment, convenient location, and convenient hours.

If you owe money on your credit cards and the economy is in difficulty, your problem may be to find a realistic way to pay the monthly charges. You may look for a bank that is willing to help you by providing advice and helping you manage the payments.

Types of Benefits

You can classify benefits into three types:

1. *Economic:* This includes anything to do with money. The price, of course, is important, but economic benefits would also include costs of supplies or costs of maintaining a product or service.
2. *Functional:* Does the product or service do what it promises to do? Clear up a stuffy nose. Make millions of calculations with accuracy. Remove stains from a garment. Provide nutritious food in a restaurant. Help you find a home at a reasonable price in an area with good schools.
3. P*sychological (or emotional):* These consist of the feelings or beliefs associated with a product or service. These might include feelings of status from a luxury automobile or fashionable clothing but might also include many other kinds of feelings, such as feelings of reliability that a drug will work, of friendliness and courtesy in a restaurant, or confidence that a tax matter or a bad tooth will be handled correctly.

Meeting Customers' Needs: Dreyer's Low-fat Ice Cream

Good marketers listen to their customers. Dreyer's found out through marketing research that many consumers much preferred the taste of premium ice cream to that of low-calorie ice cream. In response, they developed Dreyer's Grand Light Slow-Churned Ice Cream—50 percent less fat and 30 percent fewer calories. Chris Deyo, vice president of marketing/business development for Dreyer's observed: "We've reinvented light ice cream with our patented process. . . . Consumers are skeptical. But once they try it, they won't be able to tell the difference between it and full-fat."

Source: Sonia Reyes, "Dreyer's Has the Scoop to Please Ice Cream Skeptics," *Brandweek* (May 10, 2004), p. 5.

Features Versus Benefits

Whereas a benefit is a dimension of the customer's problem, a feature is a specification of a product or service. For example, the seat on an airplane may be a certain number of inches wide—this is a feature. However, the width of the seat leads directly to a functional benefit, *comfort* for the passenger on the flight.

Some years ago, Westin Hotels and Resorts introduced the Heavenly Bed into their rooms—providing such a good "bed experience" that guests wanted to buy them. The bed was the feature; a good sleep was the benefit.[1]

Managers control *features*, but customers buy *benefits*. Many famous one-liners in marketing refer to features and benefits. For example: "Last year a tool manufacturer sold hundreds of thousands of drills that people did not want." They did not want the drills (feature), they wanted the holes the drills could make (benefit).

Managers control *features*, but customers buy *benefits*.

Who Is the Customer?

To develop a marketing strategy, you must focus on the customer, and it is not always easy to know who your customer really is. (For overviews of the field of consumer behavior, see Solomon.[2])

The customer is anyone involved in the purchase decision. In most instances, several people may be involved in the purchase decision. You must think through how the purchase decision is made to identify who might be involved.

Effective sales representatives are very good at discovering who will be involved in the purchase decision. The sales representative may not be able to or need to call on everyone involved in the purchase decision, but he or she must decide where to allocate his or her selling time to maximize the chance of obtaining the sale.

Decision-Making Unit

All the people involved in a purchase decision in any way comprise the *decision-making unit*. Different individuals may play different roles in the decision-making unit:

- *Gatekeeper:* Controls access to the members of the decision-making unit. "Look at this automobile ad I saw in the newspaper."

- *Initiator:* Starts the purchase decision process. "We do need a new car."
- *Influencer:* Has an interest in the outcome of the purchase decision and will contribute opinions. "I'd really like to buy a minivan so each of the children can have a seat."
- *Decider:* Makes the final decision ("signs off") but may not be the most important member of the decision-making unit. "I'll see what money we have in the bank."
- *Vetoer:* Stops the purchase. "I won't drive a car unless it has side air bags."
- *User:* Uses the product or service. "I need to have space for our children and the neighbor's children."

Some decision-making unit members may have more than one role. A teenager may suggest the need for a new car and may provide information about cars. A cat is the user of cat food but may be a vetoer by refusing to eat a specific brand.

Components of Perceived Value

As a marketer, you need to know how customers perceive your product or service. How they value your product or service overall is known as *perceived value*—the maximum they are willing to pay for your product or service.

Perceived value depends on four components:

1. The benefits you provide.
2. The actual performance of those benefits by you and by your competitors.
3. The performance of those benefits by you and by your competitors *as perceived by the customer*.
4. The relative importance of each of those benefits to the customer.

How all of these components are related may vary by customer, but you can evaluate them systematically by applying one of my planning techniques, a *Perceived Value Analysis*.

Perceived Value Analysis

There are six steps to analyzing the perceived value of your product or service:

1. Select a target segment.
2. Select a target member of the decision-making unit.

3. List the main competitors.
4. List the benefits associated with the product or service.
5. Estimate the relative importance of each benefit to your target customer.
6. For your company and for each competitor, evaluate the performance on each benefit *as perceived by your customer*.

Remember one very important point: The benefits, the relative importance estimates, and the perceived evaluations of performance must come from your *customers*. Although you can guess at what your customers want—and sometimes perhaps make pretty good guesses—it is always important to find out what your customers are thinking and feeling. The greatest disasters in marketing occurred because no one asked the customers their thoughts and feelings about a product or a service.

Perceived Value Analysis—Dry-Cleaning Example

To illustrate how the analysis works, suppose you were operating a small dry-cleaning establishment, DES Cleaners. You have four local competitors: Al's Cleaners, Barbara's Cleaners, Carol's Cleaners, and Dan's Cleaners.

Your current customers are mainly professional women and men—they will be your target customers for the analysis. Based on your experience, you make a list of the benefits you think your customers want from a dry cleaner and estimate how important each benefit might be. You also talk to some of your customers, show them the list, and obtain their opinions as to what benefits they want and how important those benefits are to them. This information is shown in Exhibit 4.1. (You can also download and customize a blank version of this worksheet to analyze the perceived value of your own product or service. See the source note in Exhibit 4.1 for details.)

Warning: When making lists of benefits, avoid words such as *quality* that are general and vague. Everyone knows what quality means to them, but everyone's definition of quality may not agree. Think of an automobile brand that you would consider a "quality" automobile. There are many such automobiles, but some are quality automobiles because of their reliability, some because of the luxuriousness of their interior, some because of their safety. Rather than use the word *quality*, you should provide the specific benefit that you have in mind. Quality is not an actionable word, except in a very broad sense. In marketing, you need to know the specifics of what makes a product or service quality.

Exhibit 4.1 Perceived Value Analysis—Dry Cleaners

Relative Importance	Benefits	DES Cleaners	Al's	Barbara's	Carol's	Dan's
10	Clean clothes	4	3	2	5	3
10	Stain removal	5	3	4	3	2
7	Quick turnaround	5	5	3	1	4
3	Courtesy	2	4	3	4	4
6	No damage	4	4	4	4	3
5	Convenient location	2	3	2	5	4
8	Convenient hours	4	3	5	2	4
4	Cleaning knowledge	2	3	3	5	3
5	Pressed neatly	3	3	3	4	3
4	Ability to make repairs	2	5	4	4	3

Note: Relative importance: 1—Not important, 10—Very important

Perceived performance: 1—Poor, 5—Excellent

Source: "Arrow Guide—Perceived Value Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used With Permission.

A blank version of this worksheet can be downloaded from www.trumpuniversity.com/arrowgroup and customized for your personal use. For any other use, contact Don Sexton at Marketing101@thearrowgroup.com.

Everyone knows what quality means to them, but everyone's definition of quality may not agree.

Next, consider how well customers think DES Cleaners provides benefits as compared with its competitors.

How do you find this information? You probably already know a fair amount about how you are perceived by your customers just by listening to your friends and your customers. However, you can also ask people or have your friends ask people what they think of your competitors. This is called a *survey*.

A larger company would likely commission a formal survey to discover the perceptions of their customers. Even though a small company, such as a neighborhood dry cleaner, would usually not have the money and time to commission a survey, the principle is the same: Learn how you are perceived by your customers relative to your competitors.

Your estimates of the perceptions of your customers for the various benefits can be gathered and recorded by downloading the blank version of Exhibit 4.1. When complete, the information can provide many insights.

In the example, notice how the dry cleaner, DES Cleaners, is perceived by customers. It does best on "stain removal" and "quick turnaround." Stain removal is one of the two most important benefits for customers, so that is very good news. Quick turnaround is very important to customers, although not one of the two most important benefits.

Based on the estimates in Exhibit 4.1, you might want to examine why customers do not perceive performance on "clean clothes" to be at the highest level. Another area you might consider improving is "convenient hours."

In fact, if you could raise your perceived performance in both "clean clothes" and "convenient hours," you would be a formidable competitor and likely very successful.

If you look at the competing dry cleaners, you see that only Carol's received a score of 5 for "clean clothes," and its performance on other important benefits such as "stain removal," "convenient hours," and "quick turnaround" was weak. Barbara's really has only "convenient hours" as a benefit that is perceived to be high; Al's has only "quick turnaround"; and Dan's does not have any benefit at all that is perceived to receive a high score.

None of these competitors can be assumed to be standing still, and each one of them may be trying to improve their perceptions among customers.

Although Exhibit 4.1 contains a lot of helpful information, keep in mind:

- The list of benefits, the relative importance estimates, and the perceived evaluations of performance must come from *customers*.
- Generally, perceived value is not additive, so resist the temptation simply to multiply all the perceived performance evaluations by the importance ratings.
- All the benefit rows are usually not equally important, so focus first on the benefits with the highest importance ratings—often they will determine the winners and losers.

Customers You Need to Know

You should know the needs and benefits sought by all your customers, but you should keep in mind what you can learn from different types of customers and be in contact with them on a regular basis. The kinds of customers include:

- *Current customers* let you know how you are doing now. You need to be in touch with them to monitor your current actions. You can also get ideas for new products and services by asking them about their future needs and how they will be satisfied.

- *New customers* give you important information about what is attracting people to your products and services, and the ways in which you are perceived to be superior to your competitors.
- *Lost customers*—those who defect—are very important to contact. They have valuable information for you, namely, where you fell short in satisfying them. It may be a benefit not delivered. It may be a negative interaction with someone in your organization. It may be a price thought to be too high. Whatever it is, you need to know about it before another customer leaves for the same reason.
- *Heavy users or high-tech users* are the experts on your product or service and those of your competitors. They can advise you of trends in the product category. They can guide you to problems that need to be solved. In addition, the heavy users probably comprise the majority of your sales.
- *Potential customers* are your growth opportunities. You need to know their needs and how those needs may differ from the needs of your current customers so you can redesign your product or service if necessary and so you can communicate to them the information they need if you are to persuade them to buy from you.

Conclusions

What customers pay must cover all the costs—and profits—of an organization. You must understand the needs and wants of your customers, not just now, but in the future. You must use customer information to identify and select target markets, and to position your product or service.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

5

Measuring and Managing Your Perceived Value

Perceived value depends on your customer's needs and wants, and how those customers evaluate your product or service relative to all your competitors. Perceived value is the maximum that a customer is willing to pay for a product or service.

The price you can charge and the amount of units you can sell both depend on perceived value. For example, if you allow customers to perceive that the value you give them is just above your costs, then your margins will be razor thin. Worse, if they perceive the value you give them is below your costs, then you will go out of business.

Alternatively, if your customers perceive the value you give them is much higher than your costs, then you either have high margins, high unit sales, or some combination of both—your choice.

Marketing is managing perceived value. It is important to know that perceived value is not some kind of fuzzy abstract concept. It can be measured. It can be managed. Here's how.

Marketing is managing perceived value.

Pricing: The Trump Effect

Trump Ocean Club International Hotel & Tower Panama.
Photo courtesy of the Trump Organization.

An independent research firm compared twelve Trump properties to competing properties in several locations, including New York, Las Vegas, Toronto, Panama, and Waikiki. On average, the Trump price premium over comparable units was 52 percent. The average sales velocity (units per month) was found to be nearly 700 percent higher than that for the competitors!

Why these differences?

Michael Cohen, Executive Vice President and Special Counsel to Donald J. Trump, and an investor in multiple Trump properties, explains, "As an investor in Trump World Tower property as well as a resident at Trump Park Avenue, I have carefully followed Mr. Trump's mantra of location . . . location . . . location. Trump properties are always situated in the most desirable locations, offer white glove services as well as state of the art amenities. It is not only a privilege to live in a Trump property but also a smart investment."

Source: "The Trump Organization Value-Added Market Study," Linneman Associates, July, 2007.

Measuring Perceived Value

To manage perceived value (or anything), you first must be able to measure it. If you cannot measure something, it is impossible to manage it.

Four common ways to estimate perceived value are:

1. Value-in-use
2. Direct customer response

3. Indirect customer response
4. Subjective estimation

Value-in-Use

The value-in-use approach estimates value to customers by looking at what their costs are while using their current product or service and calculates the price of a new product or service that would make them indifferent between their current product and the new one.

For example, suppose an office building used 500 light bulbs and changed all of them every 4 months (Exhibit 5.1). Current price per bulb is $1, but the major cost is the labor cost of changing all the bulbs, amounting to $4,000 three times per year. Suppose a new bulb has a longer life that would mean that the bulbs would need to be changed only twice a year. What would be the perceived value of that new bulb?

Their total cost with the current bulb is $13,500. Their total cost with the new bulb would be $8,000 plus the cost of buying 1,000 bulbs. If the new bulbs were priced at $5.50, then the office manager would be indifferent between purchasing the current bulb and the new bulb. That means the perceived value—maximum price willing to pay—is $5.50 per bulb.

Said another way, if the producer of the new bulb charged $5.50, it would provide no economic incentive for the office manager to buy the new bulb.

Exhibit 5.1 Value-in-Use

Example

Light bulbs

- Currently changed every four months @ $4,000
- Current price is $1
- 500 light bulbs

New light bulb requires change only every six months.

Current Cost

$500 \times 3 \times \$1 + 3 \times \$4{,}000 = \$13{,}500$

Cost with New Light Bulb

Price = ?

$500 \times 2 \times (?) + 2 \times \$4{,}000 = 1{,}000 \times (?) + \$8{,}000$

Implies Max price = $5,500/1,000 = $5.50

The value-in-use approach to estimating perceived value is especially useful in situations where the economic impact can be estimated. The value-in-use approach is less helpful in situations where emotional benefits or brand reputation are major components of perceived value.

Direct Customer Response

You can try to estimate how your customers will react to prices by asking them directly. If they are honest with you, this approach can provide you with useful information. However, often customers will give you artificially low answers whenever you ask them questions such as, "How much are you willing to pay?"

Rather than asking them, you might try different prices and see what happens. This is known as doing a pricing experiment. (Be careful—in some situations, laws prohibit charging different prices to different customers, so check with your lawyer first.) If you are able to charge different prices, then you can examine the impact on your sales, which will provide you with information about the perceived value for your product or service.

Indirect Customer Response

There is a set of marketing research tools known as *constrained choice models.* If you have a budget for marketing research, you might want to consider using one of these techniques to estimate perceived value for your key product or service.

How these techniques work is simple to understand. Exhibit 5.2 shows an example for a motel room. Suppose that a manager of a motel in a chain is considering two price levels ($200 and $300 per night) and whether to offer breakfast for free. They also want to understand the influence of their brand name on the customer's perceived value.

A customer is offered eight choices that cover all the possible combinations of price, breakfast, and brand name, and is asked to rank them in order of preference. What this means is that customers must give up something each time they make a choice. For example, suppose a $200 room rate, free breakfast, and a well-known brand name comprises their first choice. Then, when they choose the combination they rank second, if they want to stay at a $200 room rate, they must give up either the free breakfast or the brand name. If they want to keep the brand name, they must give up the $200 room rate or the free breakfast. If they want to keep the free breakfast, they must give up the $200 room rate or the brand name.

Exhibit 5.2 Conjoint Analysis Example—Motel Room

Order of Preference	Well-Known Chain Brand	Free Breakfast	Room Rate per Night ($)
5	Chain brand	Free	300
7	No brand	Free	300
6	Chain brand	Not free	300
8	No brand	Not free	300
1	Chain brand	Free	200
3	No brand	Free	200
2	Chain brand	Not free	200
4	No brand	Not free	200

Source: "Arrow Guide—Managing the ROI of Pricing," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Because the customer must give up benefits and cannot always choose the lowest price, this technique may yield more realistic responses and more accurate pricing information than the direct response approach.

The particular technique illustrated in the motel room example is known as *Conjoint Analysis* or, sometimes, *Trade-off Analysis*. Other methods of constrained choice models exist, but they all provide similar types of information.

The information they provide is an estimate of the overall perceived value—in monetary terms—for any bundle of benefits offered to the customer. Savvy marketers such as DuPont, Marriott, and Gillette often use these techniques to help develop their product design and pricing strategies.

These techniques also furnish organizations with estimates of what specific benefits are worth to the customer. For example, if a customer thought a "free" breakfast was worth $6 and it cost only $2 to provide it, the motel should consider offering the free breakfast because the value to their customer would increase more than their costs. Similarly, these techniques can be used to evaluate the worth of a brand in the eyes of the customer.

Subjective Estimation

If you do not have a marketing research budget and cannot afford a lot of data collection and some of the fancier statistical techniques such as Conjoint Analysis, what do you do?

You do what marketers have done for centuries—make a subjective estimate of perceived value. However, it need not come from thin air. You can develop a subjective estimate of perceived value *systematically.*

The first thing to keep in mind is that you are trying to estimate perceived value—not price. You will use perceived value to help set price (see Chapter 25), but perceived value is the ceiling on price, not price itself. Where you price is up to you.

Discussions with customers still can provide you with some idea of their perceived value for your product or service. You can also "try out" a few prices for their reaction, and that will help narrow what perceived value might be. Finally, you can survey the prices charged by your competitors and make allowances for how their products or services (and strategies) differ from yours to obtain some idea of what perceived value for your offering might be.

Putting all that information together, you can then make a subjective estimate of what you think is the maximum that target customers might pay—their perceived value.

Role of Perceived Value in Competition

Organizations compete in two ways—value or costs—and these are called *strategic themes.* Organizations can be located on the grid in Exhibit 5.3 according to how they perform on the two strategic themes. Both are important. You cannot focus on just one theme.

The *value theme* is perceived value—the maximum a customer is willing to pay for a product or service. Note that perceived value is not the price charged the customer but is the ceiling on that price.

The *cost theme* is incremental cost per unit—the cost of getting the product or service in the hands of the customer. This cost includes all costs such as production, communications, and transportation. Note that incremental cost is *not* the price charged the customer but is the floor on price.

Winning strategies are found in the upper right corner of the matrix:

- High perceived value/low incremental cost
- High perceived value/medium incremental cost
- Medium perceived value/low incremental cost

Exhibit 5.3 Strategic Themes*

VALUE \ COST	High	Medium	Low
High		*	*
Medium			*
Low			

Note: * = Winning positions

Source: "Arrow Guide—Strategic Theme Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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The strongest of all strategies, of course, would be high perceived value/low incremental cost, as then one could pursue either a high or low price strategy against any competitor and win. However, the other two strategies are often winning strategies because very few organizations are able to achieve a high perceived value/low incremental cost strategy. (One organization that has been able to provide highest perceived value at lowest cost is Southwest Airlines.)

Where you do *not* want your organization to be is low or medium perceived value coupled with high or medium incremental cost. Those cells are what Harvard Business School Professor Michael Porter has referred to as "stuck in the middle." Organizations stuck in the middle lose customers interested in high perceived value to organizations in the top row of the matrix and lose customers interested in lower prices to organizations in the right-hand column of the matrix.

High Perceived Value and Low Cost: Southwest Airlines

In 2003, Southwest Airlines earned $442 million—more than all the other U.S. airlines combined. Its market capitalization of $11.7 billion is larger than all competitors combined. In May 2003, Southwest boarded more domestic passengers than any other airline.

Southwest Airline's cost per available seat mile (CASM) is 7.60 cents versus between 9 cents and 13 cents for the large carriers. Southwest uses much lower fares, flies "point-to-point" (no hubs), flies only 737s, serves no meals only snacks (peanuts mainly), charges no fees for changing same fare tickets, has no assigned seats and no electronic entertainment on board but does have "relentlessly fun flight attendants" and high satisfaction ratings from their customers.

To see the power of combining low cost with high perceived value, consider the success of Southwest Airlines versus that of U.S. Airways: In the late 1980s, U.S. Airways had a 58 percent share of the San Francisco-Southern California routes, by the mid-1990s, Southwest had driven U.S. Airways out of them. In the early 1990s, Southwest entered Baltimore Washington International Airport where U.S. Airways had a major hub—by 2004, U.S. Airways had 4.9 percent of the traffic there while Southwest had a leading 47 percent share.

Source: Andy Serwer, "Southwest Airlines: The Hottest Thing in the Sky," *Fortune,* vol. 149 (March 8, 2004), pp. 86–90.

Strategic Themes—Dry-Cleaner Example

In the dry-cleaner example discussed in Chapter 4, suppose that Dan's Cleaners and DES Cleaners had the lowest costs whereas Al's, Barbara's, and Carol's had average costs. Then DES Cleaners would likely be in the upper right corner of the grid because it provided high performance on the two benefits of most importance to the customers. Carol's would be in the upper middle cell because it also provided high value but did not have the lowest cost. Al's and Barbara's would be stuck in the middle with no special benefit. Dan's would probably use low prices to attract customers because they did not offer high value on any benefit.

Increasing Perceived Value

Suppose you would like to move your position on the matrix toward the upper right corner. One way to do this, of course, is by decreasing costs. The other way is by increasing perceived value.

Perceived value depends on many things: the benefits the product or service provides, how well they are provided, whether the customer correctly perceives how well they are provided, how important the benefits are to the customer, and the brand reputation.

Perceived value can be increased several ways, but note that they all typically involve communications (Exhibit 5.4).

Add benefits and then inform the customer about them. A magazine publisher once changed the magazine's format in a very striking and attractive way. When asked how and when the customers were informed about the change, the publisher replied that the customers would see the changes when they purchased the magazine. Such thinking, of course, is backward—you need to inform customers about new benefits so that they might be persuaded to purchase.

Close gaps between customer perceptions of benefit performance and actual performance. One of the most famous and respected advertising campaigns ever—the Doyle Dane Bernbach introduction of the Volkswagen Beetle to the United States in the 1950s—faced the problem of customer skepticism

Exhibit 5.4 Increasing Perceived Value

Perceived Value Depends on:	Increase Perceived Value by:
Benefits	Communicating current or new benefits offered
Actual performance on benefits	Closing gaps between actual performance and perceived performance
Improved performance on benefits	Informing customer of improvements
Importance of benefits	Persuading customer of importance of selected benefits
Brand reputation	Building brand with consistency on important benefits

Source: "Pricing, Perceived Value, and Communications," Don Sexton, *The Advertiser*, New York, NY, 2006. Used here with permission.

about the quality and value of "foreign cars" (hard to believe today, but true). Volkswagen closed the gaps between perceived and actual benefits with fact-based, distinctive black-and-white magazine ads about availability of spare parts, engine reliability, and resale value. So effective were these Volkswagen ads in managing perceived value that Kawasaki motorcycles ran an ad imitating the Volkswagen ads, saying, "Think even smaller."

Improve performance, then tell the customer—in that order. In the telecommunications industry, sometimes companies have done this backward, telling customers that their service has improved before that has happened. Banks and fast-food chains sometimes have made the same mistake—touting their customer service before the service was improved. In contrast, both British Air and Continental Airlines improved their customer service, then communicated the improvements to customers with great positive impact on sales.

Persuade the customer that certain benefits are especially important. The certain benefits would be those that the company does well. To persuade customers to change their priorities is not always easy. Land Rover Discovery focused on the family market and emphasized their seating capacity (at the time greater than most of their competitors'). Seating capacity may not have been a priority benefit until Land Rover pointed it out. Some SUV manufacturers are currently trying to emphasize their (relatively) more efficient fuel consumption—a growing concern when gasoline prices increase.

Build the brand consistently on key benefits. Consistency is Branding 101. Campaigns as diverse as those from IBM, Visa, MasterCard, Foster's, GE, Mountain Dew, Samsung, Dow Corning, Pfizer, The Hallmark Channel, and Nokia have employed consistency over time and markets to build strong brands.

Whenever you increase perceived value, you may be increasing costs. As long as you are increasing perceived value more than your costs, you and your customers will be better off. The same is true in reverse. When you decrease costs, you may decrease perceived value, but as long as you decrease costs more than you decrease perceived value, you and your customers should be better off. (For more discussion of these ideas, see Sexton.[1]) For example, in the motel example, if the motel decides to provide a free breakfast and that breakfast is worth $6 to the guest and it only costs $2 to provide, then the net value of the motel experience increases $4. But if the motel is providing the breakfast for free and decides to do away with it to save the $2 cost, then the perceived value to the guest declines $6 and the net value of the motel experience decreases $4, which means that there will be fewer guests or the guests will pay less money per night, or both.

Cutting costs without thinking about the impact on perceived value to the customer is reckless. During economic downturns when there is a lot of pressure to cut costs, this type of aimless cost-cutting action occurs often (think airlines, for example). *Value engineering* consists of constantly examining the trade-offs between costs and perceived value so that perceived value can be managed effectively and efficiently. After all, that is what marketing is about—managing perceived value well.

Increasing Perceived Value: Dry-Cleaner Example

You can add services that your customers might value. For example, perhaps you want to guarantee free repair of any minor damages you find such as missing buttons.

You can improve your performance on a benefit. If "convenient hours" is important to a significant number of your customers, then perhaps you should consider opening your cleaning establishment earlier in the day or keeping it open later in the day.

You can be sure your customers know how well you deliver the important benefits. For example, if your dry-cleaning business is open at 7 a.m. and people do not know that, then they may perceive your operating hours not to be as convenient as, in fact, they are. This is what we call a "communications gap," and it is easily fixed by communicating to your customers your hours of operation with signs, handouts, or even advertising.

You can try to alter the relative importance of the benefits to the customers. If you attempt this, you are, of course, trying to persuade the customers to consider the benefits on which you perform well to be more important to them. If your dry-cleaning establishment consistently returns clothes that are undamaged, you might try to explain to the customers that such consistency is an important benefit that should not be taken for granted. Their clothes can be expensive, and they certainly do not want to take a chance on them being destroyed. Altering the relative importance of benefits to customers usually takes time, so it should be pursued only after due consideration.

You can also raise perceived value by increasing the positive impact of your brand. Once you have identified the main benefits for which your dry-cleaning business is to be known (for example, "We get out the toughest stains"), you repeat that consistently in all your communications with customers—advertising, signs, stationery, bills, everything.

Conclusions

Customers behave according to their perceptions of the value they receive, not according to the actual value they receive. Managing those perceived values is what marketing is about. Perceived value—the maximum a customer is willing to pay for your product or service—can be measured and can be managed.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

6

Understanding Your Competitors

You rarely have the good fortune to market in a vacuum where no competitors exist. You must assume that there are or will be competitors, and that they will be tough competitors.

You should treasure tough competitors—they keep *you* tough. When you are developing your marketing strategy, you should be clear who your target competitors are—the ones from whom you expect to win business. You don't need to take on everyone. Your target competitors will influence your targeting and positioning decisions. Keep in mind that you may be able to choose your competitors, but sometimes competitors will choose you.

**You should treasure tough competitors—
they keep *you* tough.**

In this chapter you learn the four key questions you need to ask about your competitors and how to answer them.

Building a Competitive Position: Trump™ Super Premium Vodka

Photo courtesy of The Trump Organization.

In 2008, Trump™ Super Premium Vodka flavors were launched: citron, orange, grape, and raspberry. J. Patrick Kenny, President and CEO of Drinks America, partner of The Trump Organization, described the new vodkas: "The five times distilled vodka is bursting with delicious, fresh flavor which delivers a smooth, clean finish."

In its first year, Trump™ Super Premium Vodka sold more than 100,000 cases and received a "4-Stars, Highly Recommended" rating from F. Paul Pacult's *Spirit Journal* and a "Superb (90–95) Highly Recommended" rating from *Wine Enthusiast Magazine*. The extension to flavors increases consumption by current customers and introduces the brand to new customers.

Cathy Hoffman Glosser, Executive Vice President of Global Licensing, The Trump Organization, observed, ". . . extending the product line to include flavors further establishes the brand in the premium vodka category. . . . We are looking forward to continued success and growth."

Source: Press release, The Trump Organization, April 22, 2008.

Analyzing Competitors

To analyze your competitors, you need to answer four questions:

1. Who are your competitors?
2. What do they want?

3. What can they do?
4. What will they do?

Who Are Your Competitors?

A *competitor* is any organization that can satisfy the needs of your customers—either now or in the future. Identifying current competitors is usually not so difficult. You consider the choices currently open to your customers—those are the current competitors. If you have a family restaurant, you can observe many of the current competitors simply by looking around. You can also ask your customers what else or who else they are considering as they make their purchase.

If you are a sales representative, one of the most important questions to ask a customer is who else the customer is considering. You should not denigrate competitors, but if you know who your competitors are, then based on the benefits the customers want, you should be able to determine whether your product or service is superior. Those benefits should be emphasized in your sales call.

More generally, knowing your competitors allows you to make more precise positioning decisions. For example, Visa had low penetration—only 20 percent—among small businesses in the United Kingdom. In 2003, Visa launched a campaign targeted at small businesses. Even though the American Express Business card was the market leader, Visa considered its target competitor for small businesses to be cash and checks, so it positioned and promoted the Visa card with benefits that cash and checks could not match—all transactions shown on monthly statements and use of cash without interest for 50 days.[1]

What Do They Want?

Different competitors may have different business objectives. For example, some may be focusing on short-term profits, some on long-term market share. Business objectives affect behavior. In the early 1980s, a survey was made of managers in U.S. companies and managers in Japanese companies. The U.S. managers ranked return on investment and stock price as their most important objectives, whereas the Japanese managers ranked market share, return on investment, and new products—each nearly the same—as their top three objectives. Many people interpreted the findings of this survey to indicate that during that period Japanese companies had much longer-term business objectives than did U.S. companies. If true, that would explain the very aggressive pricing strategies used by many Japanese companies to gain shares in the automotive and consumer electronics industries in the United States during the 1970s and 1980s.

Different competitors may have different business objectives.

You may not be competing with a U.S. or a Japanese multinational company, but if you know your competitors place priority on market share or sales volume, then you can expect them to be very aggressive—perhaps with low prices and special promotions.

What Can They Do?

To evaluate what your competitors might be able to do, you need to evaluate their capabilities and determine their strengths and weaknesses. For example, if you are running a restaurant, does your competitor have a great chef or well-trained waitstaff? Or does the competitor have a low-cost source of food or beverages?

You should list your competitors and, for each of them, identify what you think are their strengths and weaknesses, and the implications for the benefits they can offer customers (Exhibit 6.1; see also Exhibit 7.1).

Understanding your competitors' strengths and weaknesses not only can help you predict what they may do next, but can also help you determine your own response or—better—your own preemptive actions.

If a competing restaurant has a well-trained waitstaff, for example, maybe you need to improve the training of your staff or attract more skilled people by offering higher compensation. Or perhaps you need to do something else such as add items to your menu that may have appeal to specific target customers such as seniors, children, or health-conscious diners.

Actual Value Analysis

You can summarize the implications of your competitors' capabilities on the benefits they can provide with what I call an *Actual Value Analysis* (see Exhibit 6.2). An Actual Value Analysis has six steps:

1. Select a target segment.
2. Select a target member of the decision-making unit.
3. List the main competitors.
4. List the benefits associated with the product or service.
5. Estimate the relative importance of each benefit to your target customer.
6. For your company and for each competitor, evaluate the actual performance on each benefit.

Exhibit 6.1 Competitors' Strengths and Weaknesses

Competitor	Strengths	Weaknesses	Implications for Benefits

Source: "Arrow Guide—Strengths and Weaknesses Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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This analysis parallels the Perceived Value Analysis you performed in Chapter 4. Both analyses have the same format—competitors, benefits, priorities, and evaluations. The major difference between the two is that, in this analysis, you will try to evaluate the *actual* performance of each competitor on each benefit, not the value as perceived by the customer.

Exhibit 6.2 Actual Value Analysis—Dry Cleaners

Relative Importance	Benefits	DES Cleaners	Al's	Barbara's	Carol's	Dan's
10	Clean clothes	4	3	2	5	3
10	Stain removal	5	2	4	3	2
7	Quick turnaround	4	5	4	2	3
3	Courtesy	4	4	3	4	3
6	No damage	4	3	3	3	3
5	Convenient location	2	3	2	5	4
8	Convenient hours	5	3	5	3	2
4	Cleaning knowledge	3	4	3	4	3
5	Pressed neatly	4	3	2	4	2
4	Ability to make repairs	3	4	3	4	3

Note: Relative importance: 1—Not important, 10—Very important

Actual performance: 1—Poor, 5—Excellent

Source: "Arrow Guide—Actual Value Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

A blank version of this worksheet can be downloaded from www.trumpuniversity.com/arrowgroup and customized for your personal use.

Actual Value Analysis—Dry-Cleaning Example

Suppose you are managing DES Cleaners as you did in Chapter 4. Recall that your current customers are primarily professional women and men, and you assume that they are your target customers. The competitors are Al's, Barbara's, Carol's, and Dan's.

The benefits are shown in Exhibit 6.2, as well as the relative importance of each one to your target customer. Remember that information regarding the benefits to be included on the list and the relative importance of each to your target customer should be gathered from the target customers themselves by asking them directly or by surveying them.

The last step in the analysis is to estimate the actual performance on each benefit by you and by each of your competitors.

How do you get this information?

First, notice that such information is easier to get for functional benefits than for emotional or psychological benefits. Functional benefits, such as "quick turnaround" and "convenient hours," can typically be measured. Emotional benefits, such as "courtesy," are really perceptions and need to be measured by having objective individuals do the evaluations for those benefits.

For example, in the restaurant business and in the film business, people who evaluate benefits are professionals known as *critics.* If possible, you need some objective individual acting as a critic to provide the evaluations of the emotional benefits.

You can collect information on your competitors' performance by trying their services yourself or by having a friend, family member, or employee do so. Many banks ask some of their employees to open accounts with competing banks. As faculty director of several executive education programs for a university, I made sure that I was on the mailing lists of my competitors—other universities providing programs similar to the ones I was managing.

In the dry-cleaning situation, it would be relatively simple to have someone check out the competing dry cleaners for you. That would allow you to complete the Actual Value Analysis (see Exhibit 6.2).

What Will They Do?

If you have listed your competitors and evaluated them, you have one last task—predict what they will do next. If you don't try to predict what they will do next, then you have wasted your time considering them.

Predicting competitor actions is the outcome of analyzing competitors. It is a key planning assumption for developing the marketing strategy.

How do you predict competitors' actions?

First, generate some scenarios. *Scenarios* are possible strategies and actions that you think your competitors might do. For example, if you own a restaurant, you might expect a competitor to try a special promotion, perhaps giving discounts to families, or the competitor might add new items to its menu. If you have a real estate office, you may consider the possibility that one of your competitors may try to enlarge its presence by adding more agents, perhaps by hiring some of your people.

Second, evaluate which one of the scenarios may be most likely. You can do this by considering what your competitors have done in the past or what they are doing now. You can even try to put yourself in their shoes and determine what strategy you might follow if you were them.

The last step is to select what you consider is the most likely scenario for the behavior of that competitor. That becomes a key planning assumption when you build your marketing strategy.

If you think more than one scenario is likely, then you may want to develop more than one strategy to deal with each possibility, or you may want to develop a strategy that allows you flexibility to deal with whichever scenario actually occurs.

Price Wars

When you develop your marketing strategy, you will want to consider what actions you might take to counter which you consider to be the likely actions of your target competitors. You need to be very careful about following a competitor's price cuts because you may start a price war similar to those that have occurred in the airline, telecommunications, and automobile industries in the United States. Usually the only winner of a price war is the customer or consumer. (For further discussion of price wars, see Sexton.[2])

As we discuss in the chapters on marketing in tough times, competitors often decrease prices during economic downturns, precipitating a price war that may weaken all those providing the product or service (think U.S. automobiles). Here are a few ways to avoid a price war:

- Add value. Make your product or service more appealing. Continental Airlines has kept services and even added them, whereas other airlines reduced services.
- Unbundle your price. Use value-engineering (see Chapter 5) to change benefits and lower costs. Dow Corning offers the Xiameter® brand for some of their products—lower prices for customers who buy in large volume, know what they want, and order online.
- Segment the market. Target customers who are less price sensitive. For example, specialize your real-estate operation to upscale properties.
- Deploy a "fighting" brand. Introduce a low-priced brand—make sure you use a different name. When Smirnoff vodka was faced with price competition from Wolfschmidt vodka, they introduced Relska vodka, at a price point *below* Wolfschmidt.

Predicting Actions—Dry-Cleaning Example

In the dry-cleaning illustration, it looks like one of the more formidable competitors to DES Cleaners might be Carol's because they already have a relatively high score on the very important benefit "clean clothes." A possible scenario would be Carol's improving their stain removal capabilities so they could compete directly against your strength. If they were to do so, then DES Cleaners might need to improve their performance on cleaning clothes (which probably they should be doing anyway).

In contrast, Dan's Cleaners does not excel relatively in any of the benefits except perhaps convenient location. To be a more effective competitor on value, Dan's would need to improve their performance on several benefits at the same time, which might prove very difficult. A more likely scenario for Dan's might be that they would cut prices. If they do so, then DES Cleaners might have to consider how to respond—possibly with coupons to retain their customers versus Dan's lower prices.

Competitor Information

Information on competitors is usually considered some of the most difficult information for a manager to obtain. Actually, the problem is not in finding competitor information—it's plentiful—the problem is in organizing the information.

Much information about competitors is available without any need for approaches that might be considered unethical or illegal.

The simplest type of information to obtain is observation. Look at their place of business. Go there. Buy their products or services. See firsthand what they are like.

You can also ask your customers their opinions of your competitors and what they hear about their plans.

Newspapers and other publications may have information about competitors. Competitors' ads may be very revealing of their intentions regarding markets or products or services. Visit their Web sites—often they will be rich in information.

Suppliers may talk about your competitors—but if they do, they are probably talking about you also.

Overall, you can find competitor information from the following sources:

- Print media
- Broadcast media
- Internet
- Information services
- Marketing research providers
- Government
- Customers
- Resellers
- Suppliers
- Your employees
- Competitors (for example, speeches by their managers, advertisements)

The most important suggestion for competitor information is to have someone in charge of gathering this information. This person may be you.

However, someone needs to put all the information together, just like a jigsaw puzzle. Then you can use it to develop your planning assumptions regarding competitors.

Conclusions

Competitors' possible actions are often ignored in marketing strategies, but as one general observed, "The best plans do not survive engagement with the enemy." What the general meant was that plans need to be flexible in ways that allow you to deal with whatever your competitor throws at you. To do that, you need to go beyond merely listing competitors. You need to confront what competitors are able and likely to do, the consequences for you, and what you can do about it—before it happens.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

7

Understanding Your Organization's Capabilities

Once you have identified the needs of the customers in your target market, you must evaluate whether you can provide a product or service that will meet those needs. Just because you understand the customer's desires does not mean that you can satisfy them—especially at a profit. Everyone would like a device that would teleport them from one location to another with no discomfort and at a very low price, but that does not mean such a device will be available soon.

Your customers may want your haircutting establishment to be open every day, your automobile mechanics to be knowledgeable about every make of car, and your chef to be able to prepare every dish all the time—with no calories, but those expectations may or may not be met for a variety of reasons.

Customers tell you what they want. Your organization's capabilities determine what you can do for them. The stronger your capabilities, the more options you have and the more likely you will win. When you look at your capabilities, you first have to see them as they are. You need to look in the mirror with honesty, not wishful thinking. Then you can set about improving your capabilities.

Customers tell you what they want. Your organization's capabilities determine what you can do for them.

Many years ago, Komatsu, the Japanese manufacturer of earth-moving equipment, looked in their mirror and realized that they were weak in technology and that their costs were too high—especially with Caterpillar as their main competitor. They developed a systematic plan to improve their capabilities, step-by-step. They worked on technology, on product design, on lowering costs—but they never tried to do too much at any one time. After several years of hard work, they emerged as a worthy opponent of Caterpillar.

You may not face as sizable a challenge as that faced by Komatsu, but the idea is the same: evaluate your capabilities and improve them where you need to.

Capabilities and Your Marketing Strategy

You need to evaluate your organization's capabilities—determine what your organization does well—*before* you target markets and determine the positioning for your product or service.

Selecting target markets depends, in part, on your relative strengths in satisfying the needs of customers in a given market. For example, if you are considering opening a haircutting salon in an area with many trendy young people, then your staff should include stylists who are up-to-date on the latest trends—and who look like they are up-to-date. If you don't have such employees, either recruit them or you should consider a different market.

Positioning your product or service depends on your capabilities. If you want your health club to be positioned as a full-service health club, then you need both the equipment and staff to cover all those services. If you do not have such equipment and staff, either find that equipment and staff or you need to describe your health club as something other than full-service.

If your capabilities are not sufficient to win the market you want, you need to improve your capabilities or change your target market. If your capabilities do not support your desired position, you need to improve your capabilities or find a different position.

Capabilities During Good Times and Bad Times

Business plays out over time. In general, you need to predict what capabilities are needed in the future and whether your organization will possess them. For many years, the Swiss watch industry relied on its capabilities to produce precision mechanical watches, only to face fierce competition from digital watches, requiring them eventually to change their target markets, positioning, and mix of capabilities.

Good economic times do not put as much downward pressure on costs as do bad economic times. During economic downturns, many organizations rightfully scrutinize their cost structure, often becoming more efficient. However, as discussed in Chapter 32, you need to be careful about how you cut costs. Across-the-board cost cuts generally cause serious problems for an organization's ability to compete. You must compare the money saved by cost cuts with the money lost because of any losses in customer value to your products or

Capabilities and Customers: Mar-a-Lago

Mar-a-Lago.
Photo courtesy of Mar-a-Lago Club.

In his book *Trump Strategies for Real Estate*, Trump Organization Executive Vice President George Ross describes the history of Donald Trump and Mar-a-Lago—an excellent example of how capabilities can lead directly to satisfied customers.

Mar-a-Lago is a magnificent oceanside estate of 118 rooms and 62,500 square feet, built in Palm Beach, Florida, in the 1920s by Marjorie Merriwether Post. After her death, the property was managed by a trust but it was unsuccessful as a museum and put up for sale.

(*continued*)

(*continued*)

The property was purchased by Donald Trump who turned it into an elite, luxurious country club.

The transformation of the former mansion into an elegant club is an example of applying the Trump Organization's core capabilities—refurbishing and managing luxury property.

Refurbishing Mar-a-Lago required spending millions of dollars to modernize the kitchen; expand the dining areas; add luxury suites and cottages, a cabana and pool, championship-caliber tennis courts, a spa and top-level fitness facility, and a grand ballroom. All materials, such as stonework and marble, used in the restoration were of the highest grade and selected to be consistent with the aesthetics of the property.

The ongoing management of Mar-a-Lago includes a world-class chef and well-trained staff. Well-known entertainers are brought in on weekends. Donald J. Trump himself regularly walks through the property to ensure that every detail is in order. The result is a world-class country club with an initiation fee of $250,000—a testimony to the high perceived value created.

services that will decrease your sales. One small illustration: My local automobile dealer used to provide free coffee while you waited for your car to be repaired. They are now charging for that coffee to save money. Unfortunately, that small amount of cost savings may lose them much more in lost revenue from customers annoyed by now having to pay for coffee. To magnify the illustration, consider airlines and hotels that cut back on amenities to save relatively small amounts of money—they run the risk of losing much more in revenue.

Strengths and Weaknesses

You can start evaluating your organization's capabilities by performing an analysis of your strengths and weaknesses (similar to what you did when evaluating competitors in Chapter 6).

When you do a Strength/Weakness Analysis, try to focus primarily on the *capabilities* of your organization. Sometimes in a Strength/Weakness Analysis, people tend to throw in everything that they can think of about the organization. Besides capabilities, they often include business outcomes such as market share or sales growth. Positive business outcomes are certainly important, but they are not strengths. Business outcomes are the *results* of strengths (or weaknesses).

Similarly, try to avoid including benefits in the same list with capabilities. Benefits and capabilities are quite different from the viewpoint of marketing. Benefits are what your customers want; capabilities produce benefits and are what managers manage.

Suppose, for example, you provide services for people who get their water from wells because the municipal water supply is not available to them. Your capabilities might include a large inventory of spare parts and several knowledgeable employees. One of the benefits that those capabilities allow you to provide is prompt response if a customer calls because they are not able to get water.

Suppose you ran a small regional bus service. You have acquired buses that have suspensions superior to most other buses. Suspension is a feature of your product, a capability, but that capability allows you to provide your customers with a smoother, more comfortable ride, a benefit.

Capabilities are important because they provide benefits. You will find it helpful to keep capabilities and benefits separate in your Strength/Weakness analysis.

Types of Capabilities

Capabilities consist of:

- Skills
- Resources
- Features

A *skill* is usually expertise associated with a person—the haircutting talents of a stylist in a salon, the breadth of repair knowledge of an automobile mechanic, or the cabinetry abilities of a carpenter.

A *resource* is something inanimate—the spare parts inventory of a company that fixes water pumps, the equipment in a health club, or the parking lot of a shoe store.

A *feature* is a characteristic of a product or service—the suspension of a bus, the caffeine content of a drink, or the hours that a delicatessen is open.

Evaluating Capabilities

You can determine your organization's strengths and weaknesses with a Capability Analysis (Exhibit 7.1):

- List capabilities of your organization.
- Determine your target competitors.

- Evaluate performance on each capability relative to competitors on a 1 through 5 scale, where 1 is poor and 5 is excellent.
- Note any implications for providing benefits.

Any capability with a score of 4 or 5 is a strength; any capability with a score of 1 or 2 is a weakness. (You can download a blank version of the worksheet in Exhibit 7.1 to employ this exercise.)

Capability Evaluation—Dry-Cleaning Example

Capabilities of a dry cleaner might include modern equipment, equipment on premises, cleaning expertise, stain-removal expertise, tailor availability, order information system, skilled staff, courteous staff, number of staff, and accessible location. These would be entered in Exhibit 7.1.

Exhibit 7.1 Capability Evaluation Chart

Capability	Evaluation	Implications for Which Benefits
Modern equipment	3	Cleaning
Equipment on premises	4	Quick turnaround
Cleaning expertise	3	Cleaning and cleaning knowledge
Stain-removal expertise	5	Stain removal
Tailor available	3	Ability to make repairs
Order information system	4	Quick turnaround
Skilled staff	4	Cleaning, pressing, and no damage
Courteous staff	4	Courtesy
Number of staff	4	Convenient hours and quick turnaround
Accessible location	2	Convenient location

Note: 1—Poor, 5—Excellent

Source: "Arrow Guide—Capability Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Next, you would evaluate your capabilities—in this case, the capabilities of DES Cleaners. It is important to be honest when making these evaluations; otherwise, they will not be helpful. You should also evaluate yourself *relative* to your target competitors.

According to Exhibit 7.1, the main strength of DES Cleaners, a 5 rating, seems to be stain-removal expertise. However, other capabilities such as equipment on premises, order information system, courteous staff, skilled staff, and number of staff also received strong evaluations (4's).

Competitive Advantage and Benefit Advantage

Keep in mind that capabilities—skills, resources, and features—are not important by themselves. They are important if they enable your organization to produce a product or service that is superior to that of competitors in one or more ways. There was a time when some 747 aircraft featured piano bars. For most of the flying public, the presence of a piano bar is likely not a major attraction, so even if an airline had that capability, it would not be valuable in attracting customers from the general flying population. Having a piano bar would be a unique capability, but it would not be a useful competitive advantage.

A competitive advantage is a capability that allows an organization to provide one or more benefits to customers in the target market at a level superior to that of their competitors.

In turn, competitive advantages lead to benefit advantages—the heart of positioning.

A benefit advantage is a benefit to which customers in the target market assign a high priority and which the organization provides at a level superior to that of their competitors.

Competitive Advantage and Benefit Advantage—Dry-Cleaner Example

The benefit implications of the capabilities of DES Cleaners are shown in Exhibits 7.1 and 7.2, the Actual Value Analysis (discussed in Chapter 6). The benefits that DES Cleaners provide relatively well as compared with their

Exhibit 7.2 Actual Value Analysis—Dry Cleaners

Relative Importance	Benefits	DES Cleaners	Al's	Barbara's	Carol's	Dan's
10	Clean clothes	4	3	2	5	3
10	Stain removal	5	2	4	3	2
7	Quick turnaround	4	5	4	2	3
3	Courtesy	4	4	3	4	3
6	No damage	4	3	3	3	3
5	Convenient location	2	3	2	5	4
8	Convenient hours	5	3	5	3	2
4	Cleaning knowledge	3	4	3	4	3
5	Presses neatly	4	3	2	4	2
4	Ability to make repairs	3	4	3	4	3

Note: Relative importance: 1—Not important, 10—Very important
Actual performance: 1—Poor, 5—Excellent

Source: "Arrow Guide—Capability Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

competitors are clean clothes, stain removal, quick turnaround, courtesy, no damage, convenient hours, and neatly pressed clothes—all have scores of 4 or more in Exhibit 7.2, and all are possible benefit advantages for DES Cleaners to use in their positioning. Each benefit is supported by a competitive advantage—a capability where DES Cleaners is strong relative to its competitors.

In Chapter 11, the chapter on positioning, you will learn how to systematically identify competitive advantages and benefit advantages.

Conclusions

To succeed, an organization should have capabilities that allow them to provide benefits to their target customers that no competitor can provide as well. Such capabilities are known as competitive advantages and hopefully are sustainable over some reasonable length of time. The benefits they produce are known as *benefit advantages* and are the candidates for the benefits used for the positioning of the product or the service. Without competitive advantages and benefit advantages, you have a commodity—you will need to have the lowest costs if you are going to succeed with a commodity.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

8

Understanding Your Overall Competitive Environment

One of the first lessons of marketing is *know your market.* That means know your customers, know your competitors, know your organization, and know the overall competitive environment.

The competitive environment is complicated, so it is not necessarily easy to understand what is going on now, much less in the future. However, you can be *systematic* in examining your competitive environment, and that can help you determine what might happen in the future.

Statements about the future are the *key planning assumptions* on which any strategy must rest. Analyses of your competitive environment generate these planning assumptions.

These assumptions are the foundation for your marketing plan—if you see that any of them might be incorrect, you should revisit your marketing plan and change it as necessary. This chapter provides you with a systematic framework to look at what is in your competitive future.

These assumptions are the foundation for your marketing plan.

Watching the Environment: Donald J. Trump Signature Collection® Dress Shirts and Neckwear

The Donald J. Trump Signature Collection.®

Photo courtesy of The Trump Organization.

The Trump Organization licenses the Phillips-Van Heusen Corporation to manufacture and distribute dress shirts and neckwear with the Donald J. Trump label. In this brand alliance, The Trump Organization provides the brand positioning—power boardroom dressing—and the Phillips-Van Heusen Corporation provides the manufacturing and distribution know-how.

The Donald J. Trump Signature Collection® is following two trends in the competitive environment—a trend by some males to dress more formally at work and an increase in the demographic group of aspiring executives likely to purchase Donald J. Trump Signature Collection® shirts and neckwear. (Sales of men's suits increased by over 30 percent in 2004 after eight years of sales declines.[1]) It also involves another trend—the growing importance of resellers. The shirts and neckwear were launched exclusively in Federated Department Stores (including the Macy's chain), throughout the United States.

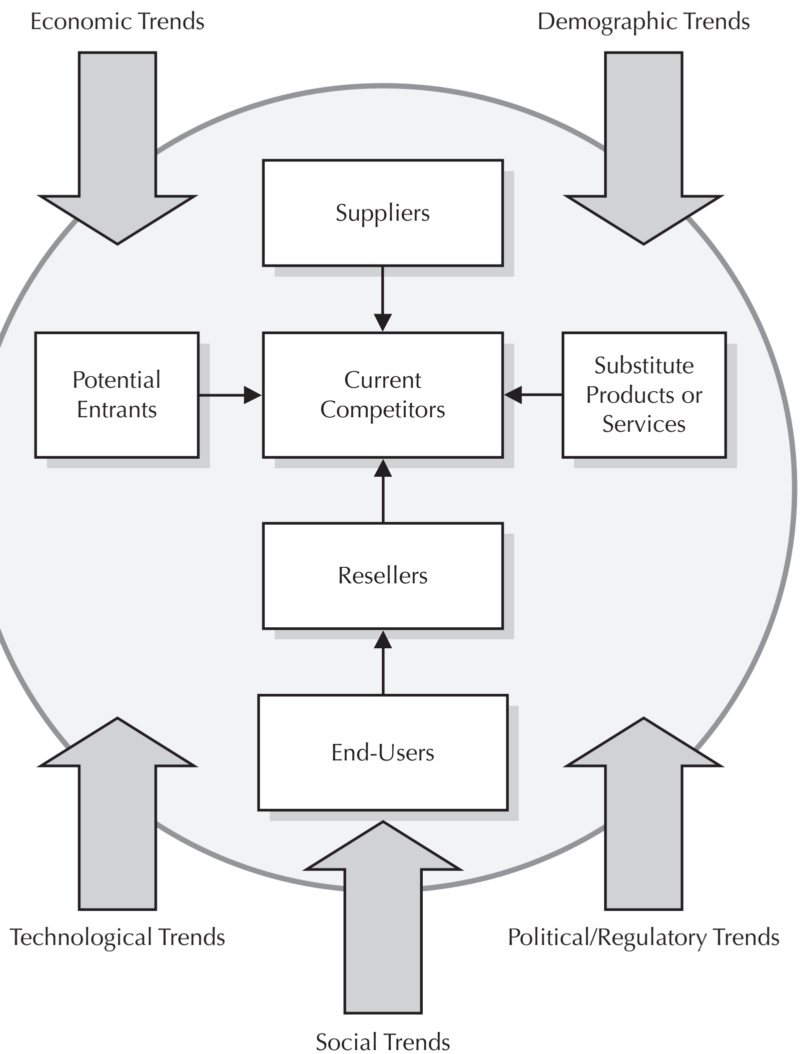
The Competitive Environment

There are a number of approaches for examining the competitive environment. The method followed here—the Situation Analysis—is based on an approach suggested by Michael Porter[2] but adapted significantly to make it more relevant to marketing decision making.

Consider your organization to be in the center of the diagram shown in Exhibit 8.1. Six *forces* can directly affect the performance of your organization:

1. Current competitors
2. Potential entrants
3. Substitute products or services
4. Suppliers
5. Resellers
6. End-users

Exhibit 8.1 Forces That Affect Organization Performance



Source: "Arrow Guide—The Marketing Challenge," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

The horizontal axis of the diagram is the competitive axis. Current competitors are your short-term competitors—the competitors that will likely have the most impact on your current performance during the coming year. Potential entrants are competitors likely to enter the market soon and thus are usually thought of as your middle-term competitors. Substitute products or services may be short, middle, or long term, depending on whether they currently exist. For example, for some people, tea is a substitute for coffee, which means that although it is a substitute product, it is a short-term competitor for coffee. If you were developing a new type of caffeine drink, that drink might be a middle-term or a long-term competitor for coffee, depending on the time when it would be launched.

The vertical axis is the *distribution chain axis.* It begins with your suppliers. In turn, your products and services may be sold through various levels of resellers. The end-users are your final customers.

Each of these six players may have an impact on your financial performance.

Current Competitors

Current competitors are organizations that currently produce and market products and services that look like your products and services, and provide the same benefits as your products and services. Generally, the more numerous the current competitors and the more capacity they have, the more intense will be the short-term competition. Often such competition takes the form of price wars.

You can avoid price wars with moves such as adding value and targeting markets; these are explored in later chapters. However, the best advice may be to try to avoid markets susceptible to price wars if at all possible.

Two aspects of a market that affect the likelihood of a price war are *exit barriers* and *entry barriers. Exit barriers keep you in a market* and include long-term contracts and legal constraints that prevent organizations from leaving.

Entry barriers keep you out of a market. Examples of entry barriers include capital requirements, special expertise, existing brand positions, transportation costs, and required permits or licenses.

Markets that are most likely to have price wars have low entry barriers and high exit barriers. It is easy to get in the market but difficult to get out. Conversely, markets where you might be able to avoid price wars often have high entry barriers and low exit barriers—hard to get in and easy to get out.

Potential Entrants

Potential entrants include what are often referred to as *followers*, organizations that have been thinking about and working on a product or service similar to that of your organization but are just now coming into the market. Followers may help develop the market.

Potential entrants may be imitators—producing products and services nearly identical to what is already on the market. Imitators typically set off a price war when they enter a market as they have no differentiation from existing products and, therefore, no specific reason to offer the customer to buy their product besides price.

Substitute Products or Services

Existing substitutes should have been taken into consideration when our product/market strategy was developed, so usually they are not the main problem in this category.

The substitute products or services that often are a concern are ones that are likely superior to your product or service. Although they are not currently in the market, they are expected in the future. Such products can "overhang" the market, which means that customers may not buy your product or service while they wait for the substitute to appear. For example, suppose you are in the catering business and have a catering hall. If a new hotel is about to open in your area, then prospective customers may want to wait and see what the facilities of the new hotel will be like before committing to you.

Even if they do not cause market "overhang," superior substitutes will obviously have an impact on the performance of your organization when they are launched—unless, of course, your organization also owns the superior substitute products.

Suppliers

If there are only a few suppliers of a critical raw material or component of your product or service, then they will likely have power over your organization. Such power is often translated into negotiation power as regards pricing and other terms.

Other issues with suppliers concern the quality of their product—that is, how it performs on the benefits of concern to us—and how reliable they are as a source. Reliability is a very important benefit for a package delivery company to provide. FedEx, for example, located their main U.S. sorting operation in Memphis, Tennessee, because the airport there is closed relatively few days each year—it is a reliable source of "good weather," a very important resource to FedEx.

Resellers

Organizations may sell direct to end-users, which is fairly common in business-to-business marketing of products such as chemicals, computers, and telecommunications equipment. However, even in those industries, smaller customers may be served by distributors.

Most consumer products and services are still sold through resellers even if some of the levels of distribution or some resellers are disappearing because of Internet marketing. In some product or service categories, there may be several levels of resellers.

Resellers have power over our organization if they "own" markets or customers; that is, if they are the main routes to those markets or customers. They may have built up a base of clients that trusts them and relies on them for their needs in certain product or service areas. For example, consumers may trust an electronics store or a health-food store for their expertise and integrity. That means to reach those customers you must use the services of the reseller.

End-Users

End-users are your final customers—they use the product or service for themselves. The price they pay must pay for everything that happens in the distribution chain. The profits of the suppliers, producing and marketing organizations, and resellers all depend on whether the end-user purchases the product or service and at what price.

In any marketing situation, knowledge of the end-users is absolutely crucial, even if you do not sell to them directly. DuPont, for example, has had many successful products such as Stainmaster® carpet fiber and Teflon® coating because of its attention to the needs of the end-user—even though it does not sell directly to that final customer.

Macro Trends

The competitive environment is also affected by macro trends. These include:

- Economic trends
- Social trends
- Technological trends
- Demographic trends
- Political/regulatory trends

It is important to examine these trends not just for the sake of curiosity or history but because they may have an impact on some or all of the players in your competitive environment. For example, changes in the age distribution of a county's population can have enormous implications for the healthcare market, and for physicians and dentists in particular. Decreases in home construction activity in an area affect all those providing building supplies. Changes in food handling regulations can affect how a restaurant does business.

In looking at macro trends, you should constantly ask the question: "If this trend persists, who will it affect and how will it change their behavior in ways that might affect the markets in which I am selling my product or service?"

Assumptions may concern economic trends. At the start of 2009, a McKinsey survey of executives found that three-fourths of them expected their nation's GDP to fall during 2009 (up from 59 percent in November).[3] If those respondents are correct, how might that affect an organization's future strategy?

Assumptions may concern social trends. Because baby boomers are "demanding great tasting foods that fit their healthy lifestyle and help them proactively manage their health," Kellogg launched potassium-rich Corn Flakes *with Real Bananas*.[4] For similar reasons, Pizza Hut introduced a lower fat pizza called "Fit 'N Delicious" with lower calories per slice.[5]

Assumptions may concern technology trends. In the video-game market, Nintendo was slow to change from cartridges to CD-ROMs, and from 1992 to 2002 that oversight caused Nintendo's share to decrease from 90 to 15 percent.[6]

Assumptions may concern demographic trends. Proportionately more single men and women are buying homes.[7] How does that affect the real-estate business?

Assumptions may concern political/regulatory trends. Restrictions on cigarette smoking have had significant impact on the tobacco industry.

Suppose you are a dentist. How might the growth in the number of children in your area affect your revenue? How would a protective coating for teeth affect you? If you own a restaurant, how might trends toward health consciousness affect you? Suppose you own a video rental store. What changes in video technology might affect you?

Key Planning Assumptions

After you have worked through an evaluation of the competitive environment, then you should step back and consider what changes or trends have the potential to have the largest impact on your marketing efforts. Those changes or trends are known as the *key planning assumptions.*

Normally, there should be just three to five key planning assumptions. The temptation is to make a long list of planning assumptions so that every possible event is covered. Unfortunately, such long lists are not very useful because they do not spotlight the most important assumptions.

Examples of key planning assumptions for a restaurant include:

- In the next two years, the number of young couples in our geographical area will increase by 20 percent.
- Because of an economic slowdown, people will be eating out less often.
- A new Italian restaurant from a national chain will try to attract customers with discount coupons.
- Local supermarkets will offer precooked Italian meals.

The product/market strategy is built on the key planning assumptions. Those assumptions need to be checked regularly. If you have reasons to believe that one of them is no longer realistic, then you should replace that assumption with a new one that is correct and then reevaluate your product/market strategy and, if necessary, redo the strategy.

Conclusions

Before developing any marketing strategy, you should immerse yourself in what you know about the markets in which you are interested. You should read all you can about those markets. Look at what competitors are doing in those markets. Talk to customers or potential customers in those markets. Consider any trends that affect those markets.

Once you have reviewed and sifted through all that information, then try to summarize it with a few key planning assumptions. Then you are ready to start assembling your marketing strategy.

For review questions for this chapter, log on to www.trumpuniversity .com/marketing101.

9

Identifying Your Possible Markets

If you think everyone is your customer, then no one is your customer. Marketing is about meeting the needs of targeted customers. Customers are different. They have different needs and different priorities. If you do not focus on specific customers, then you will not have customers because competitors will target their efforts on specific customers—the most profitable ones—and win their business.

If every customer were the same, then there would be no need for this chapter. But customers are different and marketers must always keep that in mind.

There are two distinct stages for determining your target market: identifying possible target markets and selecting your target market. This chapter shows you how to *separate* a market into market segments. The next chapter explains how to *choose* which segments on which you want to focus your efforts.

Failure to Target Markets

Once I was teaching a course in which students worked in teams to develop marketing strategies for luxury products. One team had the assignment of

Targeting the VIP Segment

VIP customers—guests who are accustomed to preferential treatment at the finest resorts around the globe—require extra care. According to one hospitality industry executive,, "It's not the suites or the gifts that matter most to these customers, it is the personal attention and recognition. We retain their business because of exemplary service." For example, [we] employ highly trained butlers dedicated to taking care of the most elite guests. "We know what specific linens they prefer on their beds, the brand of imported tea to serve with their breakfast. We know what flowers to place in the suite upon their arrival, and more importantly, what flowers they may be allergic to."

Sometimes, the butlers even know the customers better than they know themselves. A butler at one resort noticed that a guest he knew very well looked particularly pale. The butler insisted that the woman seek medical attention, and she eventually agreed. When she was examined, a serious medical condition was diagnosed and treated. And now she's doing fine.

"We do understand how important it is to make our guests smile," the executive explained. "In some cases, it may be a promotion in the middle of the winter where we give our guests portable snow shovels. For the higher level of customer, we even may give them a snow blower. But the difference is that, for a VIP customer, we also know when to hire a crew, send them to the VIP customer's house, and plow their entire driveway."

assembling a launch strategy for very expensive stationery. Halfway through the semester, a member from each team gave an oral report on their progress. One member of the stationery team said their target market was composed of men and women between the ages of 18 and 80!

That market choice was unacceptable. The student was saying that their team believed that an 18-year-old man and an 80-year-old woman looked at writing paper the same way. That is difficult to believe. Their strategy had no target market.

Does this happen often in business? Unfortunately, yes.

Half the marketing plans from well-known companies that are submitted to me for review and feedback lack clearly stated target markets and positioning. Why does that happen? Here are my theories:

- *Concept too simple:* Market segmentation is not difficult to understand. Conceptually, it is simple. Because it is simple, managers may skip over market segmentation, not realizing how important it is.
- *Hard work:* Although simple to understand, market segmentation can be hard to do. Developing a market segmentation scheme is not easy. It may require several weeks, a lot of thought, and hopefully, a lot of information about customers.
- *Belief that everyone is their customer and there is no need to target customers:* It may be a laudable goal to want every customer (although that may strain the resources of any organization). However, even if you want every customer, you still need to think of them as individuals with different needs, and you need to group them into target markets of similar customers.
- *No information:* Some segmentation efforts falter because no data have been collected on which to base segmentation decisions. Segmentation questions are among the most important to include in surveys of customers.

Role of Segments and Target Markets in Marketing Strategy

Determining target markets provides marketers with a basis for concentrating their efforts—and concentration is one of the main purposes for developing your marketing strategy. If you never say no to a customer, exclude no one from your efforts, then you do not have a strategy.

By focusing efforts on a target market, it becomes possible for you to develop a precise positioning. Without a target market, you may have a product or service designed for everyone, which means it is designed for no one in particular.

Targeting During a Downturn

Targeting markets is always essential to developing effective strategies. During economic downturns, segmentation is even more important. The resources of organizations are often reduced during difficult economic times. Segmenting the market provides a basis for concentrating marketing efforts on those customers who are most attractive *and* who are most likely to purchase from us. Without a clear set of target market segments it is very easy to overspend on programs such as advertising and promotion since you may end up spending effort on markets where you should not expect success. For example, if you run a beauty salon and do not clarify your segments and relate them to the local media, you may run ads in newspapers that are not read by many of your potential clients.

Determining a Target Market

You need to go through two stages to determine your target market: Identify possible market segments, then select a target market from those segments you have identified. As mentioned earlier, this chapter focuses on identifying your possible market segments, and the next chapter on selecting your target markets.

Notice that just because a segment has been identified does not mean that you need to use it as a target market. Identifying segments allows you to see the market opportunities you have and compare them.

There may be many ways to segment a market. In general, there is no "right" way to segment a market. However, for a given organization and a given competitive situation, some segmentation approaches will be superior to others.

Market Segmentation

A *market segment* is a group of customers or potential customers who have a similar problem *or* seek approximately the same benefits. The word *problem* signifies the needs that the customers are trying to fill. The word *problem* is being used positively, in the same way a sales representative would use it: "You have a problem—I can help you solve it." The word *problem* here is not a negative—it refers to unmet needs.

For example, a manager who travels often may need her clothes cleaned immediately so that they will be available for her next trip. A parent may need an automobile he considers safe for transporting his children. A writer may need an attorney familiar with law governing intellectual property. A design engineer for a manufacturer of jet aircraft engines may need a metal with specific properties.

All of these situations are examples of customer problems, and benefits are the dimensions of problems. For example, each problem suggests specific benefits that the customer with that problem may be seeking: a dry cleaner with fast turnaround, an automobile with a very effective braking system, an attorney with expertise in copyright law, and a metal with certain strength/weight ratios.

Characteristics of Market Segments

Any segmentation system requires you to know benefits customers want *and* customer characteristics. To define a market segment, you need to know the benefits that customers are seeking to enable you to group customers together. You also need to be able to describe or label customer groups in some way so you can find the customers in the segment. For consumer products or services, such labels are often demographics such as age, gender, and income, but may also include other characteristics such as lifestyle (for example, single, young family) or psychographics (personality descriptors). For industrial products or services, segmentation labels may be industry, organization size, location, and if you are considering the decision maker, descriptors such as job title or function.

Any segmentation system requires you to know benefits customers want *and* customer characteristics.

Benefits define the segments and provide the foundation for positioning. Labels describe the segments and provide the basis for targeting marketing efforts toward them.

Segment Identification Analysis

Four steps will help you identify market segments:

1. List the benefits that might be sought by the customers.
2. List possible segments defined with appropriate labels.
3. For members of each segment, estimate the importance or priority for each benefit.
4. Combine the segments if their priorities are similar.

Please always remember that both the list of benefits and the priority estimates should be collected *from customers*. Although a team of managers can make preliminary estimates based on their own knowledge of customers, any final analysis should be based on the opinions of the customers themselves.

Segment Identification—Real Estate Example

Suppose you are attempting to segment the market for a small real-estate company.

Benefits sought by real-estate customers might include financing expertise, knowledge of area schools, accessibility of real-estate agent, and real-estate agent's ability to match homes with the customers' needs. These benefits would be obtained by talking with the customers.

Possible segments would include singles, young couples, young families, mature families, and empty nesters. Keep in mind that your possible segments need not cover everyone in the market. Also, it is fine if some of the segments overlap.

The importance ratings for each benefit also come from the customers. For example, singles may be especially concerned with how well the real estate agent knows the rental market, and young families may be interested particularly in financing expertise and knowledge of school systems.

When the segment identification grid is completed, you may find that some segments are very similar to others. For a sample grid, see Exhibit 9.1.

In the real-estate illustration, singles and empty nesters value similar benefits. Except for interest in school knowledge, young couples and young families are very similar. If segment members are similar, you may be able to combine them—at least as regards designing the services you will provide. You

Exhibit 9.1 Identifying Real Estate Segments

Benefits	Descriptors of Possible Segments				
	Singles	**Young Couples**	**Young Families**	**Mature Families**	**Empty Nesters**
Financing expertise	7	9	10	5	6
Rental expertise	10	7	5	2	8
Small home expertise	8	9	9	1	9
Large home expertise	1	3	2	9	1
School expertise	3	6	9	7	1
Match homes with needs	7	8	8	6	7
Accessibility	5	6	5	4	6

Note: Benefit importance ratings: 1—Not important, 10—Very important

Source: "Arrow Guide—Segment Identification Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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still may need to communicate to them differently—singles will likely be reading different magazines or listening to different radio stations than seniors.

Segments and the Decision-Making Unit

You can sometimes add another level of precision to the segmentation identification analysis. In a given segment, consider who might be involved in making the purchase decision. For example, in the real-estate example, with a young couple you would imagine that both the wife and the husband will have a significant role in the choice of a new home. However, in their choice of real estate agent, each may not want exactly the same benefits. Perhaps the wife is somewhat more concerned with financing issues, whereas the husband is somewhat more concerned with obtaining small-home expertise. If so, then you can amend the segment identification grid by placing two columns under the heading "Young Families" (Exhibit 9.2). One column is for the man, the other for the woman. Then you can put the benefit priorities for each of them in their respective column.

Sometimes this extra detail will not make a difference in your marketing strategy, but sometimes it will. For example, if the wife were much more concerned with financing issues than the husband, then you might run ads that emphasize your ability to help with financing and place them in sections of the newspaper more apt to be read by the wife.

Exhibit 9.2 Identifying Real-Estate Segments with Decision-Making Unit Members

	Description of Possible Segments										
Benefits	**Singles**		**Young Couples**		**Young Families**		**Mature Families**			**Empty Nesters**	
Decision-making unit member	M	F	M	F	M	F	M	F	C	M	F
Financing expertise	8	7	8	10	10	10	5	6	1	6	7
Rental expertise	10	10	7	6	6	4	2	1	1	7	9
Small home expertise	7	9	10	8	8	10	1	1	1	9	9
Large home expertise	1	1	3	4	1	3	8	10	2	1	1
School expertise	2	4	5	7	9	10	7	7	6	1	1
Match homes with needs	7	8	8	7	8	8	5	8	6	7	7
Accessibility	4	6	6	5	4	5	6	4	3	6	7

Source: "Arrow Guide—Segment Identification Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

A similar situation occurs in automobile showrooms. Automobile salespeople are very sensitive to the benefits sought by the various members of a family decision-making unit, which may involve not only the wife and husband but perhaps children, especially teenagers, as well. The salesperson will be attentive to all those involved and try to position the automobile to satisfy the different needs of the different family members—not always an easy task.

TRUMP HOME®: TARGETING AND POSITIONING

Trump Home® Furniture.
Photo courtesy of The Trump Organization.

The target audience for the Trump Home® line of products includes men and women ages 25–50 who "want a luxury lifestyle with a touch of flair at an attainable price." states Donald J. Trump. Trump Home® products include furniture, lighting, room decor, and, most recently, mattresses (in partnership with Serta International).

The Trump Home® lines include the Westchester™ collection, incorporating rich, classic elements to create grand appeal; the Central Park™ collection, reflecting a Manhattan lifestyle with metropolitan,

(*continued*)

(*continued*)

modern, sophisticated design with a touch of art deco; and the Mar-a-Lago™ collection, which offers opulent designs and substantial elegant forms. The Trump Home® collections were inspired by the various properties owned by Donald Trump.

Jo Fleischer, "Household Name Donald Trump," *Home Furnishings Business* (March 26, 2007); Jo Fleischer, "The Donald Was Ready to Dance with Lexington," *Furniture Today* (March 26, 2007), pp. 4, 182; and Jo Fleischer, "Lexington's Haney Shares Insights on Trump Line," *Furniture Today* (March 26, 2007), p. 182.

Issues to Keep in Mind

Segments consist of *people*—not products or services. Often, marketing plans define segments as products such as hot versus cold ready-to-eat cereals or large versus small copiers. Such analyses are not ways to segment markets, they are product line descriptions.

Because market segments are made up of people, segmentation can be a difficult process. If the segments were the same as the products, then there would be no reason to consider the customers.

What people in a market segment have in common is a problem; therefore, they seek similar benefits, have similar priorities, and expect similar performance on each benefit.

Segment members seek only approximately the same benefits. There is not necessarily one way to segment a market—there may be many ways to segment a market. Segmentation requires both creativity and the ability to interpret data. Often, the winner is the marketer who is able to segment a market in ways that allow them to use their organization's capabilities to the best advantage.

Segments need to be identifiable *and* accessible. This is why labels must be part of any segmentation scheme. If you cannot find the members of a segment, then you cannot focus advertising, promotion, or personal selling efforts to persuade them to buy your products or services.

Market Segments and Strategy

Remember the reason you are segmenting—to *focus* your marketing efforts. Each segment you choose to go after requires and deserves its own special marketing strategy. Once a manager said to me, "I really like your segment identification process. We did something like that a couple months ago. We reviewed our segmentation and reduced our number of market segments from twelve to just five." I replied, "Good for you. How many marketing strategies do you employ?" He said, "Just one—we treat everyone the same."

Each segment you choose to go after requires and deserves its own special marketing strategy.

The reason you segment is because you cannot treat everyone the same. Examples of targeted strategies include:

- Verizon Wireless targeted its instant-message service to the lucrative and high-growth 18- to 24-year-old market in part because of those customers' comfort level with technology. An analyst for Yankee Group commented: "Carriers recognize that this group [18- to 24-year-olds] is extremely tech savvy, reliant on wireless services and frequently influence phone usage within their family . . . [and they] are already familiar with IM lingo, and thus more willing to adapt to the complexity of cellphone IM-ing."[1]
- Campbell's focused their strategy toward juice drinkers in the Hispanic segment by using bilingual packaging and launching three tropical flavors that research showed were favorites among Hispanic consumers: guava-passion fruit, mango-peach, and tropical colada.[2]

Conclusions

Market segmentation is the first strategic choice you make in developing a marketing strategy. You can certainly revisit how you segmented a market and change it later if a particular segmentation scheme is not working for you. However, market segmentation—understanding customers and potential customers—is the logical starting point for developing a marketing strategy. Who is out there? What do they want? How can I find the customers I can satisfy?

In the next chapter, you will learn how to select the market segments that will be your target markets.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

10

Selecting Your Key Target Market

After you have identified potential market segments, you face the crucial choice of selecting which of those segments will be the target of your marketing strategies. The target market choice is one of the most important decisions you make in developing your marketing strategy. If your target market decision is wrong, you may not be able to find any marketing strategy that will work. You should spend a lot of time, effort, and thought on selecting your target markets.

If you do make a mistake in selecting your target market, keep in mind that *you can change your choice* and refocus your marketing efforts on another target market. That can be expensive because you may have already committed resources to the target market that is not working out. However, it may be better to change your target market than to continue to throw resources at a situation that will not improve.

During adverse economic conditions, you should always take a close look at your current target market segments. You may need to reallocate your efforts among them depending on how the economic conditions are affecting customers in each segment. You may even need to reassess how you are segmenting the market. For example, if you have been using size of house as

Targeting a Market: Trump's West Side Apartments

Trump Place on Manhattan's Upper West Side, 180 Riverside Drive.
Photo credit: Jon Ortner, 2002. Photo courtesy of the Trump Organization.

The Trump Organization built several buildings on the Hudson River in New York City. They were targeted especially for young professionals who want to live on the West Side of Manhattan. Some buildings consist of rental units and some of condominiums. Each unit has the great views and layouts expected of Trump-constructed properties. But to reach the target market, each building also has a superb health club because members of this market segment tend to be very interested in health and fitness.

a key segmentation attribute, you may want to consider income or education, which may be more highly correlated with ability to pay.

The best approach is to get your target market choice right the first time—*before* you spend money on a losing market choice. It's a lot easier (and cheaper) to change your strategy before you implement it. In this chapter you learn how to make your target market choices right the first time.

Market Selection Criteria

You may not be a gambler, but for a moment suppose you are. You arrive at the door of a room filled with poker tables. Each table has one empty seat. How would you decide where to sit down?

Your eye would be attracted to the amount of money on the table. Assuming that you are looking for a large return for your evening's efforts, you would be tempted to sit at a table where the winnings might be attractive. However, before you sit down, you might want to take a look at the other players already sitting at the table and assess their abilities. You would like your abilities to be superior relative to theirs.

The two dimensions you would use to decide where to play poker—attractiveness of opportunity and relative ability versus competitors—are the same dimensions you should use in selecting business opportunities and target markets. Ideally, you would like to find a target market that is quite attractive and where the competition is not strong. That may take work because attractive opportunities tend to attract strong competitors, just like high-stakes poker games attract the most skilled players.

The two dimensions you would use to decide where to play poker are the same dimensions you should use in selecting business opportunities and target markets.

Attractiveness refers to how important winning this market is to your organization. Measures of market attractiveness include size of market, growth rate, cost of serving customers, price sensitivity (or insensitivity) of customers, and stability. For example, Verizon Wireless has found the youth market (18- to 24-year-olds) attractive, in part, because of their high involvement with cell phone ownership—77 percent penetration versus 56.3 percent for the rest of the U.S. population.[1]

Relative ability refers to the chances that your organization can win this market. The chances of your winning a market depend on your organization's capabilities in areas such as operations, customer service, logistics, branding, and finance. Overall, your chances of winning the customers in a market depend on how well your product or service meets those customers' needs versus the products or services of your competitors. Through marketing research, Toyota found that their Solara convertible appealed to women, and thus focused their communications toward women in their late 30s and early 40s.[2] Kellogg's targeted healthy cereals to baby boomers as research showed that they are especially concerned with health issues (and also happen to have the highest cereal consumption) and focused their marketing even more precisely by promoting Corn Flakes with *Real Bananas* to Hispanic consumers based on research findings on the role of bananas in the Hispanic diet.[3]

Systems for Selecting Business Opportunities

Many consulting firms have developed systems for selecting among business opportunities. Most use these same two basic dimensions of attractiveness and relative ability but have varied in the specific measures they use to evaluate each dimension. For example, one of the first such approaches was developed by the Boston Consulting Group. The initial Boston Consulting Group system was quite straightforward—long-term market growth rate was used to evaluate attractiveness and relative market share to evaluate relative ability. In contrast, McKinsey developed a system that used long lists of measures to evaluate attractiveness and relative ability, then applied a complex weighting system to develop attractiveness and relative ability scores for a specific business opportunity.

The Segment Selection Analysis I developed applies the two basic dimensions of attractiveness and relative ability in a very straightforward way so that they can be used by you or your employees in a relatively short time.[4]

Segment Selection Analysis

There are six steps to selecting target markets:

1. List the characteristics of a market that would make it attractive to you.
2. List the capabilities of any organization that would make it strong in a market.
3. List the product or service/market segments that you are considering.
4. Evaluate each product or service/segment with regard to how attractive it is to you.
5. Evaluate each product or service/market segment with regard to your organization's relative ability to win that segment.
6. Graph each product/market segment or service/market segment on a segment selection chart.

Target Market Selection—Real-Estate Example

In the real-estate office example from Chapter 9, five segments were under consideration: singles, young couples, young families, mature families, and empty nesters.

Exhibit 10.1 Evaluation of Real-Estate Segments

Segments	Attractiveness	Relative Ability
Singles	1	2
Young Couples	4	4
Young Families	5	4
Mature Families	5	2
Empty Nesters	2	4

Note: Attractiveness: 1—Not attractive, 5—Very attractive

Relative ability: 1—Weak, 5—Strong

Source: "Arrow Guide—Segment Selection Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Attractiveness for each segment is rated on a 1 to 5 scale, where 5 means very attractive. Relative ability is also rated on a 1 to 5 scale, where 5 means you have high relative ability. These evaluations are based on your experience and are estimated subjectively. However, any manager should be able to say how attractive a market segment is and rate how strong or weak their organization is.

Young couples and young families would likely be attractive market segments because of their potential for several sales over the years (Exhibit 10.1). Mature families—families with precollege children—would also be attractive because of the relatively larger homes they might buy. Singles and empty nesters might be less attractive segments because they would likely prefer rentals or smaller homes.

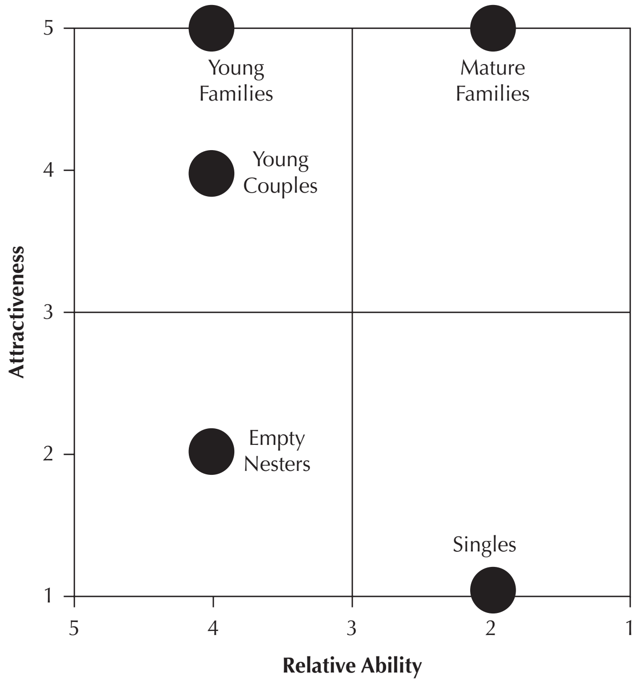
Suppose that the real-estate office rated high on expertise regarding small homes. That would give them relatively high ability to sell to young couples, young families, and empty nesters. Knowing less about larger homes might be a disadvantage for them with customers in the mature family segment, and thus their relative ability would be rated lower for that segment.

The evaluations in Exhibit 10.1 allow you to plot the different segments in the segment selection chart (Exhibit 10.2).

Types of Market Segments

Each quadrant in the segment selection chart poses a different strategic question. Opportunities in the upper left (often called "Stars" from the Boston

Exhibit 10.2 Segment Selection Chart with Real-Estate Segments



Note: Attractiveness: 1—Not attractive, 5—Very attractive

Relative ability: 1—Weak, 5—Strong

Source: "Arrow Guide—Segment Selection Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Consulting Group system) are market segments that are attractive and that your organization serves well. The question here is how much growth is enough? In the long term, all marketing efforts will have diminishing returns as it becomes more and more difficult to persuade the next customer to buy. At some point, even attractive target markets become saturated and resources need to be allocated elsewhere.

In the real-estate illustration, you are doing well with the young families and young couples segments. Is there enough growth left in those markets to satisfy you, or do you want to consider entering other markets?

Opportunities in the upper right (often called "Problem Children") are market segments that are attractive to you but where you may need to invest to improve your capabilities. The strategic question here is on which markets should you focus?

If you try to focus on all of them, you may spread your resources too thin and you may not succeed in any of these market segments.

The mature families segment is a good example of a problem child in the real estate example. The question for the real estate agent is whether it is worthwhile to improve their performance in those capabilities that provide benefits of importance to customers in the mature families segment. For example, mature families are looking for larger homes—perhaps there is something the realtor can do to improve their knowledge of larger homes, perhaps set up an information base similar to the one they already have on smaller homes.

Opportunities in the lower left (often called “Cash Cows”) are market segments where you can do well or where you perhaps have done well in the past. The strategic question here is, how much current support should you give them? These markets are perhaps not as attractive as others to which you could devote resources. However, if these segments receive too little support, they may fail.

Empty nesters are in the cash cow segment in the real-estate example. Customers in that segment may provide steady revenue, but they may displace effort from more lucrative market segments. Perhaps they can be served with lower cost efforts.

Opportunities in the lower right (“Dogs”) include the widest range of market segments. In general, these businesses are not attractive and do not match well with your organization’s capabilities. However, that does not necessarily mean that you should ignore them or discard them. Some of these businesses can provide you with necessary windows to new markets or new technologies. Others are needed to provide products or services that complement your more attractive products or services. Some “Dog” businesses are profitable or provide a positive cash flow that is worthwhile given the resources involved. Finally, some of these businesses do represent cash drains on the organization—”the Junkyard Dogs.” The strategic question is, what role should each of these businesses play within your organization?

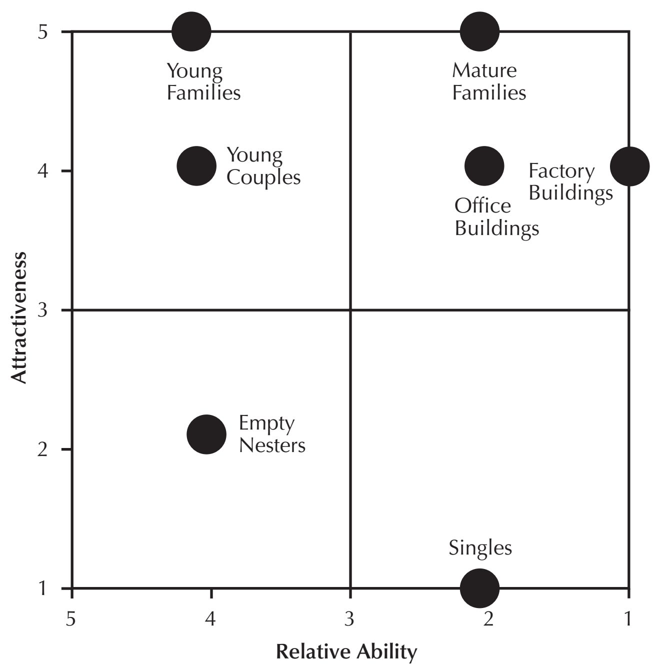
In the example, suppose that our real-estate agent does not consider the singles market very attractive because many of them are looking for rentals, and the agent does not feel that it is worth any special efforts to win their business.

Segment Selection Chart

The segment selection chart is a useful tool for developing your strategy, and you can make it even more valuable by adding more information. You can conduct the same analysis for each of your products and services, and summarize them all on the same chart. For example, if the real-estate agent were interested in expanding to services for commercial buyers involving, for example, office buildings or factory buildings, then those market segment opportunities could also be graphed on the same chart (Exhibit 10.3). That would provide an overview of all the market opportunities the realtor might pursue and information for allocating their resources.

Rather than just locate a market segment on the segment selection chart, you can provide more information by making the circle bigger or smaller in proportion to the sales (or profits) you think that market segment represents over the next year or the next few years. Then you have an even more comprehensive picture of the choices available to you. For example, if the opportunities open to our realtor were those shown in

Exhibit 10.3 Segment Selection Chart with Real-Estate Segments—Residential and Commercial



Note: Attractiveness: 1—Not attractive, 5—Very attractive

Relative ability: 1—Weak, 5—Strong

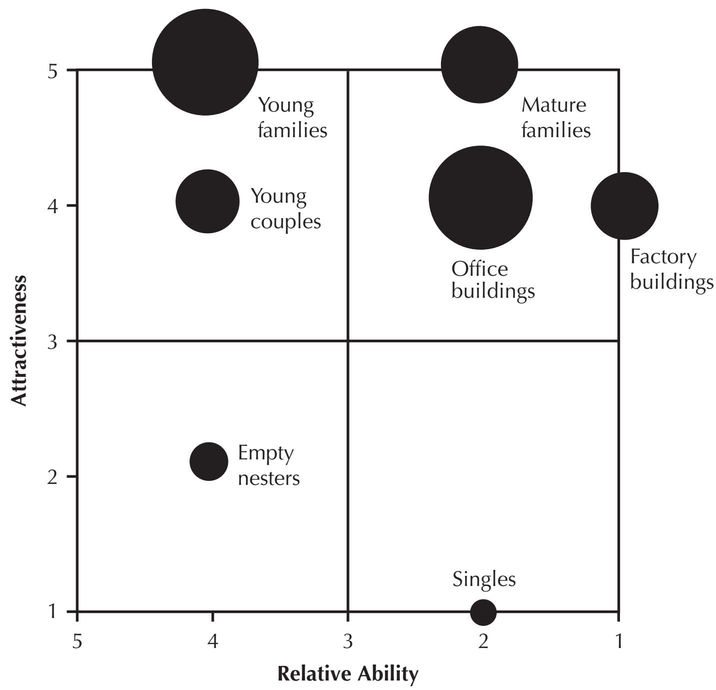
Source: “Arrow Guide—Segment Selection Analysis,” The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Exhibit 10.4, it would be a major strategic decision to decide what to do about the market opportunities in the upper right-hand corner—all of them are very attractive and all would need resources if they were to be pursued.

The approach described in this chapter allows you to see all your opportunities at once, and that is its power. What you next need to do is choose those market segments that you think have potential for your organization. You can't choose them all so you need to choose the ones you think make sense.

Then for the segments you select, you need to develop a product/market strategy, including positioning and programs. You make the final selection of whether to go ahead when you forecast the sales and profits from your strategy (as covered in Chapters 35 and 37).

Exhibit 10.4 Segment Selection Chart with Real-Estate Segments—Residential and Commercial (Circles Sized in Proportion to Expected Sales of Total Market)



Note: Attractiveness: 1—Not attractive, 5—Very attractive

Relative ability: 1—Weak, 5—Strong

Source: "Arrow Guide—Segment Identification Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Conclusions

If you do not select a market segment, then your marketing strategies will have no focus.

Concentration of effort is one of the main purposes of any strategy. Selecting segments is a process that involves evaluating how attractive a market segment is, but just as important, it involves evaluating how strong your abilities are to win that market segment.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

11

Possibly the Most Important Chapter in This Book

Positioning Your Product or Service

Positioning is the heart of your marketing strategy. Positioning is the reason your target customer should buy from you rather than from a target competitor. The stronger your positioning is, the more effective your marketing strategy will be.

Determining your positioning and your target market are the two most important decisions you make when you put together a marketing strategy. Both decisions depend on how well you understand the needs of your customers, and how well you understand your capabilities and those of your competitors.

To determine your positioning, you must know your customers and know your own capabilities. Your positioning should be sufficiently strong to win customers and defeat competitors. In this chapter you will learn a powerful and efficient process for determining the most effective positioning for your target markets.

Positioning: Trump Home™ Décor

Trump Home™ Room Décor.
Photo courtesy of The Trump Organization.

The Trump Organization partnered with IMAX Corporation to create an exclusive collection of home accessories such as candleholders, centerpieces, vases, and other decorative items. The line of products has been designed to complement the existing Trump Home™ collection which includes furniture, floor coverings, and lighting and is inspired by the mansions and properties of Donald J. Trump. The Westchester™ collection is rich and classic while the Central Park™ collection is metropolitan and modern with a touch of art deco.

Cathy Hoffman Glosser, Executive Vice President of Global Licensing for The Trump Organization states that "The collection gives the consumer the ability to create a coordinated lifestyle, incorporating luxury and sophistication in their homes."

IMAX Vice President of Sales, John Haste describes the contributions of the partners. "The Trump brand is sophisticated, strong and has a wide acceptance in a variety of consumer categories. IMAX is equally strong in product and distribution expertise. Together our two organizations bring to the table a dynamic formula for success."

Source: Press release, The Trump Organization, May 6, 2008.

What Is Positioning?

Positioning consists of one, two, or perhaps three benefits that customers want and that you can provide at a level superior to your competitors. The benefits might be functional, emotional, or economic. A print shop might offer the fastest turnaround. A hardware store might offer the widest selection of merchandise. A delicatessen might be open the longest and have the most convenient hours. A health club might offer the most expert and supportive personal training advice. A restaurant might offer the friendliest atmosphere. An art supply store might offer the most generous student discounts.

Positioning consists of one, two, or perhaps three benefits that customers want and that you can provide at a level superior to your competitors.

Positioning should consist of only a few benefits because if you try to communicate all the wonderful things you do for customers, you may overwhelm them and most likely they will remember, if at all, only a few of the benefits you cited. Resist the temptation to mention all your benefits. Be selective and choose for your positioning those benefits that the customers want the most and that you provide at the highest level. Be known as the dry cleaner that always gets the stains out, the auto repair shop that always can fix the problem, the furniture store that always provides sound decorating advice, or the restaurant that always welcomes children.

Positioning is tailored to the needs of your target segment. For example, a car rental service targeted for business travelers might position itself as providing the quickest check-in service at airports. A car rental service targeted toward people who need the use of another car because theirs is being repaired might position itself as offering the convenience of bringing a car to your home. Walk into any restaurant—the positioning and target market should be clear just from their décor, their menu, and the appearance and attitudes of their waitstaff because all should be tailored to the needs of their target customers.

Components of Positioning

You need to answer four questions to determine your positioning for customers in a given market segment (Exhibit 11.1):

1. Who is your target member of the decision-making unit (DMU)?
2. Who is your target competitor?
3. What is your benefit advantage?
4. What is your competitive advantage?

Exhibit 11.1 Positioning Description

Product or Service: ____________________ **Target Market Segment:** ____________________	
Target member of decision-making unit	
Target competitor	
Benefit advantage	
Competitive advantage	

Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Target Decision-Making Unit Member

Most marketing books describe positioning as being focused on a market segment. Such thinking falls a bit short. Positioning needs to be done at the level of the individual customer because they are the ones who make decisions. That is why you should define your positioning in relation to an individual member of the DMU—the target DMU member (see Chapter 4 for further discussion of the DMU).

Successful salespeople understand this point about positioning very well. Salespeople do not sell to segments, they sell to individuals. A real-estate agent working with a couple will be aware of what the wife and husband both want in a home, but the agent will also be very aware of what each wants as an individual. The agent will position any home to both wife and husband but will also be careful to position the home to satisfy the needs of each as individuals.

Target Competitor

What competitors are your target customer considering? From whom are you trying to get business or trying to defend against?

If you are a salesperson, to know who else your customer is considering is gold because it allows you to more precisely position the product or service you are selling.

Positioning depends on your target competitor. If you do better on a specific benefit of importance to your target customer, you may need to point that out. For example, if your dry-cleaning service offers the fastest turnaround, then you may offer that as your positioning. If your competitor has even faster turnaround, then you may need to offer superior performance on another benefit such as home delivery.

Be careful that however you communicate your positioning, you do not denigrate your competitor. Criticizing your competitor directly rarely works.

Benefit Advantage

The benefit advantage is the reason your target customer should buy from you rather than from someone else. It should consist of just a few benefits, be easy to understand and easy to communicate, be important to your target customer, and be something you do better than your competitors—the child-care service with the most stimulating environment, the dental practice with the most flexible scheduling, or the motel with the most comfortable beds. Another term for the benefit advantage is the *product/market fit*—how well your product or service meets the needs of the target market.

Competitive Advantage

You would like your benefit advantage to be sustainable for as long as possible. That is why you need to evaluate your competitive advantage. The competitive advantage is a capability that allows you to provide the benefit advantage. Another term for competitive advantage is *organization/product fit*—how suited your organization capabilities are to provide an appealing product or service.

A competitive advantage may be a skill associated with people, a resource, or a feature of your product or service. For example, a child-care service may provide a stimulating environment for children because of the expertise of people who work with children who designed the space. A dental practice may provide flexible service by setting up a partnership of several dentists, one of whom is always available. A motel may provide comfortable beds by installing mattresses with superior comfort.

If the competitive advantage is unique, it is more likely that it will be sustainable for a long period. If it is not sustainable, you may need to find another positioning. For example, if all motels imitate you and install the same type of comfortable mattress, then you may have to find some other benefit to attract customers.

Exhibit 11.2 Competitive Advantage Chart—Real-Estate Target Segment: Young Families

Relative Importance	Benefits Sought	Capabilities					
		Access to lenders	Small home information base	School familiarity	Empathetic personality	Convenient location	Convenient hours
10	Financing expertise	1,0					
9	Small home expertise		1,1,1				
9	School expertise			1,0			
8	Match homes with needs				1,1,0		
6	Accessibility					1,0	1,0
5	Rental expertise						
2	Large home expertise						

Note: Relative importance: 10—Very important, 1—Not important

Source: "Arrow Guide—Competitive Advantage Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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In economic downturns, sometimes organizations cut costs so that they cut their competitive advantages and lower the benefits to their customers. The Competitive Advantage Analysis described in the following section should help you avoid such mistakes.

Competitive Advantage Analysis

Determining positioning for your product or service begins by examining your capabilities to find a competitive advantage that will, in turn, provide one or more benefit advantages to your target customers.

An analysis of your capabilities needs to be *diagnostic.* It must identify not only capabilities that currently are strengths but also capabilities that, although currently weaknesses, need to be transformed into strengths if the organization is to succeed. This diagnosis can be accomplished with my Competitive Advantage Analysis (Exhibit 11.2).

The Competitive Advantage Analysis helps you determine all the elements of an effective positioning for your product or service. It has seven steps:

1. Select a segment and a member of the decision-making unit (DMU).
2. List benefits sought by your target customer in descending order.
3. List capabilities that any organization would like to have.
4. Link benefits with the capabilities required to provide them.
5. Evaluate capabilities.
6. Identify possible competitive advantages.
7. Identify possible benefit advantages.

Benefits and Capabilities—Real-Estate Example

Suppose, for example, that you manage a small real estate firm and have decided to focus on young families, many purchasing a home for the first time. The target members of the decision-making unit are the husband and wife. The target competitor is a large office of a national realty chain.

Benefits sought from a real estate agent by such a couple would likely include expertise in financing, expertise with smaller homes, and expertise on local school systems as well as the ability to find homes that match their needs and availability. These benefits are entered on the Competitive Advantage Chart in descending order of importance to the couple (Exhibit 11.2).

The capabilities you list on the Competitive Advantage Chart are capabilities that any real estate agent targeting that market would like to have. Such capabilities might include relationships with mortgage lenders, an information base on small homes, familiarity with the local school systems, agents with empathetic personalities, and an easy-to-reach location and generous working hours.

Next you link the benefits with the capabilities that are required to provide them (as you did in the Capabilities Analysis in Chapter 7). For examplew, relationships with mortgage lenders affect the financial advice a real estate agent can provide and the location of the real estate office affects availability of the realtor. Note that a benefit can be associated with more than one capability. If no capability is associated with a benefit, then probably some capabilities have been left out of the analysis and you may want to consider adding to the list of capabilities. For example, rental market knowledge was not included in this analysis.

You indicate a relationship between a capability and a benefit by squaring the cell in the benefit row and the capability column. Usually you can expect to square about one-third of the cells in the chart although that percentage will vary by situation.

Evaluating Capabilities

The most important step in this process is to evaluate your own capabilities versus those of the target competitors. You must be candid during this phase; otherwise, the process will be a waste of time.

Remember that the evaluations need to be relative to a target competitor so you need to have a competing realtor in mind as you evaluate your capabilities. Usually you would want to see how you would do against your toughest competitors, so you might select them as the target competitor for your first analysis.

Capabilities should be evaluated on three dimensions. I call these questions the three S's:

1. *Sufficient:* Do you have the capability at a level sufficient to compete for the target customer?

   1—yes

   0—no
2. *Superior:* Do you have the capability at a level superior to that of the target competitor?

   1—yes

   0—no
3. *Sustainable:* Can you sustain the capability for a given time interval?

   1—yes

   0—no

Notice that if your capability is not sufficient, it cannot be superior and it is not worth answering the question of whether it is sustainable. Similarly, if your capability is not superior, there is no need to ask if it is sustainable.

There are four possible patterns that you might see in a cell:

1. [0]—*Capability insufficient:* This is a veto. If you do not improve this capability, you will be unable to compete successfully in this market.
2. [1,0]—*Capability sufficient but not superior:* This is a neutral rating—doesn't hurt you, doesn't help you.

3. [1,1,0]—*Capability is superior but is not sustainable:* This is a competitive advantage but one that is short-lived. You need to take advantage of it as soon as possible.
4. [1,1,1]—*Capability is superior and sustainable:* This is a sustainable, competitive advantage and may be the foundation for your positioning.

Evaluating Capabilities—Real-Estate Example

The real-estate agent needs to consider how their expertise and other capabil ities compare with those of competitors—especially those capabilities linked to the benefits of most importance to the members of the target market.

Exhibit 11.2 shows the evaluations for the real esate service. For example, suppose you have a small home information base that is unmatched by your competitors. The rating for that capability is therefore [1,1,1]—a sustainable competitive advantage. You also have agents with empathetic personalities, but that could be imitated by your competitors through recruiting or training their agents so the evaluation for that capability is [1,1,0]—a short-lived competitive advantage. The other cells have neutral scores.

Identifying Competitive Advantages and Benefit Advantages

Once you evaluate your capabilities, then you can examine the chart for competitive advantages. You start with the benefits of highest importance to the members of the target market and search for any capabilities in that row that received high evaluations—either [1,1,1] or [1,1,0].

The benefit advantages are found by identifying those benefits for which the organization has one or more capabilities that are competitive advantages. These benefits are candidates for the benefits selected for positioning of the product or service.

When an organization is in a cost-cutting mode (for example, during an economic downturn), it is very important that the managers think carefully about cutting costs that are associated with a competitive advantage. If they cut costs associated with a competitive advantage, they may decrease or even negate that competitive advantage. In turn, the loss of that competitive advantage may result in a loss of a benefit advantage—the heart of the positioning—with possible serious negative consequences for sales and profits. In the 1970s, Schlitz was the number two brewer in the United States. To improve their short-term profits, they purchased less expensive hops and reduced the time to brew the beer. Their customers discovered that Schlitz beer no longer tasted the same and their purchases declined. Schlitz never returned to their number two position.[1]

Identifying Competitive Advantages and Benefit Advantages—Real-Estate Example

In the real-estate example, a sustainable competitive advantage consists of an information base of small homes that the real-estate agent has assembled. It provides an important benefit to the young family customer—small home expertise—and is something that would be difficult for a competing agent to copy in the near future. The short-lived competitive advantage (empathetic salespeople) also leads to an important benefit—ability to match homes with buyers' needs.

No Competitive Advantage

If you find no competitive advantage, that is a sign not to try to sell that specific product or service to customers in that particular market. A product or service with no competitive advantage (and therefore no benefit advantage) is known as a *commodity*. Commodities are sold only on price because there is no basis for differentiation on benefits.

Unless the organization has the lowest costs (or is in a protected market), it is very difficult to succeed with a commodity. However, if you do not find a competitive advantage for a specific product or service in a particular market, there are other possibilities to consider before abandoning the venture. For example:

- Can you improve your capabilities? For example, can you develop more contacts with lenders?
- Might you focus on a different target competitor? Perhaps you can avoid the strong competitors.
- Might you focus on a different decision maker? Rather than focus on both the husband and wife, might you be more successful by focusing on the husband or the wife?
- Might you focus on a different target market? If you do not have current information about schools, perhaps you might focus on families whose children are grown and who have left home.
- Should you resegment the entire market? If you cannot find a segment you think you can win, you may need to rethink your segmentation scheme.

Other Segments, Other Members of the Decision-Making Unit, Other Target Competitors

Note that you do not have to redo this analysis if you want to evaluate other segments or other members of the decision-making unit. If you change segment or DMU member, all that you need to do is reorder the rows according to the benefit priorities of the new segment or new DMU member—you have already done all the capability evaluations.

If you change target competitor, then you do have to redo the analysis because the capability evaluations will likely change.

Determining Positioning

Effective positioning is based on superior performance on a benefit of importance to the target customer and the capability to sustain that benefit performance over time.

In the real estate example, you might describe the positioning of your agency as "the small-home experts who know how to find the home for you." Small-home expertise and matching homes to needs are both benefit advantages of importance to your target market, and they are supported by competitive advantages. You can summarize your positioning decision with answers to the four positioning questions in Exhibit 11.3.

Exhibit 11.3 Positioning Description—Real Estate Example

Product or Service:	**Real Estate**
Target Market Segment:	**Young Families**
Target member of decision-making unit	Wife and husband
Target competitor	Chain real-estate agent
Benefit advantages	Small home expertise Match home to needs
Competitive advantages	Small home database Empathetic agents

Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Positioning and Perceived Value

Even though you have a clear positioning with a powerful benefit advantage, remember that the customer may not know about it. The Competitive Advantage Analysis shows those benefits that you have that are superior to those of your competitors. These lead to *actual* value as regards the benefits you can provide your customers. You may still need to convert them into value *perceived* by the customer by effectively communicating them to your target customers.

Managing perceived value (see Chapter 5) starts with the actual value you provide. However, then it requires communications to ensure that your customers correctly perceive all the value that you are providing them. You cannot assume that they know—you must tell them (see Chapter 18 on communications).

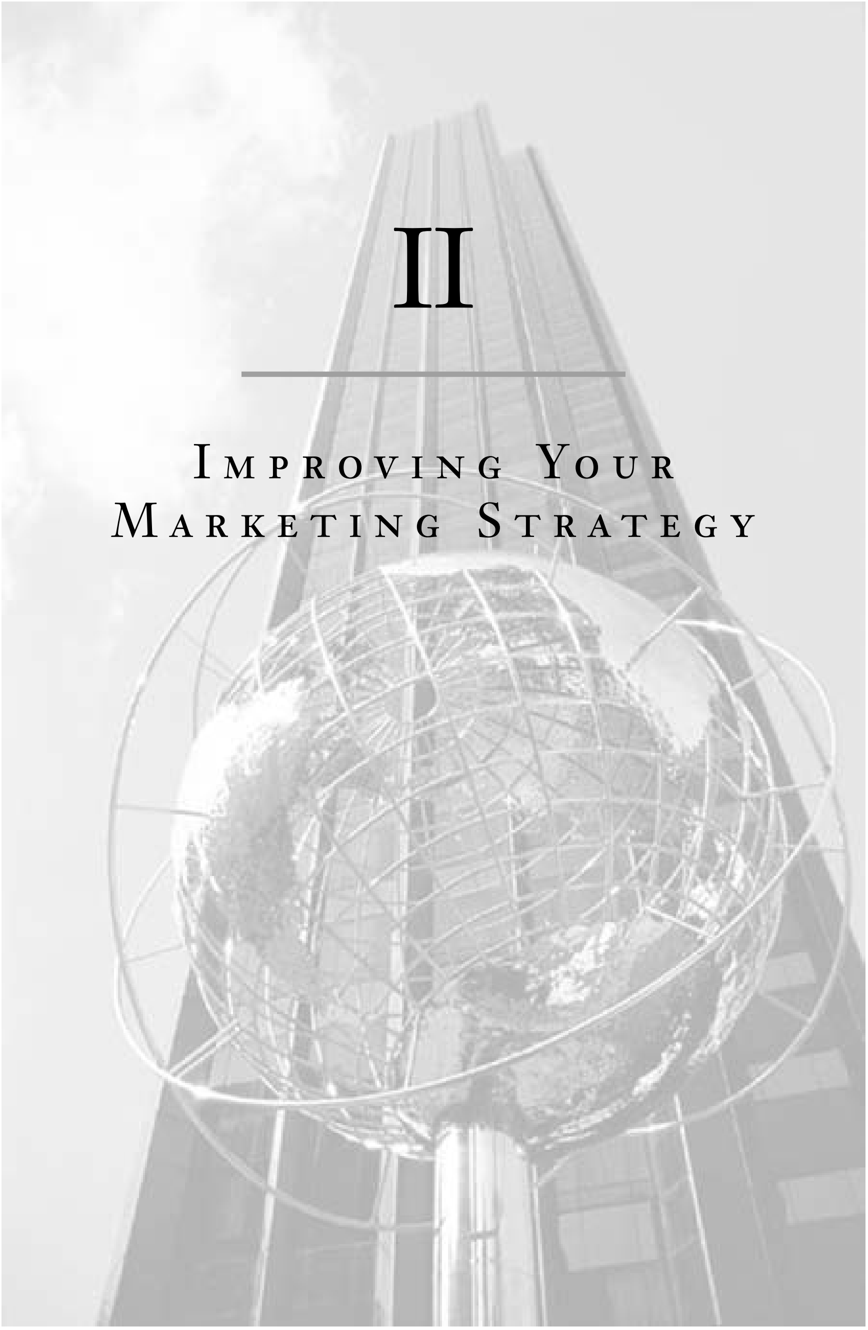
Conclusions

Positioning is a major strategic choice for any organization. It depends on the needs of customers in your target market, and it also depends on the capabilities of your organization compared with those of your competitors. An effective position has a benefit advantage supported by a competitive advantage.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

II

Improving Your Marketing Strategy



12

Creating Your Most Valuable Asset

Your Brand

Your brand is probably the most important and most valuable asset of your organization.

Each of the 10 most valuable brands in the world is estimated to be worth billions of U.S. dollars (Exhibit 12.1). Compare these brand value estimates with the market value of the companies owning the brands and it is easy to see how powerful brands are. For consumer market companies, well-managed brands typically represent about 50 to 80 percent of a company's total value; for industrial markets companies, well-managed brands appear to be about 10 to 30 percent of a company's total value.

What is true for large organizations is true for small organizations: Brands represent a lot of money. How you manage your brand has a tremendous impact on the return you will obtain from your business.[1] There are a few basic principles for building your brand and keeping it strong. In this chapter you will learn those principles.

Exhibit 12.1 Brand and Company Values (mid-2008) (in Billions of U.S. Dollars)

	Brand Equity	Market Value
Coca-Cola	$66.7	$135.9
IBM	59.0	157.6
Microsoft	59.0	253.2
GE	53.0	330.9
Nokia	35.9	145.7
Toyota	34.0	175.1
Intel	31.3	115.6
McDonald's	31.0	62.3
Disney	29.3	61.0
Google	25.6	147.7

Sources: "Best Global Brands," (September 18, 2008); Forbes.com, "The World's Biggest Companies," (April 2, 2008).

How Are Strong Brands Built?

Brands are built with *relentless consistency*—over time and over markets. From 1974 through 1994, Burger King changed their advertising and brand position nearly every year. Their themes during this period included: "Have It Your Way," "Best Darn Burger," "Aren't You Hungry for Burger King Now?" "Search for Herb," "Sometimes You Gotta Break the Rules," and "I Love This Place." Constantly changing brand communications does not build a brand. Over the same 20-year period, McDonald's brand communications were much more consistent. Burger King has returned to what might have been their most powerful brand position, "Have It Your Way," and appears now to be following a consistent brand-building strategy.

Brands are built with *relentless consistency*— over time and over markets.

In credit cards, Visa's "Everywhere You Want to Be" position was extraordinarily consistent for many years and was constantly renewed through different but consistently "on-brand" creative executions. Only after many years

The Power of the Trump Brand

Label for the Donald J. Trump Signature Collection.
Photo courtesy of The Trump Organization.

A New York company called Brand Keys conducted a survey of 500 adults and asked them to evaluate 1,200 brands in a wide variety of product categories such as clothing, banks, and fast-food restaurants. In the clothing category, the brands with the highest ratings were Chanel, Ralph Lauren, Isaac Mizrahi, Victoria's Secret, and Donald J. Trump. At the time of the survey, the Donald J. Trump Signature Collection® of men's clothing had been sold at Federated Department Stores for only about a year. To build a brand in such a short time is unheard of. Normally, it takes five to seven years to build a brand. The Chanel brand, for example, has been built with decades of marketing and publicity. The participants in the survey found the Trump brand to be associated with "comfort, style, and fit." In addition, the Trump brand also has strong associations with business success. These functional and emotional benefits worked together to form a strong new clothing brand with amazing speed.

Source: Cathy Horyn, "Fashion & Style," *New York Times* (November 24, 2005).

of success did Visa move to the "Life Accepts Visa" campaign. For many years, MasterCard branding was inconsistent until the debut of their brilliant "Priceless" campaign.

The brand generally conceded to be the most valuable brand in the world is Coca-Cola. One Coca-Cola executive has attributed some of their success to their long-term consistent focus on a very specific group of customers—18- to 25-year-olds—who appear to have a lot in common around the world.

The same principles companies such as McDonald's, Visa, and Coca-Cola use can be applied to build the brand of your organization. Building a brand requires a clear understanding of what your brand stands for and the discipline to build and maintain it.

What Is a Brand?

How would you define a brand? Take a moment and write down your definition.

In executive seminars I conduct on managing brands, I often ask the participants to write down their brand definitions. Here are some:

"Distinguishable logo or name that creates a preference."

"Trust, promise."

"Association that identifies brand and is worth paying for."

"Nature and strength of relationship consumer has with brand."

"How strongly consumers link your name to a personality."

"Ownable difference that allows producer to charge a premium."

Was your response similar to any of those just listed? There is a surprising degree of unanimity among how people think of brands. Even though the details of their definitions vary, the individuals who provided these definitions would likely not dramatically disagree with any of the other definitions. Some definitions focus more on names and logos, some more on attributes, some more on values, and some more on the customer/brand relationship, but all of these definitions are quite consistent with each other.

Components of a Brand

A brand has three main components:

1. *Identifiers:* Name, logo, color, shape, aroma, taste, feel—anything that cues the customer to the brand's attributes.
2. *Attributes:* Anything connected in the customer's mind to the brand. Attributes include the product or service itself, features, benefits, and needs.
3. *Associations:* The connections between the identifiers and the attributes.

Identifiers

Your identifiers signal your brand position to your customers. Diageo planned an increase of 50 percent in their marketing spending to rejuvenate Smirnoff by emphasizing its Russian heritage. To accomplish that change, they developed a new identifier—a label with a silver-and-white color scheme and a Cyrillic translation of Smirnoff.[2] The identifiers need to be clearly visible as they are the cue that leads to associations in your customers' minds. Texas Instruments persuaded television set manufacturers to put a DLP logo on the face of every set that has their DLP technology—similar to Intel's "Intel Inside" campaign.

When you change any of the identifiers, you are changing the brand. Over the years, Prudential Insurance Company has used the Rock of Gibraltar as its logo. There were many changes since 1902, but in 1984 the logo was changed so much it resembled a bar code more than the Rock of Gibraltar. The next year it was changed back to a more recognizable Rock.

Attributes

Generally, when you mention a brand, the first attribute that people mention is the product or service itself. There is nothing wrong with that—people should know what product or service your brand stands for. However, a brand should lead to attributes beyond the product or service. A brand should make your customers think of benefits or needs.

Most brands are built with attributes that consist of functional benefits. Holiday Inn has tried to win back customers who have gone to cheaper mid-scale hotels or slightly more upscale hotels by adding functional benefits such as high-speed Internet access—wireless and landline—bigger workspaces, and an ergonomic chair. They also are paying attention to their identifiers—redesigning their sign to recall the iconic Holiday Inn sign of the past and bringing back the green-striped Holiday Inn towel.[3]

If possible, you should try to build your brand on emotional benefits. Emotional benefits are more difficult for competitors to copy and may have more impact on customers' purchasing decisions than functional benefits alone. For example, in the middle of the nineteenth century, when steam engines and ocean liners created demand for good-looking trunks, Louis Vuitton developed trunks that were stackable and waterproof—functional benefits. He also had the good sense to cover the trunks with canvas stamped with his logo. Later, his trunks and brand extensions became the foundation of an empire, built on the emotional benefits of style and fashion and the support of famous, well-respected people such as Coco Chanel.[4]

Your benefits must be delivered consistently over time. Texas Instruments' DLP specialists visit retailers at least once a month to check that TVs are tuned properly and deliver video clips that show their high picture quality.[5]

Your brand should be associated with market needs, not with a product or a service. If technology changes and that product or service disappears, then the brand will suffer if its main association is with the old technology. For example, Kodak has long had a strong association with film. According to one reporter, "While the 115-year-old company's heritage is unrivaled in the photography market, what is more debatable is whether the brand has the cut-through to appeal to a younger, techno-savvy generation of consumers."[6] During one five-year interval, some publicly available brand equity estimates show the value of the Kodak brand falling $7 billion—a loss of about half the brand's value. Managing their brand remains a crucial concern for Kodak.

Associations

The associations are the "wiring" in the customer's mind that leads him or her from the brand identifiers to the attributes. Because it takes time to build associations in a customer's mind, it takes time to build a brand.

If you do not maintain the currency of your brand's associations over time, then your brand may flounder. Sales of Levi's jeans slid from a peak of $7.1 billion in 1996 to about $4 billion in 2003. Levi's were popular in the 1960s but did not sustain their positioning for jeans buyers in later generations. According to Lew Frankfort, CEO of Coach, Inc., "Levi's did not create the 'emotional associations' that lead to brand loyalty . . . Levi's managers saw themselves as a jeans company making great jeans as opposed to part of the American landscape." Their distribution through stores such as J.C. Penney and Sears did not appear to help reinvigorate their brand position. Shoppers looking either for economy or for style did not buy Levi's—a classic example of what was called being "stuck-in-the-middle" in Chapter 5.[7]

Building associations for a brand requires consistency. Once a brand position has been selected, then all your contact points with customers must be orchestrated to deliver a consistent brand message. Especially important is that all your employees know the brand position and why it is important to maintain a consistent brand position.

Creating a Brand Position

The brand position derives from the product or service position (see Chapter 11). (For more on brand positioning, see Sexton.[8])

The product or service position should consist of those benefits that are of high priority to your target customer and that your organization can provide better than any of your competitors. The brand position should consist of just a few benefits—ideally, just one, two, or possibly three benefits.

Why only a few benefits? Because customers cannot remember a long list of benefits. They will remember some benefits but perhaps not the ones you want them to remember. It is imperative that you make your brand position very clear so it can be communicated effectively and the target customer will learn it quickly and remember it.

Marketing and branding are intertwined. Where marketing and branding may differ is *discipline.* A strong brand requires discipline to select only a few benefits as a brand position and the discipline to communicate that position consistently over markets and over time. Some managers are reluctant to choose just a few benefits. However, without that discipline, there is little chance of building a strong brand.

When Helmut Panke, CEO of BMW, was asked how they keep the BMW brand consistent, he replied, "The biggest task is to be able to say 'No.' Because in the end, authentic brand management boils down to understanding that a brand is a promise that has to be fulfilled everywhere, at any time. So when something doesn't fit, you must make sure that that is not done." For example, BMW said "no" to producing a minivan because they did not feel it was consistent with the BMW brand position they desired at the time.[9]

Building a Brand

To build a brand, you must:

- Select a target market.
- Choose the key benefits in the positioning of your product or service.
- Determine the attributes currently perceived to be associated with your brand by customers in your target market (the association audit).
- Identify any differences between the attributes the customers perceive to be associated with your brand and the attributes you wish them to associate with your brand.
- Develop a communications strategy to build the desired associations.[10]

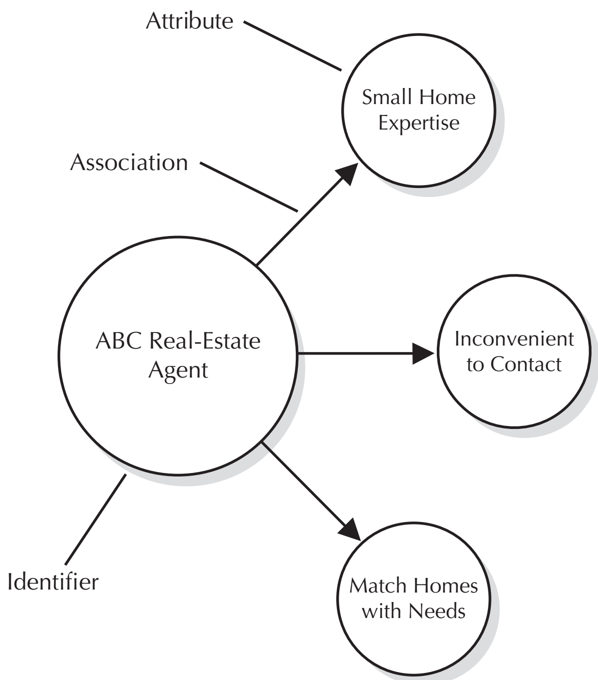
Building a Brand—Real-Estate Example

In the real estate example in prior chapters, the best positioning for the real-estate agent seemed to be the "small-home expert" for young families and young couples. That might be a viable positioning for their brand.

Suppose that an association audit (Exhibit 12.2) showed that many customers associated "small-home expertise" with the real estate agent. That would be good news, but they would still want to repeat that message in all that they do.

To maintain that brand position, the real estate agent would want to make sure that every contact point with customers reinforced that position. Certainly, any advertising would repeat that position. In addition, any signs, stationery, and promotional giveaways should all reinforce that position.

Exhibit 12.2 Association Audit—Real-Estate



Source: "Arrow Guide—Brand Attribute Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

It would be especially important that all the employees know the brand position and why it is crucial for them to support it. The real estate agent may explain the brand position for them and also provide them with material describing the brand position and the implications for their contacts with customers. In particular, all the employees should always mention the small-home expertise of the agency.

Attributes associated with a brand may be negative. For example, if the association audit discovered that "inconvenient to contact" was an association of the real estate agent (see Exhibit 12.2) and was an important concern to their target customers, then they should try to change that situation. That could be done by showing how easy it is to reach their agents and the large number of hours their offices are open.

Any benefit claim that is part of the brand position needs to be true because it will receive a lot of attention and scrutiny. If brand claims are not true, customers usually find out very quickly and then they may not believe the next claim you make.

Communicating the Brand to Members of the Organization

Studies by the Conference Board and by the American Productivity and Quality Center suggest that two of the most important drivers for building strong brands are support by top management and support by employees.[11]

Many organizations have what they call a *style guide*—information as to how their name and logo should be portrayed. Organizations that are more sophisticated in their branding efforts go beyond the style guide to what you might call a *brand book*.

The brand book includes all the style guide information, but also explains the argument as to why it is important for everyone in the organization to understand the brand and support the branding efforts.

Exhibit 12.3 shows the general format and contents of a brand book. The first half of the brand book provides the rationale for branding; the second half provides the details as to how the brand should be communicated.

You may not need a brand book for your organization, but it is important that everyone in your organization understand why it is so important to manage the brand properly and that they all have a role in managing the brand. Perhaps you can communicate the importance of the brand with a meeting, by e-mail, or perhaps with a one- or two-page explanation and description of the brand. However you do it, internal communication of the brand is essential to a strong brand.

Exhibit 12.3 The Brand Book

The Power of Brands
- Value to customers
- Value to organizations

How Are Brands Developed and Managed
- Consistency over time and over markets
- Brand understanding and discipline

Why Brand?

What Is a Brand?
- Identifiers
- Attributes
- Associations

What Is Our Brand?
- Logo and other identifiers
- Personality and values
- Promise

Our Brand Promise
- Significance to customers
- Keeping the promise

Who Is Our Audience?
- Their needs
- How we meet those needs

Speaking with One Brand Voice
- Tone and manner
- Logo style guide
- Graphic element style guide
- Font style guide
- Advertising style guide
- [Other style guides]

How to Be a Brand Champion

Appendices:
- Frequently Asked Questions
- Checklist for Brand Communications (Do's and Don'ts)

Source: "Arrow Guide—Brand Identity," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Conclusions

Brands—the reputation of your organization and your products and services—represent an extremely valuable asset if they are managed well. The key principles of sound brand management are positioning that is well thought-out, discipline to implement brand communications programs with consistency, and understanding of your brand position by all the members of your organization.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

13

Developing Your Growth Plan

You want more growth for your organization. You have established your products and services with customers, but you feel that you can increase your revenues and profits. Marketing can help guide you to the most attractive growth path for your organization—the growth path with superior profits and lower risk.

Organizations without growth plans are often tempted by targets of opportunity—ventures with short-term returns, but that may not lead anywhere or, worse, may create risk for the organization. A growth plan provides long-run direction for an organization and discipline, so that it maintains a stable growth path. That is why you need a growth plan. That is why you need this chapter.

Growth Matrix

You can grow your organization through finding new customers (or new markets), or by creating new products or services (or technology). These growth paths can be systematically developed and evaluated by using the growth matrix (Exhibit 13.1), which is usually credited to Igor Ansoff, a pioneer in strategic planning.

Market Growth Path: Trump International Hotel & Tower

Trump International Hotel & Tower, Dubai.
Photo credit: Artist rendering by the 7th Art.

You can grow in a market direction or in a product or service direction. Trump International Hotel & Tower has moved in the market direction.

The initial property was developed in New York City. That was followed by the Trump International Hotel & Tower in Chicago, in Las Vegas, and in Waikiki. There is a Trump International Hotel & Tower planned for Dubai.

The positioning of each of these properties is similar—luxury hotel and condominium—but the markets are somewhat different. For example, the buyers in Chicago units tend to be from the Chicago suburbs. Buyers in Las Vegas units tend to be from diverse locations. Other properties may attract retirees. However, the strength of the product—high-end layouts and features and high-end service—appeals to all these varied target customers. Brand and product strength have carried the company to successful growth in these new markets.

Current customers are customers with whom you are conducting transactions or, better, customers with whom you already have a relationship.

Related customers are customers who resemble your current customers or are similar to your current customers but with whom you are not currently doing business.

New customers are customers with whom you are likely not familiar but you may want to target efforts toward them.

Current products or services are the products or services which you are currently marketing.

Exhibit 13.1 The Growth Matrix

Product or Service

Market	Current	Related	New
Current			
Related			
New			

Source: "Arrow Guide—Growth Strategy Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Related products or services are products or services that are similar to your current products or services but which require somewhat different expertise.

New products or services are products or services that would be new to your organization (but not necessarily new to the world).

Customer growth paths run from current customers to new customers or from top to bottom on the growth matrix. Product or service growth paths run from current products or services to new products or services, or from left to right.

Alternative Growth Paths—Health Club Example

Suppose you are running a health club catering to men in their 30s and 40s. Possible product or service growth paths would be to offer Pilates classes or install a juice bar for your current customers. Possible customer growth paths would be to promote your current exercise programs to women in the same age range or to seniors.

You can also combine growth paths. For example, if you believe Pilates might be especially popular with women, you might offer Pilates classes to women—and grow in both the service direction and customer direction at the same time. Note, though, that the further you travel on the growth matrix, the greater the risk, and moving in both the service and customer direction at the same time can be tricky.

Risk in Growth

Growth usually comes with risk, so if you are considering growth opportunities, you need to evaluate the possible risks, as well as the possible returns. The growth matrix spotlights risk. As you move on the growth matrix, to the right or down, risk increases. In fact, the riskiest growth move is thought to be the move down the main diagonal of the matrix—from current customers and current products to new customers and new products.

The reason moves on the growth matrix are considered risky is that whenever you move to a new market or to a new product or service, you need to acquire new management knowledge. A few years ago, some airlines thought that they could pursue service growth paths by adding hotel and car rental services, which they would provide to their business customers. They found it wasn't so simple. Each business requires its own expertise. In addition, it is not always easy to meld businesses—there are issues of information sharing and differences in cultures that make a business move that makes sense on paper not make sense in practice.

The reason moves on the growth matrix are considered risky is that whenever you move to a new market or to a new product or service, you need to acquire new management knowledge.

Required expertise is of two kinds:

1. *New product or service expertise:* This consists of knowing how to produce and provide the product or service. At one point, KFC was owned by a company with little experience with restaurants. The parent company found that operating a fast-food chain required different skills than

they had. Instead of the large factories they operated for their other businesses, they had to manage hundreds of small "factories" because each restaurant was relatively independent. In the restaurant business, one of the key skills is understanding real estate and traffic patterns—quite different from the skills needed to manufacture a consumer product. When they realized the problems they were facing because of their lack of restaurant expertise, they sold KFC.

2. *Customer expertise:* Although it may be difficult to acquire expertise related to new products or services, many organizations have put themselves at risk because they did not have sufficient information regarding the new customers they were trying to attract. There are many instances of deficient customer information in international marketing, including well-known stories where there were problems in pronouncing a company's name or translating their slogan into the local language. (Hertz's famous "We put you in the driver's seat" supposedly became "We make a chauffeur out of you" because of mistakes in the German translation.)

More important issues about customer expertise concern knowing their expectations, attitudes, and behavior. Coca-Cola, for example, may be consumed differently in different national markets. In some countries, Coca-Cola is typically consumed with a meal and in others during breaks throughout the day. Hall's throat drops are a snack in some countries, a cough drop in others. Knowing the type of behavior to expect in a market is important in positioning the product or service and in communicating with the customers. Both Coca-Cola and Hall's, for example, tailor their advertising to match the behavior and needs of customers in their diverse markets.

Moving down the main diagonal of the growth matrix is especially risky because it requires you to acquire both customer and product information at the same time. In addition, you might need to change your organization, often in major ways.

Moving down the main diagonal of the growth matrix is especially risky because it requires you to acquire both customer and product information at the same time.

During the 1950s and 1960s in the United States—a relatively quiet time as regards competition—there were many companies known as *conglomerates.* They acquired companies in a variety of industries. Singer, for example, moved from their core sewing machine business to acquire companies such as Friden, a company that made mechanical calculators.

When the competitive environment was quiet, you could evaluate corporate acquisitions by examining the standard financial information. In the 1950s and 1960s, conglomerates tended to look at acquisitions as if they were simply buying stock. The problems came when the competitive environment became noisy—then you could not manage a company passively. During the noisy time, many conglomerates found that they did not have the product or service expertise, or the customer expertise to manage their acquisitions successfully. Singer, for example, sold Friden when it became clear that electronic calculators would soon dominate the calculator market.

Although conglomerates still exist, their top management understands that they need managers in charge of each of their diverse divisions who understand the products and services, and customers in their markets.

Risk and Your Growth Path

The concerns that large companies have about growth paths should be reflected in the way smaller organizations consider growth paths. Expansion to include new products or services requires new expertise. A restaurant adding to its menu would need a chef capable of preparing the new dishes. Expansion to new customers requires new expertise. Young couples likely want somewhat different benefits from a restaurant than do families.

In the health club example, the addition of Pilates classes would require the addition of a Pilates instructor and special equipment. Adding a juice bar would require knowledge of ordering and stocking beverages.

Generating Growth Alternatives

The growth matrix is often useful for generating ideas regarding possible growth paths for an organization.

A manager or team of managers can be tasked with finding growth ideas for the different cells in the growth matrix. In turn, these ideas provide a list of business opportunities for consideration (Exhibit 13.2). Techniques such as the target market selection process described in Chapter 10 can be used to determine which opportunities might be pursued.

In the health club example, you might elect to provide different kinds of classes or perhaps free weights to your current customers, professional men in their 30s and 40s. You might even try to sell upscale workout clothing.

In the market direction, you might target younger men or older men, or perhaps women in the same age range as your current customers. If you wanted to stretch your market further, you might try women in other age ranges.

Meeting with your managers and leading them in a discussion of possible growth paths does not mean that you will follow any of those growth paths. But such a discussion may provide you with ideas you can pursue and perhaps one or two of them will be successful. One successful idea is worth the time it takes to brainstorm a number of possible growth paths.

Growing During Economic Downturns

There is no reason that you cannot grow your business during an economic downturn. It is true, however, that the risks associated with growth beyond your current customer base are greater during slow economic periods.

Exhibit 13.2 Using the Growth Matrix—Health Club

Product or Service →

Market ↓	Current	Related	New
Current	Professional men in their 30s and 40s—cardiovascular workouts	Free weights Yoga Pilates	Juice bar Clothing or equipment store Martial arts
Related	Professional women in their 30s and 40s Professional men in their 20s Professional men in their 50s		
New	Senior men Senior women Young mothers		

Source: "Arrow Guide—Growth Strategy Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

As discussed in Chapters 33 and 34, when you are trying to grow during a tough economic climate, you simply have to make sure your analysis is as thorough as possible. Your expertise regarding the products or services and regarding the customers must be solid. You do not want to make "dumb" mistakes, because an economic downturn is much less forgiving than an economic upturn. And you will have fewer resources to cover any mistakes you make.

Suppose, for example, you own a tourist hotel and your occupancy rates have gone down. Perhaps you want to attract business meetings. Business meetings would represent a quite different market with different needs and different decision makers (corporate travel planners). Simply declaring that you would like such business will not earn you that business. You may need to change your facilities, the attitude of your staff, and learn new ways to promote and sell your hotel. You may succeed, but prepare to spend more effort than if the economy were on an upswing.

Focusing Growth Strategies

Once you have decided on a growth path, you will need to determine how your efforts will be focused on specific customer actions such as product trial or increased usage. The next chapter explains how to focus your growth strategies.

Conclusions

Growth is the goal of many managers. Well-planned growth can lead to success, but growth also leads to risk. Many organizations have tried to grow too fast or have tried to grow in the wrong directions and have failed because of those choices. An organization needs a growth plan to ensure that it is not misled by targets of opportunity that lead to risk or to dead ends.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

14

Determining Your Focus for Growth

After you have decided on your overall growth path, you need to consider exactly how you will achieve that growth and how you will approach your target customers to provide that growth.

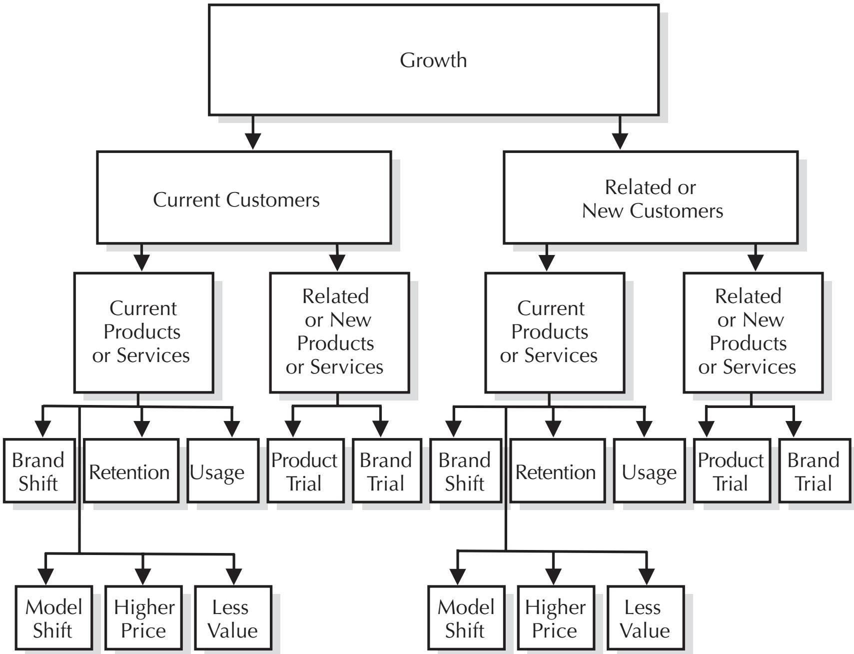
You can grow in the product (or service) direction or in the customer (or market) direction. However, knowing the general direction you will move does not really give you the details you need for how you are going to go about it. You need to have a *growth focus* so that you can make decisions regarding marketing programs such as advertising, promotion, pricing, and distribution. Otherwise, your marketing programs can be inconsistent and cancel each other.

This chapter is about making the focus of your marketing strategy more *precise* so that you can coordinate your marketing programs more effectively and achieve your objectives more easily.

A Focus for Growth

Exhibit 14.1 shows alternative ways to focus your growth efforts.

Exhibit 14.1 Growth Focuses



Source: "Arrow Guide—Strategies for Growth," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Growth in the Product Direction: The Donald J. Trump Signature Collection® Eyewear

Eyewear from The Donald Trump Signature Collection.
Photo courtesy of The Trump Organization.

You can grow in a market direction or in a product direction. The Trump Organization does both. For example, Trump International Hotel & Tower grows in the market direction by building similar types of buildings in new markets, while Trump licensing grows in the product direction, licensing suits, shirts, neckwear, and eyewear.

(*continued*)

(*continued*)

For example, in 2005, The Trump Organization and Eyewear Designs, Ltd., launched The Donald J. Trump Signature Collection®—eyewear targeted toward professional men and women "who understand the importance of image." The agreement between the two companies merges their competencies. Eyewear Designs, Ltd. provides the innovative styling, high production standards, and global distribution. The Donald J. Trump brand provides associations with attributes such as business success, boldness, and style.

For example, if you run a health club, you can try to attract customers away from competing health clubs, or you can try to sell more products and services to the customers you have now. Notice that the actions you need to take will differ depending on your focus. You may use special promotions to attract customers from the competing health clubs while you may provide more services to sell more to your current customers.

If you try to pursue several different growth focuses at the same time, they may conflict. For example, trying to increase your customers' usage of your product or service at the same time that you are trying to encourage them to pay higher prices would be counterproductive. At the least, pursuing different growth focuses will spread your resources too thin, so that none of your growth initiatives has sufficient resources to succeed.

Growing With Current Customers

You can grow your organization by targeting your current customers. Growing with current customers has two main advantages. First, hopefully you know these customers well already, and therefore you know their needs and priorities. Second, you are already in contact with these customers so you have opportunities to persuade them to purchase more.

You can grow with current customers with *current products* or with *related or new products.*

Current Customers/Current Products

Encourage customers to purchase more from you and less from your competitors. This focus is known as a *brand shift.* You need to let your customer know why they should give you more of their business. In the health club example, you might focus on your more convenient location or more convenient hours.

Improve Loyalty

Increasing loyalty means you are increasing the *retention* of your customers (see Chapter 15 for further discussion). The most important way to increase loyalty or retention is to satisfy your customers—delight them (although remember you need to make a profit in doing so). That means you need to listen to them and find out how they like your products or services. Ask: "How did you like your workout today?" You can also encourage loyalty with various loyalty plans. For example, you may give price discounts or gifts, such as towels, to members of your health club who work out two or more times each week.

Increase Customers' Use of Your Product/Service

You can persuade your customers to increase usage in three ways: Point out that their needs have increased, show them new uses for your product or service, or remind them to use it.

Over time a customer may simply *need more* of your products or services. For example, as a house appreciates in value, a policy holder may need more property insurance coverage. You might also point out to your customers that more is better for them—more workouts at your health club (within reason) may help your customers get in better shape more quickly.

New uses is about providing your customers with ideas for using your product or service in new ways. Many alcoholic beverage companies promote their products by publishing recipes for new mixed drinks that call for use of their product.

Reminder is just that—remind the customer to use the product or service. A dentist who reminds his patients to have their teeth cleaned three times a year instead of twice a year might increase the revenue from teeth cleaning by 50 percent. "Have you worked out this week?" and "Would you like fries with that?" are both examples of reminder approaches to increasing usage, although with somewhat different effects.

Purchase More Expensive Models or Versions

Purchasing more expensive models or versions is known as a *model shift* or *up-selling*. Airlines try to persuade coach passengers to fly in more lucrative classes such as business or first class. Some car rental companies are adding special automobiles, such as convertibles, sports cars, and SUVs, to their inventory in hopes of persuading some of their customers to trade up to those models. In the health club, you might persuade customers that they need a personal trainer.

Pay Higher Prices

Generally, the strongest arguments for an increased price is increased value. For example, the owner of the health club might increase the hours the health club is open or add new equipment at the same time that they raise membership fees.

Accept Less Value

Accepting less value is an approach that may allow you to decrease your costs. Some organizations do this without letting the customers know that this is going on. For example, producers of candy may decrease the size of their packages without decreasing their price, or airlines may make it much more difficult to use the frequent flyer miles that their passengers have patiently acquired. Although you can likely get away with such an approach for a while, eventually your customers will notice and at that point may leave you.

A more stable approach to cutting back on costs involves what is known as *value-engineering*. Value-engineering is taking a close look at your products or services and eliminating or reducing those benefits that the customers do not really care about and which will allow you to reduce costs. For example, if health club customers rarely use certain pieces of equipment or if other equipment available provides the same type of workout, then it may be possible to remove that equipment.

Current Customers/Related or New Products

You may grow your business by selling related or new products or services to your customers. Adding yoga classes to the health club would not be a stretch (sorry for that pun) and would be a related service; installing a juice bar would be a new service because it would require a number of new skills such as ordering beverages and storing them. For both related and new products or services, you must entice the target customer to try them.

Gain Product Trial

Get them to try a new product or service for the first time. In the product trial, you need to inform customers that you are providing a new way to satisfy one or more of their needs and they may want to try it. If someone has not heard of Pilates, for example, you may need to explain what it is and how it will help them with their fitness goals. Then they may be willing to sign up for your Pilates class.

Gain Brand Trial

Get them to try your version of a product or service for the first time. In the brand trial situation, your customers already know about the product or service. Your challenge is to convince them that your version of that product or service—your brand—is superior to other opportunities available to them. For example, you may point out the experience of your Pilates instructors and introduce them to the customer so that they will feel comfortable with them.

Growing with Related or New Customers

Related customers are customers who resemble your current customers—to some extent. For example, if a health club caters mainly to professional men in their 30s and 40s, then related customers might be professional women in their 30s and 40s, or perhaps men in their 20s or men in their 50s and 60s. Although similarities exist between these markets, customers in each market likely have different needs.

New customers are customers who would be totally new to your organization. For the health club, young mothers with their babies, or men or women in their 70s and 80s might represent markets with quite different needs from those you are familiar with.

Related or New Customers/Current Products

Selling your current products or services to related or new customers is really a two-step process. First, you must get them to try your product or service. Then, you would follow the same approaches described earlier for selling current products or services to current customers.

As an illustration of this two-step process, consider the health club. Suppose you wanted to sell an exercise program to young mothers with babies. First, you would want to explain to them why these services are important to them and why they might want to try the exercise programs at your health club. Once you have persuaded them to sign up at your health club, they become your current customers, and all of the approaches for growth with current customers then apply.

Note that for customers who have just started their relationship with you, retention is absolutely crucial. In the first year, customer relationships tend to be very vulnerable, so it is important that special attention is paid to the newly signed-up customers and that relationships with them are managed well.

Related or New Customers/Related or New Products

Selling of related or new products to related or new customers is the most difficult growth focus to implement. Now you need both expertise on the customers in the related or new markets and expertise on the related or new products or services. This would be the situation where the health club owner is trying to interest men in their 80s in ballet classes. That example may be a bit extreme, but it should make the point that with this situation you are trying to stretch your organization in two directions at the same time.

The process is the same as for related or new customers/current products. First, you must persuade target customers to try the product or your version of the product. Then, you approach them as "new" current customers.

Let's use the health club example one more time. Suppose you were trying to expand your business by offering martial arts classes to men in their 20s. You would learn about what those young men are looking for in martial arts by talking with some of them or by reading some of the magazines devoted to the martial arts. You would then consider what you would need to provide the martial arts classes—an instructor, equipment, sufficient space. When you are ready, you would need to contact young men who might be interested in such classes. Because they are not among your current customers, you would need to find ways to communicate with them. Perhaps you would use newspapers or handbills, or pass the word among your current customers. For those who come to sign up for the course, you would then need to follow either a product trial or brand trial approach, depending on their prior knowledge of the martial arts. At some point, you would need to explain why your class would be superior to others. Those who enroll would then be "new" current customers, and over time you would grow with them as you grow with any of your current customers.

Focus for Growth During Economic Downturns

This chapter provides an overview of the possible ways to focus your growth strategy. Chapters 33 and 34 provide specific suggestions as to how you can apply these ideas during tough economic times. Not surprisingly, the first type of growth focus you should consider is a focus on your current customers, and current products and services. These are the markets you should know best, and growing with current customers and current products and services likely presents you with the least risk. Be sure you know the profits—short term and long term—from each of your customers so you can allocate your limited marketing resources with purpose. Above all, make certain you retain those customers who are most attractive to you. Do not try to squeeze them too hard for revenue and profits. They may pay now, but they will remember your actions later.

During the economic downturn of 2009, a European hotel chain charged exorbitantly high Internet connect charges (which I kindly pointed out to them). They probably received some amount of short-term revenue from this policy. However, it was quite transparent that what they were doing was milking their hotel guests, assuming that they were a captive market within the hotel. Perhaps, but what do you think will happen the next time that those guests need to make a hotel reservation? In my case, I simply checked out of their hotel two days early and went somewhere else, so they immediately lost two nights' room charges (and received no Internet revenue from me). In general, guests annoyed by this pricing policy will not reserve a room at this hotel chain—so the chain may obtain short-term profits in exchange for long-term losses. And worse, they may never know about their long-term losses because most dissatisfied guests do not bother to complain, they simply do not return.

For much more on managing growth during tough economic times, see Chapters 33 and 34.

Conclusions

A growth plan must be implemented through your actions to change customers' behavior. That is called the *focus of the growth plan.* There are many possible focuses—some may be consistent with each other, but others may conflict and even cancel each other. It is important for you to determine the focus for your growth plan to guide your actions and to evaluate the possible risks involved.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

15

Increasing Your Customer Satisfaction

What is the one thing you need to have a business? Is it a product? A factory? A service? A license? Inventory? A location? Employees? The one thing you need to have a business is a *customer*. A customer is someone who thinks your product or service is worth paying for and who purchases it. Without customers, there is no revenue, no profits, and no cash flow, and therefore no business. Satisfying your customers should be at the heart of your marketing efforts—although keep in mind you need to do so at a profit. This chapter shows you how to increase your customers' satisfaction.

Hierarchy of Objectives

The objectives of an organization (Exhibit 15.1) form a hierarchy, and getting and keeping customers is the most fundamental objective. Customers provide revenue, profits, and cash flow that translate into value of the business. One of the founders of GE supposedly said to his salespeople, "I don't care if you burn down the factory, don't be rude to a customer." The point, of course, was that you can always rebuild a factory; you may never regain a customer who is lost.

Customer Satisfaction: Trump International Hotel & Tower, New York City

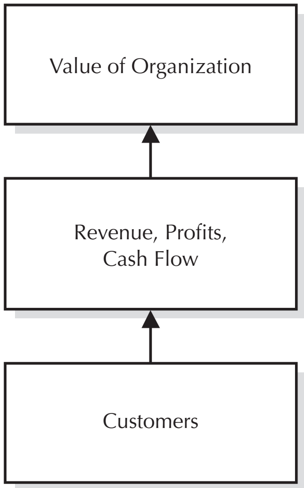
Trump International Lobby, at Trump International Hotel & Tower, New York City.
Photo courtesy of The Trump Organization.

This story, related by a former general manager of the New York City Trump International Hotel & Tower, shows the power—and responsibility—of having highly regarded and appreciated customer service.

Our concierge received a call late one night from a guest who was distraught over having lost a shopping bag containing something very dear to him . . . so dear, that he could not travel without it. He had checked into the hotel moments before, and remembered having the bag last at the airport. The concierge alerted me and I called the airport Lost and Found Department. They knew nothing, and could find nothing. I was not going to take no for an answer because my guest was truly upset over losing this bag and I felt that something more could be done. I headed to the airport myself, to the same terminal and baggage claim area where the guest had been a short while before. I asked the Lost and Found Department manager for help and again, they had nothing to offer. I started looking around and there, lying by a garbage can, was an old plastic bag that matched the description the guest had given me. Inside was the item that held great sentimental value—an old teddy bear! I brought it back to the hotel and returned it to the guest who was so appreciative, tears were running down his face.

To provide great service, you need a culture that values great service—and that starts at the top of your organization. If you value and expect and reward great service, your people will give it.

Exhibit 15.1 Hierarchy of Objectives



Source: "Arrow Guide—The Marketing Challenge," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Customer-Driven Organizations

Organizations that understand the key role of customers in their success are known as *customer-driven organizations.*

In a customer-driven organization, decisions are made based on the knowledge of customer needs and expectations, and on the impact of those decisions on the organization-customer relationship.

Customer Satisfaction and Financial Performance

Many management gurus advocate that you should always satisfy customers—or always *delight them.* That is a noble sentiment, but the gurus haven't gotten it quite right.

You should always strive to satisfy or delight customers—but *at a profit.* The easiest way for you to satisfy customers is to give them everything they want—at a discount—then provide liberal credit. If you do that, you will likely not stay in business—and therefore in the long run, you will not satisfy your customers because you will not be around anymore.

You Should Always Strive to Satisfy or Delight Customers—But at a Profit

If you never say no to a customer, as discussed in Chapter 3, then you do not have a strategy—no clear target market and no clear positioning. It is also true that if you never say no to a customer, then you may go out of business.

Your decisions regarding what you give to your customers always involve a trade-off between the added perceived value you provide the customer and the added costs you assume. If the additional perceived value you are providing is less than the added cost, then the organization is actually reducing its contribution to society, should go out of business, and eventually will.

Yes, being customer-driven is delighting customers—but do so at a profit.

How to Increase Customer Satisfaction

Customer-driven organizations can manage customer satisfaction by following my COPS model: *C*ulture; *O*rganization; *P*rocess; *S*trategy. *Culture* consists of the fundamental values of your organization. *Organization* refers to how your organization is structured to support customer-satisfying efforts. *Process* is the way you deal with customers. *Strategy* concerns the way you make decisions that have an impact on your customers.

Culture

Make customer satisfaction everyone's responsibility. If your organization is customer driven, then *everyone* in your organization is committed to satisfying customers (at a profit). That includes the CEO. When Lou Gerstner took the top job at IBM, he made it clear that he would be the sales representative for five customers and sent a very clear message to all those in the organization regarding the importance of customers to IBM. For many years, ARAMARK has had what they called the *20/20 rule*—that every manager at every level of the company had to know the top 20 customers in their area and the top 20 potential customers in their area. Top executives in some banks and airlines are required each year to spend time in positions that bring them into contact with customers.

If your highest-level managers show that they consider customers to be important, then your organization is likely to be customer driven. However, if your highest-level managers do not show attention to customers, then your organization is likely not to be customer driven.

Once when I was the first person getting on an aircraft, I heard one of the attendants exclaim, "Here come the animals." For that attendant, passengers were a nuisance, and it is very likely that that attitude carried over into how the attendant dealt with passengers during the flight. Members of an organization must show *respect* for customers—not thinly disguised contempt. One study showed that nearly 70 percent of customers quit being customers because of the attitudes of those employees serving customers.

Sanity Music, a chain in Australia, doubled their market share in just two years and earned more than $1.50 more per CD than their competitors partly because of the enthusiasm of their staff. Ticket takers at the Disney theme parks receive hours of instruction about treating park visitors—guests—before they begin work. What type of training do you give your customer servers?

Members of customer-driven organizations need to have what Tom Peters has called a "passion for perfection." *Passion for perfection* is a concern to get things right and get them right the first time. A dry cleaner who will not return clothing with stains or missing buttons, or an accountant who reminds the client when to submit his or her tax forms can have a passion for perfection. Buck Rogers, former head of sales at IBM, believed that in customer-driven organizations, employees dealing with customers must have "thoughtfulness, courtesy, and integrity." In short, they must treat customers the same way that they would like to be treated.

Organization

Make it easy to satisfy customers. If you are the person who deals with customers face-to-face or even on the telephone or Internet, you have a difficult job. When customers have something to say to you, it often will concern a problem, and if you are not able to help, the situation may become even more unpleasant. That is why customer-oriented organizations *empower* their employees to solve their customer's problems.

British Air has gone to enormous lengths to provide their customer servers with power to solve customers' problems such as lost baggage or mishandled reservations. They can provide customers with gifts, upgrades, and other favors to help preserve their relationship. United Airlines allows flight attendants to recommend that passengers receive flight certificates or frequent flyer miles in reparation for problems encountered during flights such as videos or headphones that do not work.

Empowerment also raises employee morale. Employee morale, in turn, affects customers. Marriott has found that a 10 percent reduction in employee turnover reduced customer defections by 1 to 3 percent and raised revenues by millions of dollars.

Customers need to be able to *communicate* with customer servers, but some organizations make that communication very difficult. One oxymoronic phrase in customer service is what some organizations have on their automated customer response systems: "Your call is very important to us." That statement is usually followed with: "All customer servers are busy working with other customers." The question is: If the call is so important to them, why don't they have more customer servers working?

Dealing with customers requires skills, and that means customer servers need *training*. USAA, a large insurance company highly regarded for their customer service, often leads their industry in the percentage of their budget spent on training.

Certainly the customer servers must understand the organization's products, services, and policies, but there are many other dimensions to dealing with customers—the human dimensions. In particular, customer servers must know how to listen and how to empathize with customers with problems. Customer servers need be trained in how to manage upset people. In some organizations, the newest and least experienced employees answer the complaint line. The employees on the complaint line should be highly trained and experienced in dealing with difficult situations.

Customer-driven organizations reward employees who satisfy customers. The rewards may be recognition such as "Employee of the Month" or bonuses. (*Note:* Employee of the Month parking spaces may be counterproductive, however, if they displace customer parking places.) Nordstrom's has established a Hall of Fame for acts of great customer service.

For rewards to be effective, you must publicize them. Customer-oriented organizations spotlight those who perform well with customers. They also disseminate information as to how well the organization is serving customers by publishing information on customer ratings and other measures of customer performance.

Process

Establish systems to support customer satisfaction. To manage customer satisfaction, you need to *stay close* to customers. You may have heard the old story of the organization that did away with its complaint line because too many customers were complaining! Customer-driven organizations talk to their customers and listen to them. Communication may be informal. If you are running a health club, it is easy and natural to talk to your customers and ask them how they like (or don't like) the club. Or focus groups or surveys may be used. Xerox is known for regularly surveying its customers. The main point is that the communication takes place on a regular basis.

When your customers complain, they are telling you that the relationship can still be saved. Most unhappy customers do not complain—they simply take their business elsewhere. When you do not hear from your customers and then do not see them, you know you are in trouble.

Processes need to be designed from the *customers' viewpoint*, not from the viewpoint of the organization. Many years ago, the only way to buy a ticket to a Broadway show in New York City was to go to the theater and purchase the tickets with cash. That process had a lot of advantages to the theater but was relatively difficult for the theatergoer—and consequently probably discouraged some potential customers from ever going to the theater. For many years, retail banks in the United States closed at 3 p.m.—what were known as "bankers' hours." Again, the process had been designed to make things easier for the banks, but that made it more difficult for the customers.

Organizations should look for *best practices* and benchmark on the best performers for whatever they do, including managing the relationships with their customers. Many organizations have been cited for high performance on customer satisfaction—Southwest Airlines and USAA insurance, for example. Managers should identify those organizations that best satisfy customers and try to learn from them.

Communications with customers must be in both directions. Hearing their opinions is very important, but it is also important to talk to them and let them know what is happening. Airlines have often done a poor job of explaining situations to passengers when flights are delayed. One of the jokes shared among passengers of the New York City subway system is the public address system—when there is a problem on the line, the sound quality of the communications equipment is so bad it is usually impossible to understand what the problem is and when it will be fixed.

There are many ways to communicate with customers—in person, of course, but also through newsletters and e-mails.

Strategy

Focus efforts on customer satisfaction. Jan Carlzon's book, *Moments of Truth*, clearly set forth the idea that, if customer satisfaction is not the focus of an organization, then the organization may fail.[1] The "moments of truth" to which he referred were *all the points of contact* that his airline, SAS, had with customers—when reservations were made, when customers checked in, when they retrieved their baggage. He pointed out that if SAS did not win these moments of truth, then their planes would be empty. (For more examples, see Schmitt.[2])

A marketing strategy must have the *customer at the center* to be successful. The two strategic components of a marketing plan are the target market and the positioning. These two decisions are closely interlinked. Selecting a target market identifies customers and their needs. Customer needs then determine the positioning (key benefits) required to satisfy them. In customer-oriented organizations, the target market and positioning decisions are made with care and thoughtfulness, not by expediency. Wendy's has a customer focus in their marketing strategy. They were first among U.S. fast-food chains to launch entrée salads, and among the first to have extended hours and improved nutritional information—all part of their customer-centered strategy.[3]

A marketing strategy must have the customer at the center to be successful.

Over time, all organizations need new customers. However, for many organizations, the real problem is *retaining current customers.* Revenue, profitability, and cash flow are all extraordinarily sensitive to customer retention rates. Customer-oriented organizations understand this and focus on doing things to retain customers. At Master Care Auto Service, employees who kept customers loyal received a bonus that could be as much as 10 percent of their salary.

In the Rocks section of Sydney, Australia, is a restaurant called Wolfie's Grill that I have gone to over many years. The view of the Harbour Bridge is spectacular, but that's not why I continue to go there. I go for the service. The first time I went there one of our sons was only a year old and rather finicky. Wolfie's chef produced a meal our boy would eat and the waitstaff didn't seem to mind the clean-up afterward. Since then I have returned often and always found their service delightful—even over many changes in managers. What is that consistency worth? A lot.

A focus on retaining customers brings in new customers as well. The habits you need to keep your customers are exactly the habits that you need to attract new customers. Plus, positive word-of-mouth from your current customers is probably more effective than any advertising you could devise to persuade new customers to try your product or service. I have recommended Wolfie's to many friends and relatives when they visit Australia.

Customer satisfaction is linked to revenue, profits, and cash flow through perceived value. Therefore, it is a *leading indicator* for the financial performance of an organization and must be monitored. The monitoring can be done directly with surveys or indirectly with operations measures (for example, process times, number of complaints), but monitoring must be done to provide the organization with steering control. When Swissair surveyed their passengers, they expected good or excellent ratings to be close to 100 percent. (See Chapter 36 for more on how to survey your customers.)

Conclusions

Customers are the source of all your financial returns—your revenue, profits, and cash flow. Therefore, they are also the source of shareholder value. Satisfying customers—at a profit—should be a major objective of any organization if it is to have success over time.

For review questions for this chapter and for a test as to how well your organization satisfies customers, log on to www.trumpuniversity.com/marketing101.

16

Managing Your Marketing Programs

You implement your marketing strategy with your marketing programs. The most common programs are design, advertising (including the Internet), identifiers (for example, name, logo), sales promotion, personal selling, public relations, pricing, and distribution. These programs are often referred to as the *marketing mix*.

Each marketing program has its own strategy. For a marketing strategy to be successful, all marketing program strategies must be executed well *and* they must all support the overall marketing strategy.

This chapter gives you an overview of all the marketing programs and how you can coordinate them.

Marketing Strategy and Marketing Programs

Without a clear marketing strategy, it is very difficult even to develop the strategies for specific marketing programs. How can a product manager decide what distributors to utilize without knowing the *target customers*?

How can a sales manager allocate sales force time without knowing *business objectives* by specific product or service?

How can an advertising agency develop advertising messages without knowing the key benefits in the *positioning* of the product or service? Once I was providing advice on pricing to a large bank. Everyone on the team was proposing a different price for one of the bank's services. The prices ranged from very low to very high, and there was no end to the dispute in sight. All the managers disagreed on the price to charge because no one had ever developed and confirmed a marketing strategy for this service, so there were no guidelines on how to price. When they eventually did settle on a marketing strategy for the product, the correct price to charge was very clear.

Before developing marketing programs, it is necessary to have a marketing strategy in place and clearly stated.[1]

Award for Overall Performance: Trump World Tower

Trump World Tower.
Photo credit: Ali Goldstein. Photo courtesy of The Trump Organization.

Residential condominiums in Trump World Tower have the elegant touches for which Trump properties are known: Floor to ceiling windows, maple hardwood floors, imported marble in the baths, granite countertops in the dining room, the latest technology throughout, and service at the level of a five-star hotel. In 2003, the International Real-Estate Federation (FIABCI) in association with the *Wall Street Journal* awarded the Trump World Tower First Place for Residential Development throughout the world in the Prix d'Excellence–

"meeting the criteria for excellence in every major category: design, construction, financial viability, marketing strategy, facilities management, impact on the environment and benefit to the community."

In Herbert Muschamp's review of Trump World Tower, he noted that on its completion, the chief curator of architecture and design at the Museum of Modern Art described Trump World Tower as his favorite new building.

Sources: The Trump Organization web site, FIABCI Prix d'Excellence Award 2003, International Real-Estate Federation; Herbert Muschamp, "Trump World Tower,"*The New York Times* (June 2, 2002).

Coordinating Marketing Programs

Providing direction and coordination for all the marketing programs is one of the main purposes of the marketing strategy.

All the marketing programs must be consistent and reinforce each other. You would not advertise that a service is economical while setting price at a high level, or sell customers on the availability of your technical advice while making it difficult for them to talk to someone who can help them.

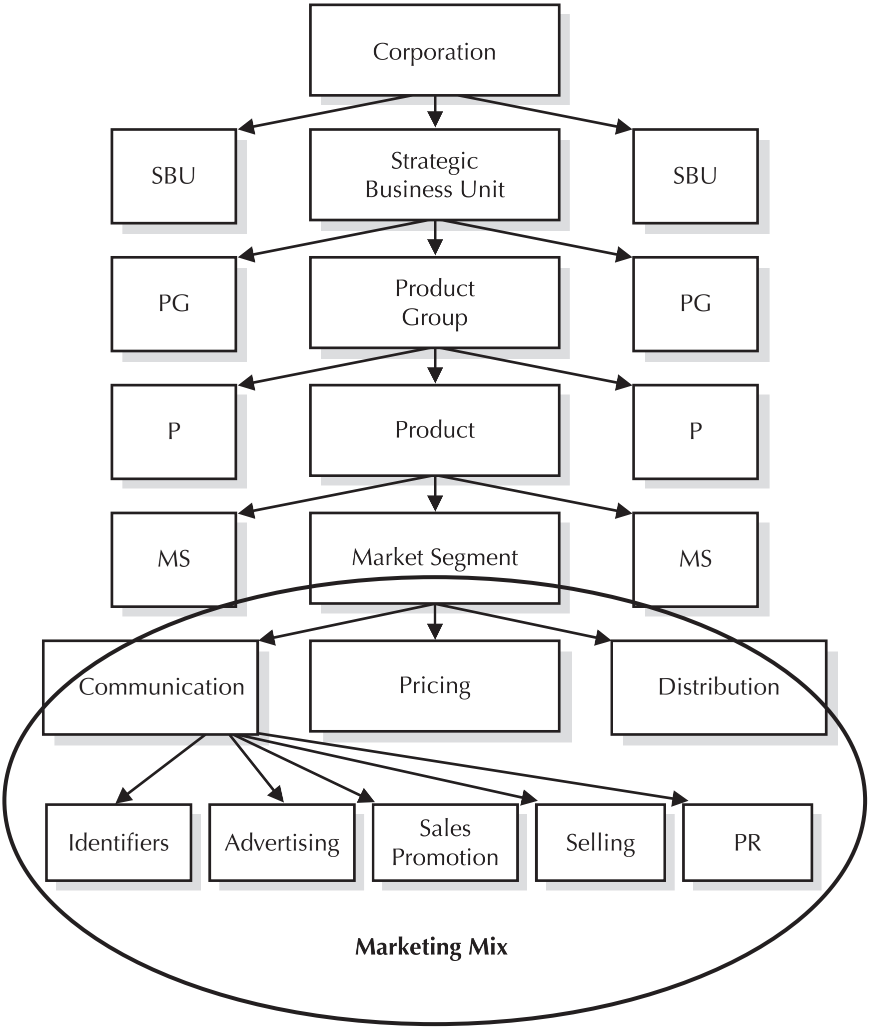
Often there are *disconnects* among the marketing programs because no one is responsible for looking across all of them and coordinating them. A very common disconnect in large companies is between advertising and the sales force—each using a different message because often each is managed by a different individual reporting to a different senior executive. In a small organization, such disconnects are less likely to happen but still may occur if, for example, the person in charge of your Web site is not in touch with the person in charge of your advertising or public relations.

If you look at the hierarchy of strategies in any organization (Exhibit 16.1), you will see that the strategy for each marketing program falls under the umbrella of the product/market strategy.

The product/market strategy directs and coordinates the strategies for the marketing programs in three ways (Exhibit 16.2):

1. Target market
2. Positioning
3. Business objectives

Exhibit 16.1 Hierarchy of Strategies

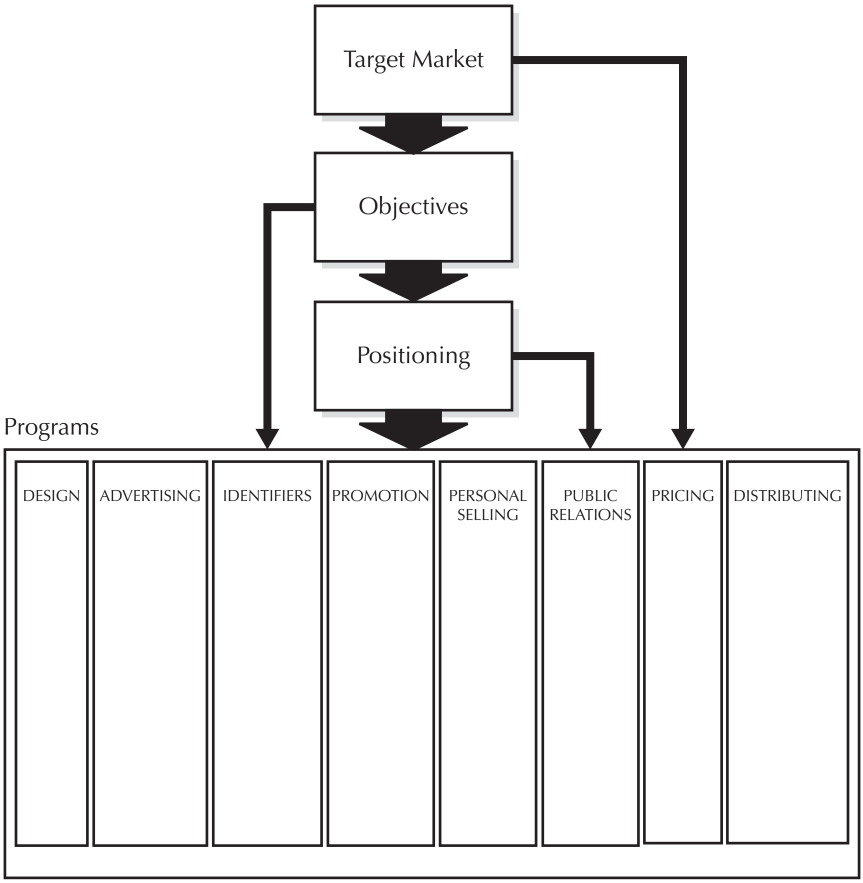


Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Target Market

The target market consists of those customers you wish to attract and persuade to buy your product or service. The marketing programs in a given marketing strategy need to be focused on the same target customers.

Exhibit 16.2 Components of a Marketing Strategy



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

For example, if the target customers for your art supplies store are amateur painters, then your efforts should be aimed at them. Your salespeople should be able to provide advice regarding media such as oils, acrylics, and pastels. You should communicate with your customers with local newspapers or perhaps the newsletters of local associations of amateur painters. You might stock products such as collections of oil paints or pastels, inexpensive brushes, pre-stretched canvas, and other items that make it easier for amateurs to paint.

If your target customers are professional artists, then you would use newspapers and magazines published especially for those customers. Your paints would likely be sold in larger quantities, and you would sell canvas and stretchers and framing materials that the professional could utilize. You would likely offer them professional discounts because of the volume of their purchases.

Positioning

Positioning guides design as well as all your marketing programs that involve a message, namely, all forms of communications.

Positioning guides design and communications.

If your art supplies store is positioned as a helpful source of advice for painters just starting out, then your store staff needs to be both knowledgeable and able and willing to give advice to the customers. All ads and signs must stress the help your store provides.

An arts supplies store geared to professional painters might stress their wide selection of supplies at reasonable prices. All communications for the professional artist-oriented store might emphasize "one-stop shopping at the best prices in town."

Business Objectives

Business objectives for the product or service determine objectives for each program, as well as suggest the budgets required.

For example, if your marketing strategy objectives for a product or service focus on growth through new customers, then your programs in personal selling, advertising, and promotion might have the objective of persuading customers to try your product or service. If your marketing strategy objectives focus on growth through increased usage, then the communications programs might try to convince your customers to use more.

High priority given to the business objective of margin per unit will generally lead to higher prices, whereas a business objective of growth in market share will typically lead to lower prices.

The size of the business objectives for a given product or service will justify the budgets for each program, as well as how much is allocated to specific markets. For example, a key decision in managing a sales force is how to allocate sales calls among customers. Your sales and profit objectives for the various products and services to be purchased by those customers will determine how much sales effort each customer should receive.

Business objectives determine budgets.

Programs

The most common marketing programs include:

- *Design:* Products and services should provide benefits to match the needs of target customers. Most products and services cannot be tailored exactly to meet those needs, so marketing managers must make trade-offs in their designs, based on the attractiveness of market segments and the costs of alternative products and services.

Key decisions concern which benefits to provide and the level of performance attained on those benefits of most importance to customers.

- *Advertising:* Advertising comprises all the ways that organizations can pay for directing communications to customers. Traditional advertising includes broadcast media (television, radio), print media (magazines, newspapers), outdoor advertising, and the Internet. Nontraditional media include event sponsorship and product placements.

Key decisions are choice of message, media, and amount of expenditures.

- *Identifiers:* The identifiers consist of all the symbols that stand for your brand. That includes name, logo, shapes, aromas, colors—anything that would remind a customer of what your brand stands for.

Key decisions are the specific attributes you want associated with your brand and what symbols will be consistent with those attributes.

- *Sales promotion:* Sales promotion consists of providing an incentive to the customer—at any level in the distribution chain—to help persuade them to purchase. Incentives can be coupons, contests, and premiums.

Key decisions include type of incentive and duration of offer.

- *Personal selling:* For many products and services, personal selling is the main way the final sale is made. Many business products and services are sold through the efforts of sales representatives, and so are many consumer products—especially automobiles, consumer durables such as large appliances, and certain financial products. As customers become more assured, however, salespeople may not be as influential. For example, there appears to be a trend for some products and services that were formerly sold by personal selling now to be purchased on the Internet.

Key decisions for personal selling are the allocation of sales time among customers and potential customers, and the selling approach to be used.

- *Public relations:* Public relations makes use of unpaid media to communicate with customers. Public relations tools include press releases, speeches, events, and donations.

Key decisions include target audience, message, and medium.

- *Pricing:* Pricing includes both strategic and tactical pricing. Strategic pricing focuses on the long-run price position of the product or service. Tactical pricing concerns price changes designed to have a short-term impact on customer behavior. Pricing decisions must consider business objectives, perceived value, costs, competitors, and regulations.

The key pricing decision is how to use price to capture the value the organization has created for the customers.

- *Distribution:* Distribution concerns how the product or service gets to the end-user. Strategically, distribution involves which distribution channels are to be used and how they should be managed. Operationally, distribution includes logistics such as inventory management and shipping.

Exhibit 16.3 Marketing Ratios.

$$\frac{\text{Perceived Value}}{\text{Expected Value}} = \frac{\text{Perceived Value}}{\text{Actual Value}} \times \frac{\text{Actual Value}}{\text{Expected Value}}$$

Pricing	Communications	Design

Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Distribution decisions include the number of distribution levels, the types of outlets used, and the specific resellers that are selected.

Marketing Ratios

Each program in the marketing mix has a specific role that can be seen with a concept I've developed called *marketing ratios* (Exhibit 16-3).

The ratios involve three kinds of value to the customers:

Expected value is what the customer wants as regards specific benefits.

Actual value is what the customer receives from the product or service as regards specific benefits.

Perceived value is what the customer perceives they receive from the product or service as regards specific benefits.

The ratio (Actual Value/Expected Value) reflects how closely the benefits of the product or service have been designed to meet customer needs. This is the *design* task of marketing. An organization is more successful the more they design their product or service to meet the expectations of their target customers.

The ratio (Perceived Value/Actual Value) reflects how accurately the customer perceives the benefits provided. This is the *communications* task of marketing. An organization is more successful the more clearly their target customers accurately perceive the actual value that they receive.

Notice that you need to be effective with *both* design and communications. If design is done well so that the actual value meets customer expectations, but the target customer does not perceive that to be the case, you fail. If communications is done well so that the target customer correctly perceives what the actual value is, but the actual value does not meet customer expectations, you fail.

If *both* design and communications are done well, the target customer correctly perceives that the value they are receiving is what they wanted. The ratio [Perceived Value/Expected Value] reflects how closely the customer perceives the benefits of the products or service have met their expected needs. How well marketing succeeds with this ratio determines the price you can charge and returns such as profit, revenue, and cash flow.

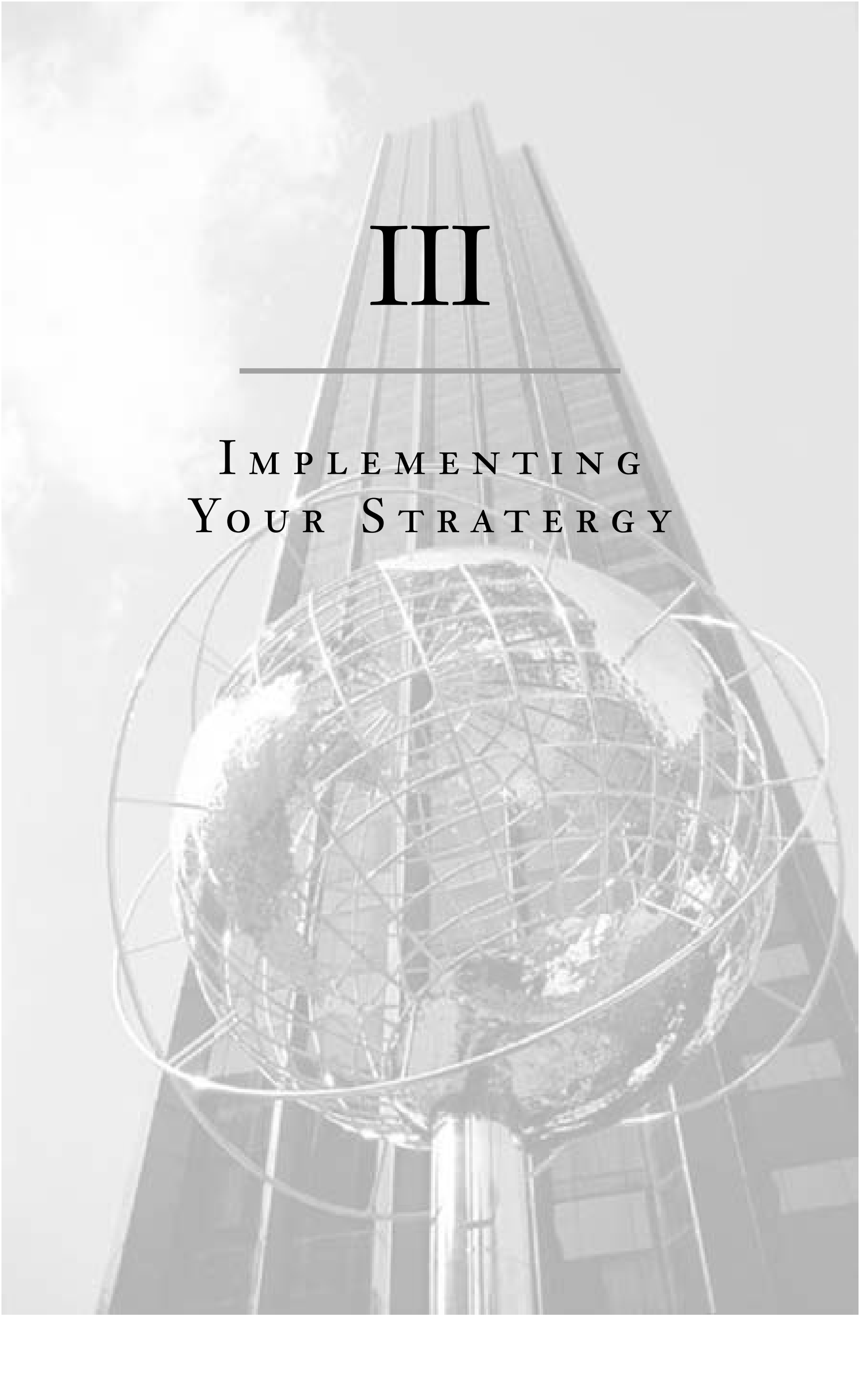
Conclusions

Brilliant marketing strategies must still be implemented, and the marketing programs describe the specific actions that must be taken for the marketing strategy to achieve its objectives. These programs need to be coordinated so that they all move the target customers in the same direction. Managing the programs in the marketing mix is a bit like making a shot in billiards. All the balls must be lined up if the shot is to be successful.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

III

Implementing Your Stratergy



17

Product/Service Design

Good design, from a marketing perspective, means tailoring your product or service so that it successfully meets the needs of your target customers. A sales-oriented organization "sells what they make;" a marketing-oriented organization "makes what will sell." The difference between the two is design.

In this chapter you will learn how to systematically evaluate your design compared with those of your competitors and how to determine the ways you can make the design of your product or service more attractive to your target customers.

Design and Customers

In a sales-oriented organization, the product or service is developed with minimal attention paid to the needs of the customer in the target market. Consequently, a lot of sales effort is typically needed to sell the product or service if, in fact, it can be sold at all.

In a marketing-oriented organization, before the product or service is developed, information on customer needs is gathered *from the customers themselves.* Then the product or service is designed to meet those needs.

Knowing What Your Customers Want

A Casino Suite.
Photo courtesy of The Trump Organization.

There was a very high-end table customer who used to visit a casino in Atlantic City on junkets—private flights that are scheduled for customers who usually stay overnight. He would spend as much time in the casino as possible, often taking only a quick break for a meal before he returned to the gaming floor. He was always booked into one of most luxurious suites in the hotel when he came to visit, and no expense was spared to make him feel welcome. So the management of the property was surprised and concerned when he started taking his business to a competitor in Atlantic City. After several meetings between the player development staff, casino and hotel operations, and the food and beverage managers, none of the executives could identify anything that could have caused this valuable customer to defect. So they finally decided to ask him, and they were shocked by the response.

The customer explained that he didn't get to Atlantic City very often, and when he did, he came to play. So while he appreciated the luxurious suite, he felt that it was wasted on him because he really only used the suite to grab a couple of hours of sleep, take a shower, and then return to the casino. And while the suite was wonderful, and the view was incredible, and fresh flowers in the room were a welcoming touch, what he really wanted were just two things—a comfortable bed and fluffy towels. And while he was fine with the quality of the bed, it was his opinion that the quality of the towels was inferior. So he took his considerable business to a competitor smart enough to appreciate the importance of this detail in a suite. The situation was addressed very quickly by the property, and the customer returned. And the management team learned a valuable lesson—never assume. The best way to find out what is important to customers is to ask them.

Some of the most infamous disasters in the history of marketing—Ford's Edsel, RCA's VideoDisc, Polaroid's Polavision, Northrup's Tigershark—all shared the same mistake: lack of attention to customer needs in the design.[1] The Edsel deserves special mention. Although customer research was done, it was conducted several years before the automobile was introduced, and by then customer needs had changed. That shows how difficult marketing can be. Customers are moving targets, and product or service design must consider not only the current needs of the current customer, but the future needs of the future customer.

Determining Design

You need to bring customers into your design deliberations by considering what they expect to obtain from your product or service and comparing those expectations with what you and your competitors are currently providing. You can do that systematically with a Design Analysis (Exhibit 17.1). The steps in the process are:

- Select a target segment.
- Select a target member of the decision-making unit.
- List the main competitors.
- List the benefits associated with the product or service.
- Estimate the relative importance of each benefit to your target customer.

Exhibit 17.1 Design Analysis Chart—Soap Example. Target Customers: Women 35 to 50 Years Old

Relative Importance	Benefits Sought	Offerings					
		Target Customers	Organization	Competitors			
				Q	R	S	T
		Expected	Actual	Actual	Actual	Actual	Actual
9	Moisturizes	5	3	4	2	5	1
9	Cleans	5	4	2	3	2	5
6	Scent	3	4	2	3	4	1
3	Size	3	3	3	2	4	4

Possible Design Gap

Note: Relative importance. 1—Not important, 10—Very important
Performance ratings: 1—Weak, 5—Strong

Source: "Arrow Guide—Design Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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- Estimate the performance for each benefit expected by the target customer.
- Evaluate the actual performance of your organization and each competitor on each benefit.

You need to bring customers into your design deliberations by considering what they expect to obtain from your product or service and comparing those expectations with what you and your competitors are currently providing.

This analysis builds on the results of an Actual Value Analysis (discussed in Chapter 6) by adding information as to what your target customer expects as regards the performance on each benefit.

Design Analysis—Soap Example

Suppose you have developed a soap that you would like to market to 35- to 50-year-old women. You have done some research by asking women in that age range what benefits they would like in a soap, how important they are, and on a 1 to 5 scale, how would their ideal soap score on each benefit. You have also looked at some competing brands of soap to see what they offer.

Compared with the Actual Value Analysis (see Chapter 6), the new information in this analysis is what level of performance for each benefit does your target customer want and expect. These would be *ideal values*—what your customers hope to receive from your product or service. You find out these expectations by asking customers—either in person or through surveys.

Again, all information regarding benefits, priorities, perceived values, and expected values, if at all possible, must come from the customers themselves. You can start the analysis with your own opinions, but it is very important to check your opinions with those of your customers. When a conflict occurs, use your customers' opinions.

Exhibit 17.1 shows that your target customers have high expectations regarding performance of those benefits of most importance to them—moisturizes and cleans. You need to compare your actual performance with these expectations to determine whether you might be successful with this group of customers. If their expectations are different from the actual value you provide them, then there are *design gaps* that you may want to consider filling. For example, Exhibit 17.1 shows that your actual performance on both "moisturizes" and "cleans" falls short of the expectations of these target

PRODUCT DESIGN: LIFESAVERS

Product design must be based on what your customers want. That's why LifeSavers candy asked consumers to vote on which flavors should be included in a five-flavor roll. The choices included the traditional flavors, pineapple, cherry, orange, lemon, and lime, and new flavors, raspberry, watermelon, blackberry, tangerine, mango, and melon/tangerine. The winners: Pineapple, cherry, raspberry, watermelon, and blackberry. Andrew Burke of Kraft Foods explained: "We said, 'Let's give [the customers] a chance to voice their opinion and help us pick the new face for a classic.' . . . Tastes change, and everything else changes."

Source: "LifeSavers Introduces New Candy Flavors," *National Petroleum News, 95* (October 2003), p. 11.

customers. You may want to reformulate your soap to better meet their needs. If your performance does not meet your customers' expectations *and* there is a competitor that is more successful in meeting these expectations, *and* if you do nothing, you can expect your customer base to shrink.

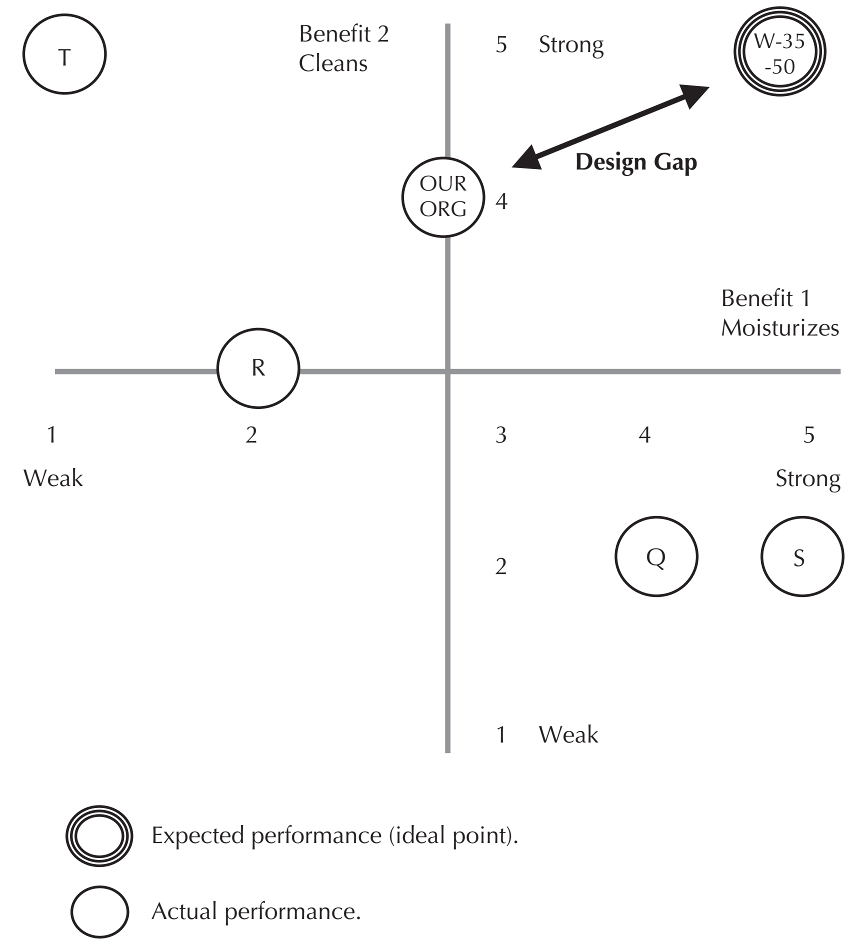
If your performance does not meet your customers' expectations and there is a competitor that is more successful in meeting their expectations, and if you do nothing, you can expect your customer base to shrink.

PRODUCT SPACE

You can also detect design gaps by plotting the information in Exhibit 17.1 on a graph of what is known as *product* or *service space* (Exhibit 17.2). Each axis refers to a different benefit and shows how each competitor performs on that benefit. Usually you begin by plotting the positions of your organization and those of your competitors on the two most important benefits to your target customers. If there are other benefits you feel you need to examine, simply make a new graph with those pairs of benefits. There are ways to place more than two benefits on the same graph, but they are rather cumbersome. It is usually easier to graph just two benefits at a time and develop as many graphs as needed.

Besides the positions of your organization and those of your competitors, you also locate the expected values for your target customers on the benefits. This point is known as the *ideal point* because it should describe the product or service that these customers would like to purchase. If you have the position closest to the ideal point for customers in a given segment, then you should be able to win that segment—*if* that benefit is important to the target customer and *if* the customer accurately perceives your performance on that benefit.

Exhibit 17.2 Product or Service Space—Soap: Benefits 1 and 2



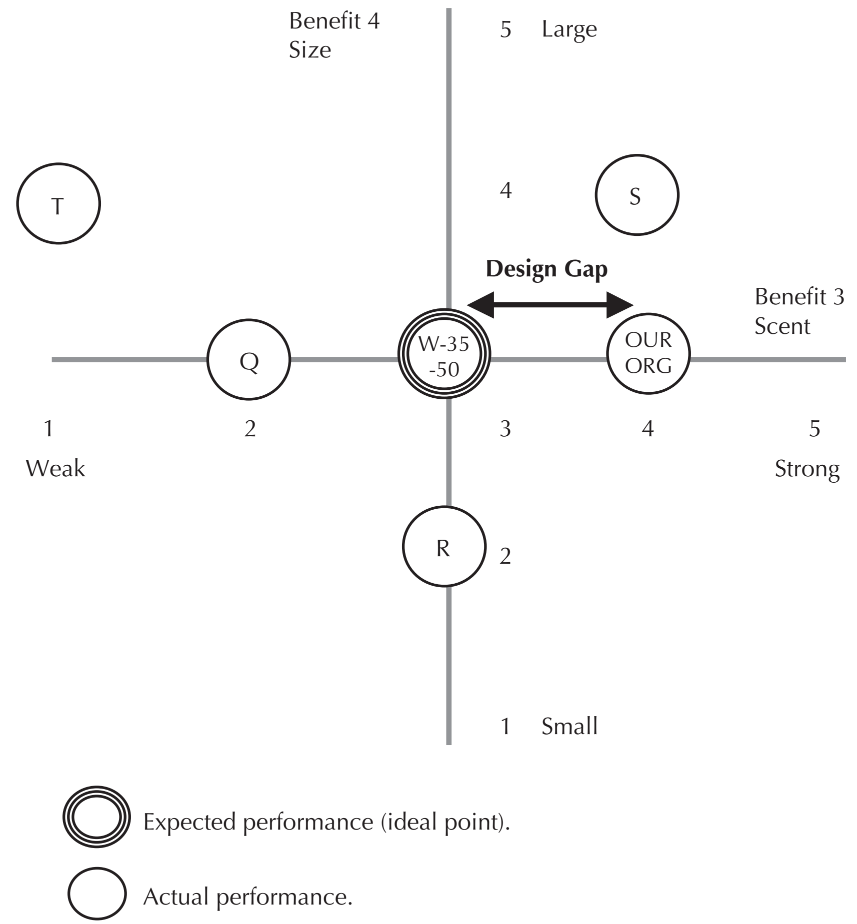
Source: "Arrow Guide—Product Space Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Product Space—Soap Example

In Exhibits 17.2 and 17.3, you can see how your soap compares with both what 35- to 50-year-old women want and what your competitors provide.

In Exhibit 17.2, overall, your soap is closer to your target market's ideal point than any other competitor. There are two competitors, Q and S, that do better than you do on the "moisturizes" benefit but are not as good on the "cleans" benefit. You may want to consider filling your design gaps on both the

Exhibit 17.3 Product or Service Space—Soap: Benefits 3 and 4



Source: "Arrow Guide—Product Space Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

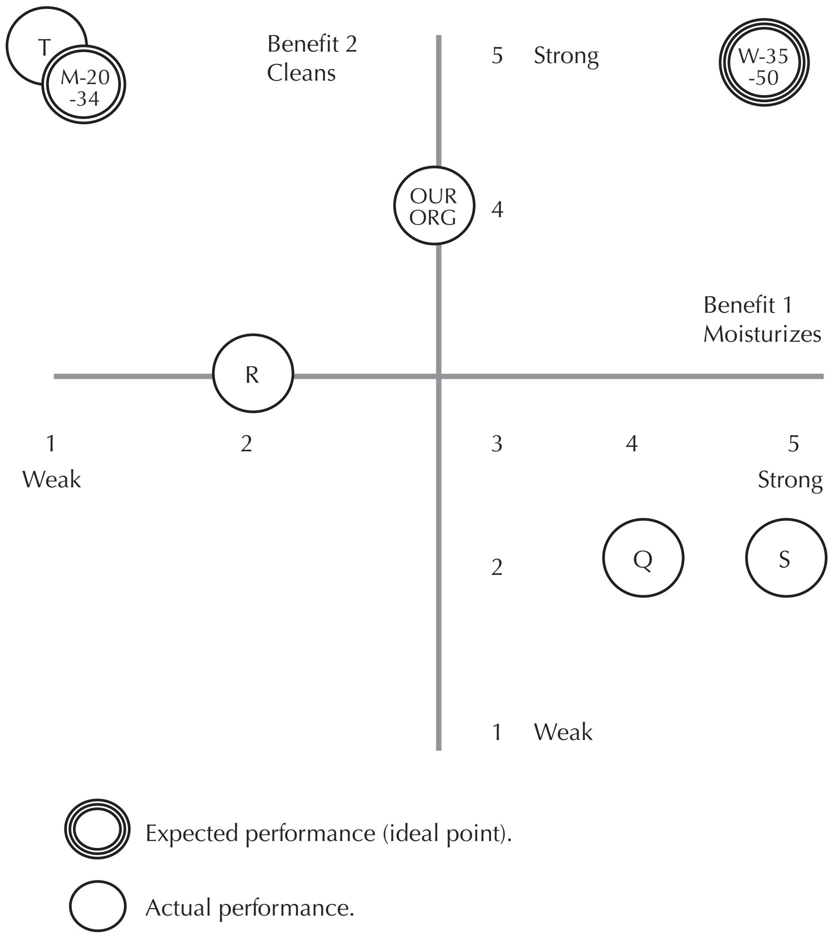
"moisturizes" and "cleans" gap if it is possible—especially because competitors Q and S might be trying to improve their performance in regard to cleaning.

The less important benefits are shown in Exhibit 17.3. You do reasonably well but could improve your position by cutting back on the scent in your soap.

Product Space—Other Segments

The Product Space Analysis can be expanded to help you evaluate whether you would like to try to design your product or service to appeal to other

Exhibit 17.4 Product or Service Space—Soap: Other Market Segment



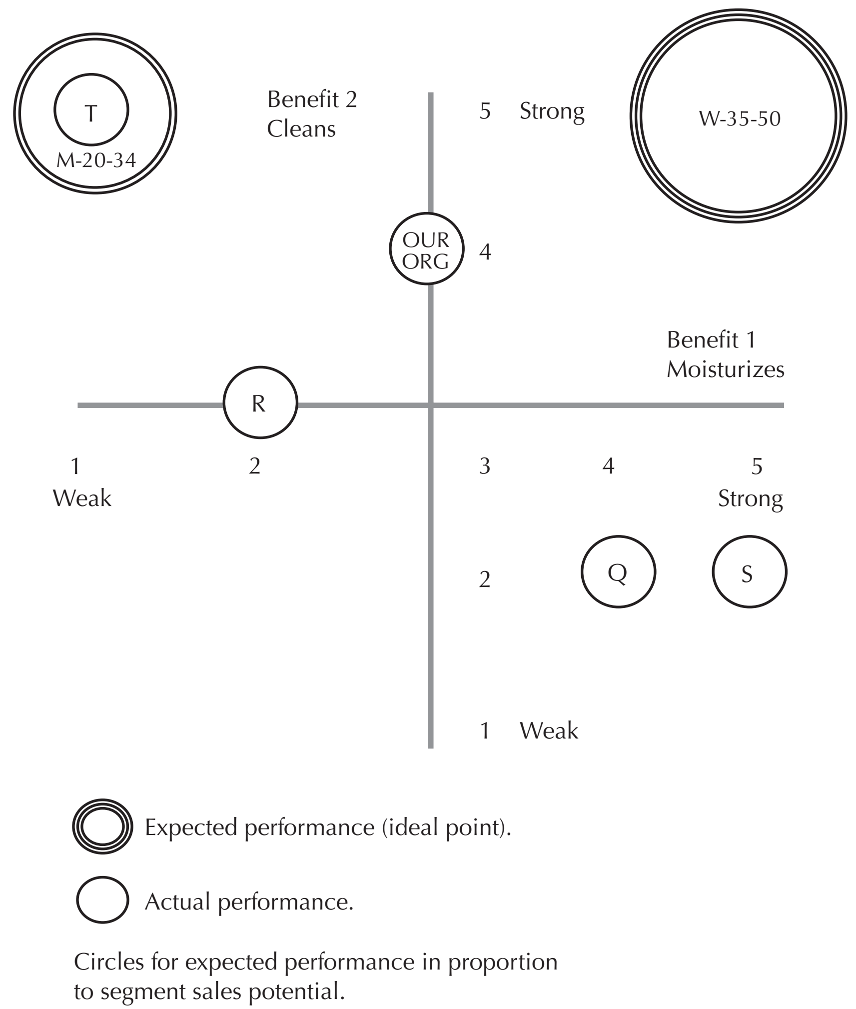
Source: "Arrow Guide—Product Space Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

market segments. To do that you would add to your graph the ideal points for the customers in the other segments.

For example, Exhibit 17.4 includes the ideal point for 20- to 34-year-old-men who might have higher expectations for the cleaning power of a soap and not care much about moisturizing. Competitor T seems targeted toward them.

You can do one more thing with the product space graph that will help you decide the positioning for your organization. You can make the areas of the

Exhibit 17.5 Product or Service Space—Soap: Size of Market Segments



Source: "Arrow Guide—Product Space Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

circles showing the segment ideal points larger or smaller depending on the size of that market segment.

In Exhibit 17.5, the market consisting of 35- to 50-year-old women is shown as larger than the market consisting of 20- to 34-year-old men. Although size is not the only characteristic that makes a market attractive, the difference in sizes of the segments might persuade you to continue to target your soap to women, although you might consider developing another soap for men at some other time.

Design Decisions

The Design Analysis and Product Space Analysis described in this chapter can provide you with ideas as to how you might tailor your product or service to various target markets. Whether you should do so depends on both the cost of making the design changes and how much you will change customers' perceived value, and consequently demand for your product or service by doing so. You can estimate those effects with the techniques discussed in Chapter 5 on perceived value, with statistical techniques such as Conjoint Analysis, or with both.

Conclusions

Design focuses on how well your product or service meets customer needs. To make design decisions effectively requires an understanding of customer needs and customer response, and also an understanding of the costs of making changes in your product or service.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

18

Integrating Customer Communications

You can communicate with members of your target markets in a variety of ways: advertising, brand identifiers, sales promotion, personal selling, and public relations.

All the communications aimed at a member of your target market should be consistent and deliver the same message. If they are uncoordinated, the messages from different communications approaches will be less effective and might even cancel each other. That is why you need an integrated communications strategy, one that looks at all your contacts with your target customers.

All the communications aimed at a member of your target market should be consistent and deliver the same message.

Coordinating communications requires you to look horizontally—at all your communications programs. In later chapters, you will look at specific forms of communications. In this chapter, you look at them all at once.

Establishing an Integrated Communications Strategy

The idea of an integrated communications strategy is really straightforward. It requires some work to put one together, but it is not that difficult in concept. It is easier to construct an integrated communications strategy in a small organization than in a large organization, but it still requires work and attention to detail.

In large organizations, often the primary barrier to developing an integrated communications strategy is the structure of the organization. Branding efforts may be managed separately from product or service advertising and sales promotion. Managers who manage product or service advertising and promotion may not work closely with managers who manage the sales force. And often the public relations managers may not even report to or talk much with anyone in the marketing area.

Building an integrated communications strategy requires someone to look horizontally—across the organization—at all the ways the organization communicates with the target customer.[1] Those are known as the *touch points*. That individual must coordinate these touch points and have the power or influence to ensure that any needed coordination takes place. In a small organization, that individual may be the owner, the business manager, or the marketing manager.

Managing Marketing Communications: Trump National Golf Club, Bedminster

Trump National Golf Club Bedminster Collateral.
Photo credit: Thomas Dougherty. Photo courtesy of Second Melody, LLC (www.secondmelody.com).

Trump National Golf Club, Bedminster, required materials describing the club to potential new members, and these materials needed to be consistent with the Club's luxurious and exclusive atmosphere. They worked with Second Melody, a marketing consultancy, to design, develop, and write the materials to be delivered by mail to potential members.

Two complimenting brochures were created, one outlining the membership benefits of the Club and a second outlining the event planning/hosting packages and amazing event space located on premises. The brochures (which were more like books in their final form) showcased the Club using photography taken by Second Melody and a theme of "Life, Leisure & Luxury" that carried through each marketing piece. A custom tri-fold casing was designed using the Trump brand to house all of the new material that spoke to the potential clientele as well as the luxury of the club. The casing also provided a way to deliver any old material, business cards, and the golf course yardage guides in a manner consistent with the Trump brand.

Trump National Golf Course's goal of 20 new members was greatly exceeded as the club was able to attract 51 new members. The materials are all still in circulation and are being given out at the Golf Course. Because of the materials' success at Bedminster, they are used as a benchmark and model for other Trump Golf Properties materials.

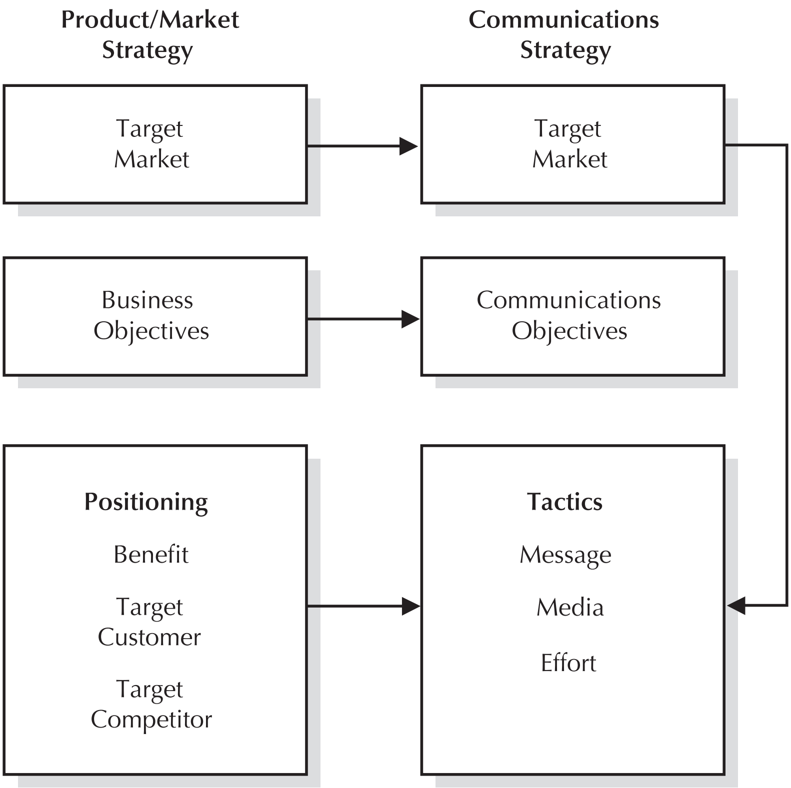
Mike Graham, Owner and Creative Director, Second Melody, LLC.

Relationship Between Marketing Strategy and Communications Strategies

- Strategies for most communications typically include the following: *Target market:* the intended audience for the communications
  - *Communications objectives:* what a member of the intended audience should think, feel, or do as a result of the communications
  - *Tactics:* the specifics of that communications approach, which usually includes message, media, and effort (or expenditure)

Communications strategies are integrated—directly or indirectly—by three major components of the product/market strategy (Exhibit 18.1): target market, business objectives, and positioning. Note that because the strategy for a specific market may need to change over time, the business objectives and positioning will change; therefore, you will need to change your communications strategies for that market as well. (For an overview of marketing communications, see Belch & Belch.[2])

Exhibit 18.1 Linkages Between Product/Market and Communications Strategies



Source: "Arrow Guide—Advertising Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Target Market

Before you communicate anything, you need to know to whom you want to talk. That would be the members of your target market. The target market will influence the choice of communications media used—whether it be print, broadcast, outdoor, the Internet, or nontraditional advertising such as events. Similarly, promotions and public relations need to be directed at the members of your target market.

The target market also affects selling efforts. Sales representatives need to be directed or given incentives to call on customers in the target markets. Such guidance may be especially important for new salespeople who do not have a clear idea of the target customers.

Exhibit 18.2 Business Objectives and Possible Communications Objectives

Business Objectives	Market share	Profitability	Cash flow
Communications Objectives	Product trial Brand trial Brand shift	Brand shift Repurchase Increase usage Model shift	Repurchase Increase usage Model shift

Source: "Arrow Guide—Advertising Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

If possible, communications should be directed not only at a target market but at a specific member of the decision-making unit within the target market. That is what salespeople do, for example, communicating with purchasing agents or design engineers differently. Some advertisers do direct their advertising to individual members of the decision-making unit, such as men, women, or children, rather than broadly to market segments.

Business Objectives

Objectives of the product/market strategy will typically include revenue, market share, profit, and cash flow. All of these objectives are achieved only if the target customers take action—purchase for the first time, purchase again, or purchase more (Exhibit 18.2).

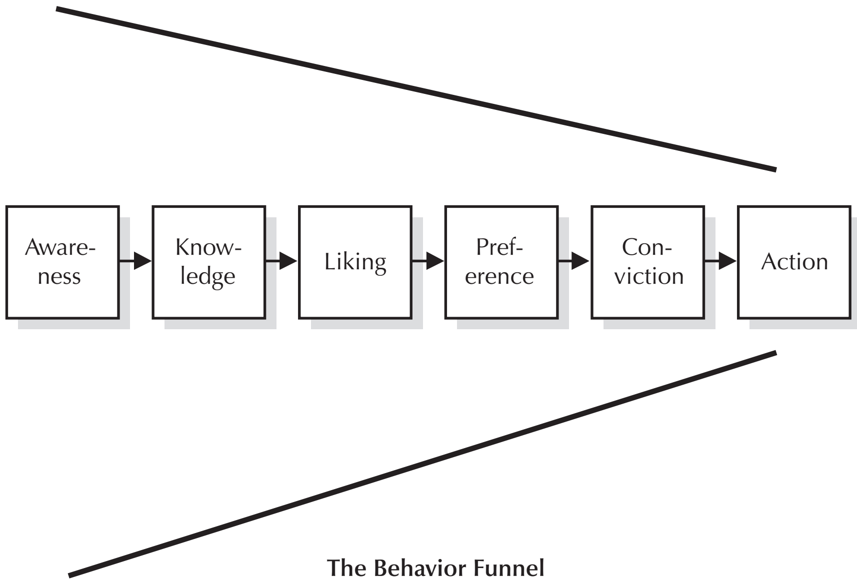
You must state your communications objectives in terms of actions by the target customers. For example, if you want to increase your market share, then you must persuade customers to try your product or brand. If you want to increase your cash flow, you might try to persuade your customers to use more of your product or service.

You must state your communications objectives in terms of actions by the target customers.

However, before the customers take action, they may go through *intermediate objectives* such as awareness of your product or service, knowledge, liking, preference, and conviction to buy (Exhibit 18.3).

Although the order of these intermediate objectives varies by product or service, they should also be included in your communications objectives. You

Exhibit 18.3 Communications Objectives



Source: "Arrow Guide—Advertising Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

must decide which communications approaches will be used to achieve which objectives with the target customer. For example, some years ago, Northwest Mutual Life Insurance used their magazine advertising to make target customers aware of the benefits of their product, then used their agents to make the actual sale of the policy.

For products such as frequently purchased consumer products, advertising may be called on to accomplish all of the communications objectives. However, for many products and services, especially consumer durables and business-to-business products, advertising may be focused on intermediate objectives such as awareness or knowledge, whereas the sales force may be responsible for persuading the customer to make the purchase.

Using more than one communications approach to move the target customer to make a purchase is like "passing the baton" in a relay race. At one point, Northwest Mutual Life Insurance decided to spend a considerable amount of money as a major sponsor of the Summer Olympic Games. As a consequence, they had little money left for a print advertising campaign. Right after the Olympics, they had created a huge amount of awareness for their insurance policies. The problem was that they did not have enough agents to follow up immediately on all the leads that had been generated. Because there was little budget for print ads to maintain that awareness, many of those leads could not be pursued immediately. They learned from that experience and are now very effective in managing their communications mix.

You need to coordinate all the objectives *across* all the communications approaches being used to influence the customer to buy. If there is no coordination, then there can be too much effort on one communications approach or not enough on another.

Positioning

All the contact points with the customer must have the same message. If not, the customer can become confused. The message comes from your positioning choice.

One telecommunications company launched a corporate advertising campaign without any input from the sales force. The result was a campaign that was beautiful (it featured close-up photography of flowers and spider webs) but had, in the words of one sales manager, "no hook my people can use to make the sale." The hook to which the manager was referring was some benefit that the salespeople could mention during the sales call so that the corporate advertising would help prepare the target customer for the sale.

Your positioning must be repeatedly reinforced by a message that is consistent across all your means of communications with your target customer.

Determining Communications Message

You can determine what should be your main communications message by comparing the actual performance on benefits with what your target customers perceive to be your performance on those benefits.

If your target customer does not perceive all the value you are actually providing on a given benefit, that is a *communications gap* that you must fill—especially if the benefit is very important to that target customer. Experienced salespeople discover communications gaps by asking customers probing questions during their sales call. Then they provide their customers with information to close those gaps.

You can find those communications gaps by systematically comparing your actual performance on benefits with the performance as perceived by your target customers by utilizing a Communications Analysis. The steps are as follows:

- Select a target segment.
- Select a target member of the decision-making unit.
- List the main competitors.
- List the benefits associated with the product or service.
- Estimate the relative importance of each benefit to your target customer.
- Estimate the performance on each benefit expected by the target customer.
- Estimate the performance of your organization and each competitor on each benefit as *perceived* by the target customer.
- Evaluate the actual performance of your organization and each competitor on each benefit.

Besides being used to identify the key messages to be included in an overall communications campaign, the Communications Analysis can also be applied by sales managers to help sales representatives—especially those with less experience—develop their initial benefit statement (their opening statement to a customer).

Communications Analysis—Soap Example

To complete Exhibit 18.4, you must estimate not only your actual performance and those of your competitors on each benefit, but also what your target customers perceive to be your performance on each benefit. You need to talk to your customers or survey them to obtain this information. However, if you do not have much time and money for customer research, you can begin by making your own subjective estimates. But you should try to validate as much information as you can by contacting customers.

In Exhibit 18.4, you can see that you do not have any communication gaps on scent and size benefits. However, there are important communications gaps on the two most important benefits. Your soap scores a 3 on its actual performance on "cleans," but the customer gives it only a 2. Worse, your soap scores a 4 on its actual performance on "moisturizes," but the customer gives it only a 1.

Exhibit 18.4 Communications Chart Target Customers: Women 35 to 50 Years Old

Relative Importance	Benefits Sought	Target Customers	Organization		Offerings							
					Competitors							
					Q		R		S		T	
		Expected	A	P	A	P	A	P	A	P	A	P
9	Moisturizes	5	3	2	4	4	2	2	5	5	1	1
9	Cleans	5	4	1	2	2	3	2	2	3	5	5
6	Scent	3	4	4	2	2	3	4	4	5	1	1
3	Size	3	3	3	3	3	2	2	4	4	4	4

Possible Communication Gaps

Note: A—Actual value of benefit, P—Perceived value of benefit
Relative importance: 1—Not important, 10—Very important
Performance ratings: 1—Weak, 5—Strong

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Even though your design is somewhat close to what your target consumer wants on cleans and on moisturizes, she perceives your performance as inferior to what it actually is. You must make sure that your message focuses on your performance regarding cleans and moisturizes if you expect to win this target market.

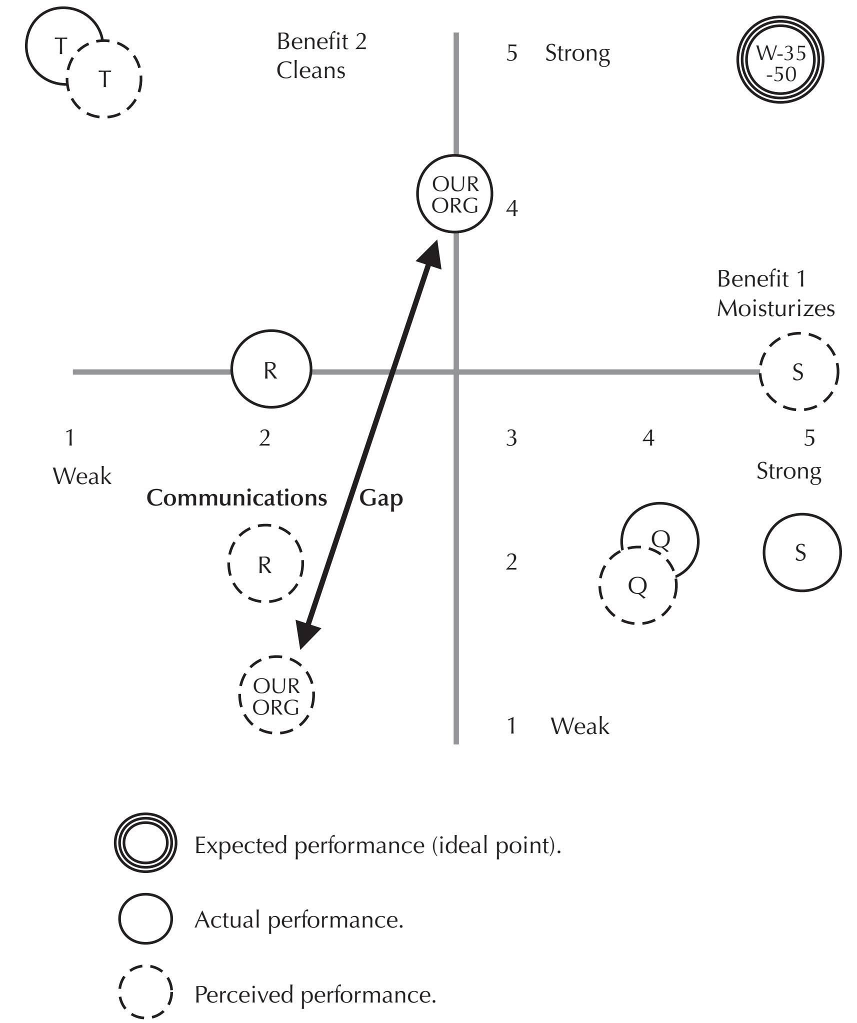
Exhibits 18.5 and 18.6 show this same information in product space. When perceived measures are graphed on product space, it is called a *perceptual map*.

Despite your design being the closest to your target segment's ideal point for cleans and moisturizes, from the point of view of their perceptions, it is the furthest away from the ideal point. *Customers behave according to their perceptions, not according to the actual values.* A first priority would be to improve your communications campaign so that customers will realize the value you are providing them and will purchase your product.

Assembling the Integrated Communications Strategy

Given your target market, your business objectives, and your desired message, you can now put together your overall communications strategy. At the

Exhibit 18.5 Product or Service Space—Soap: Benefits 1 and 2

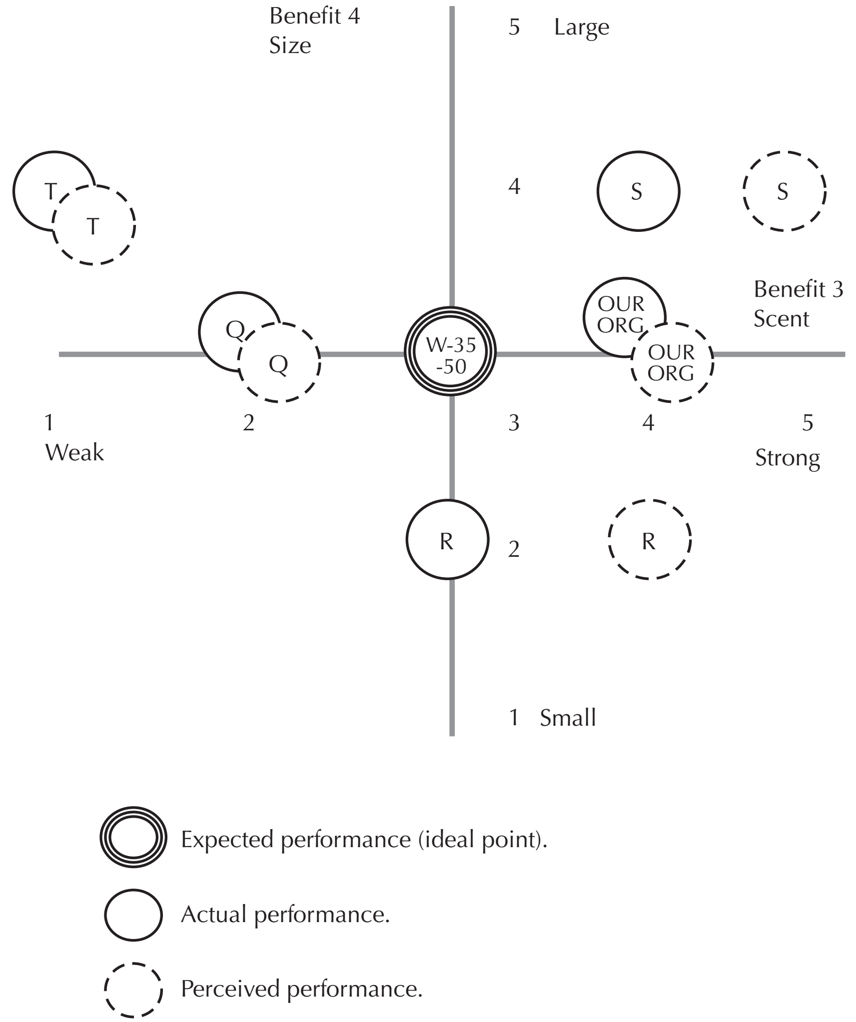


Source: "Arrow Guide—Product Space Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

top of the worksheet shown in Exhibit 18.7 is the summary of the objectives and message for your communications.

The remainder of the worksheet shows the major forms of communication. You would need to decide which communications methods you would use for each of your communications objectives. The message would likely be the same for each method. The media choices would be made as you

Exhibit 18.6 Product or Service Space—Soap: Benefits 3 and 4



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develop the strategies for each of the communications methods. The effort or budget would also be determined at that time.

Finally, the budgets you set for each communication method in each time period would be totaled to give the overall communications budget for each period.

Exhibit 18.7 Integrated Communications Strategy

Target Segment: ______________ Target Decision-Making Unit Member: ______________

Communications	Tactics	Time Period			
		1	2	3	4
Overall communications	Objectives				
	Message				
	Effort				
Advertising	Objectives				
	Message				
	Media				
	Effort				
Identifiers	Objectives				
	Message				
	Media				
	Effort				
Promotion	Objectives				
	Message				
	Method				
	Effort				
Personal selling	Objectives				
	Message				
	Contact				
	Effort				
Public relations	Objectives				
	Message				
	Method				
	Effort				

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Conclusions

Your organization needs to speak with one voice. That is what an integrated communications strategy does for you. It ensures that the message is the same across all contact points with the customer. It also makes sure that the communications objectives support the business objectives over time.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

19

Advertising

There are many ways to communicate with the customers in your target market. Advertising is the most visible and pervasive.

Many people seem to feel that advertising has the power to make people buy something, and that this power is rather easy to exert. Although advertising can persuade, you need an advertising strategy that is well thought-out and one that has sufficient financial support if you are going to move people to buy or take some other action. In this chapter you will learn how to develop an effective advertising strategy for your product or service. The key word—as usual—will be *focus*, focus on target customers and focus on positioning.

Role of Communications

Communications of any type—advertising, personal selling, public relations—play a similar role in the marketing strategy.

Communicate the benefit advantage to target members of the decision-making unit in the target market so that they will act. A product or service may have the most attractive positioning you can imagine, but if the customer does not know that positioning or does not agree with that positioning, then the positioning will have no impact on that customer's behavior.

Communicate the benefit advantage to target members of the decision-making unit in the target market so that they will act.

Ralph Waldo Emerson said, "Build a better mousetrap, and the world will beat a path to your door." The marketing version of that quotation is: If you build a better mousetrap, then customers will buy it only if:

They know they have mice.

They want to get rid of the mice.

They believe a mousetrap is the best way to get rid of the mice.

ADVERTISING: THE DONALD J. TRUMP SIGNATURE COLLECTION®

Suit from the Donald J. Trump Signature Collection®.

Photo courtesy of The Trump Organization.

There are many approaches to developing advertising copy. Two distinct copy approaches were used for the Donald J. Trump Signature Collection®. A magazine ad showed a man handsomely dressed in one of the suits (see photo)—that would be called a product as focus ad. Another ad—a newspaper ad—featured Mr. Trump and was what might be called a brand-building ad. Its purpose was to associate Mr. Trump and his business success and personality with the Donald J. Trump Signature Collection®.

They believe your mousetrap is better.

They believe your price is reasonable given the competitors' mousetraps and prices.

They know where to buy your mousetrap.

For some products or services, known as *impulse products*, action may occur immediately. For other products or services, the communication process may need to take place over a long period. But in any of these situations, your target customer must be provided with a reason to purchase the product or service—that would be the benefit advantage.

Components of the Advertising Strategy

Advertising is part of the marketing mix and needs to support the product/market strategy, especially regarding the choices of target market and positioning. However, there needs to be a strategy for advertising just as there needs to be strategies for personal selling, promotion, pricing, and all the other decision areas in the marketing mix. (For more information on advertising, see Belch & Belch.[1])

Target Market

An advertising strategy for a specific target market consists of four major components as shown in Exhibit 19.1:

1. *Advertising objectives:* your hoped-for result of the advertising
2. *Message:* what you will say to your target customer and how you will say it
3. *Media:* the type of advertising you use to contact the target customer
4. *Effort:* the amount spent on advertising and how it is allocated

Advertising Objectives

The objectives of an advertising strategy are what you would like the customer to do, think, or feel as a result of the advertising. Advertising objectives include both action objectives for your target customers, such as trying the product or repurchasing the product, and intermediate objectives, such as awareness or preference (Exhibit 19.2). Advertising objectives are not the same as the business objectives in your product/market strategy such as market share or profitability, but they need to be supportive of and consistent with those business objectives.

Exhibit 19.1 Advertising Strategy Components

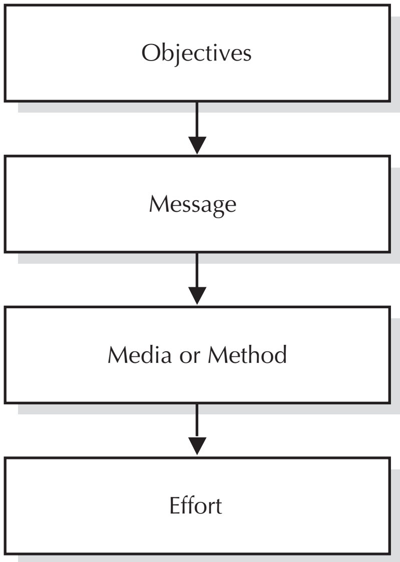

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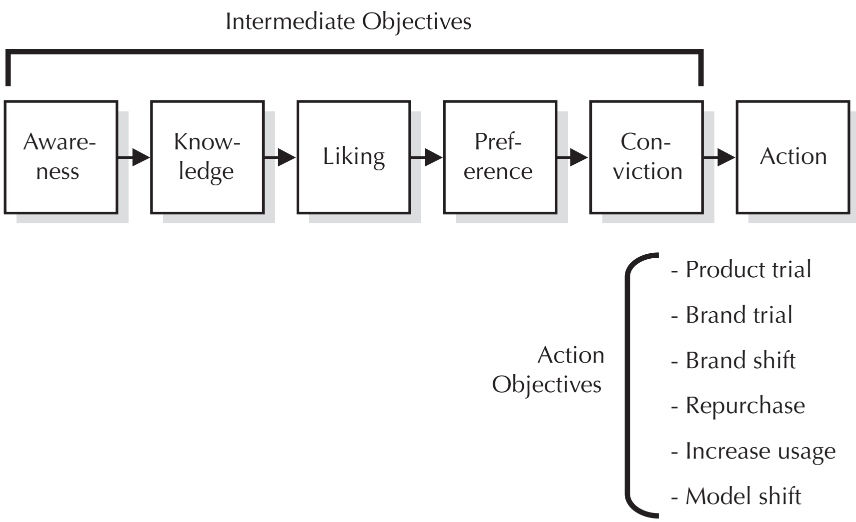
Exhibit 19.2 Communications Objectives—Intermediate and Action



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Action Objectives

Action objectives describe actions you would like to see the target customer take as a result of your advertising. This might include product trial, brand trial, brand shift, repurchase, increase usage, or model shift. Action objectives for an advertising campaign are important because they are directly related to your business objectives. Each action objective has an impact on one of the components of profit (Exhibit 19.3).

In developing any advertising strategy, you first should determine your action objectives. For example, if your primary business objective is to increase market share for your tax advising business, then your advertising action objective might be to persuade your target customers to try your services; this is known as a *brand trial.* If your main business objective for your restaurant is to persuade your target customers to visit your restaurant more often, then your communications action objective would be to persuade your target customers to eat out at your restaurant more often; this is known as an *increase usage objective.*

Each action objective typically requires a different kind of message or argument to persuade the customer to take action. For example, if you are attempting to persuade a physician to consider an entirely new medication for his or her patients, then you would likely use a brochure that would compare the efficacy of that product with that of other types of medication that the physician is currently using to treat a particular ailment. However, if you are attempting to persuade a physician to consider your brand of a medication, which is similar to ones already on the market, then you would likely want a brochure that would compare the specific benefits of your own version of that medication, such as easier dosage or fewer side effects, with those of the comparable products.

Generally, your action objectives need to be reviewed regularly because they may need to be changed over time. When you are introducing a new product, then you would likely want your target customers to try the product.

Exhibit 19.3 Profit Components and Communication Action Objectives

Profit =	**Number of customers**	**× Share**	**× Unit usage**	**× (Price − Variable cost per unit)**	**− Fixed costs**
Communication action objective	Product trial Brand trial	Brand shift Repurchase	Increase usage	Model shift	

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However, for mature products, the advertising action objective might be to persuade your target customers to increase their usage rate of the product. For example, an insurance agent, new to an area, will be trying to persuade target customers to try or shift to a specific brand of insurance. However, later she might suggest to her long-time customers that they need to increase the insurance coverage on their home—an increased usage objective.

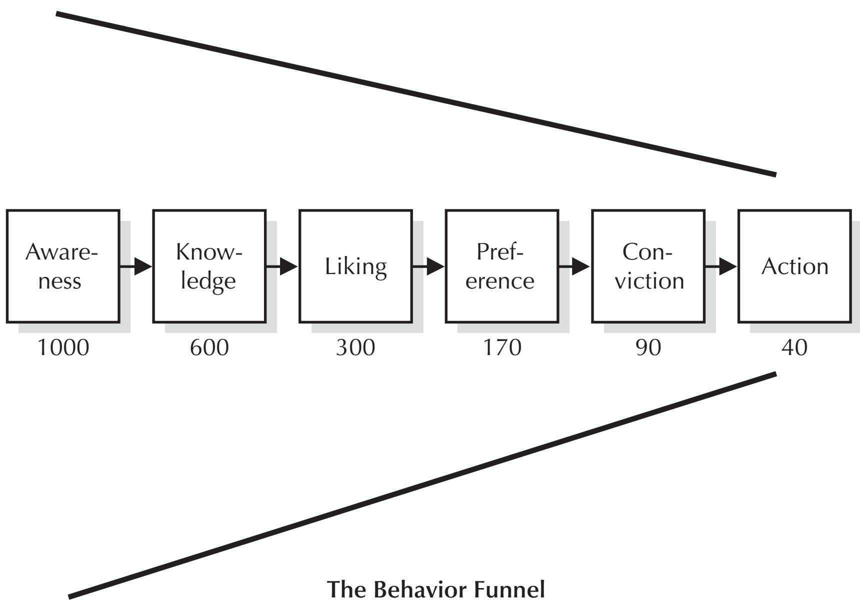
Intermediate Objectives

Usually, people do not change their behavior immediately. To persuade them to change, you need time and patience. The model in Exhibit 19.4 is well known in marketing and is called the *hierarchy of effects model.* The idea is that customers travel through different stages before they take action.

Intermediate communications objectives focus on those stages and typically include:

- *Awareness:* recognizing your brand name
- *Knowledge:* having some knowledge of what your product or service does

Exhibit 19.4 Communications Objectives



The Behavior Funnel

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- *Liking:* believing that your product or service will meet their needs
- *Preference:* believing that your product or service will meet their needs best
- *Conviction:* believing that they will take action

The hierarchy of effects model works best for those situations when customers think about their purchase. The model works less well for products or services that are often purchased on impulse, such as soft drinks or fast food. For impulse purchases, the model really starts with the actions.

Nonetheless, the hierarchy of effects model can be a useful way to think through your advertising strategy. The stages together form what is called the *behavior funnel* or the *sales funnel.* Not every customer moves from one stage to the next. All those aware of a brand do not move on to acquire knowledge about it. You lose customers as you try to move them from stage to stage. To obtain a few purchases, it may be necessary to have hundreds of target customers become aware of your product or service. For example, the numbers in Exhibit 19.4 (which are for example only) suggest that you would need to make 1,000 people aware of your brand to get 40 people to make a purchase.

Message

The message is what the target customer will see or hear. In designing a message, you need to think about content, approach, and style.

Message Content

The message should provide your target customers with the reason they should take whatever action you want them to take. In advertising, that is often known as the *Unique Selling Proposition*, a phrase made famous by advertising pioneer Rosser Reeves. "Unique" because yours is the only product or service with that benefit. "Selling" because it appeals to the target customer. "Proposition" because it is an offer to the customer.

The Unique Selling Proposition is the same thing as the benefit advantage and should be the heart of your message. For example, if you want the target customers to try your restaurant for the first time, your advertising should give them an idea of the type of food or service they can expect. If you want your target customers to shop at your store, your advertising needs to let them know what they can find there—either the shopping experience or the merchandise. If you want your target customers to continue to use your car service, you need to show them the benefits of being one of your steady customers.

The Unique Selling Proposition is the same thing as the benefit advantage and should be the heart of your message.

You should be able to look at the positioning for your product or service to find the core message for your advertising strategy.

Message Approach and Style

Message is not just about what you want to say in your advertising, but how you want to say it. For example, here are a few of the approaches you might consider in developing your message:

- *Assertion:* Simply state your message without proof.
- *Product as focus:* Show the product attractively—works especially well for products whose appearance is important.
- *Facts:* Provide factual support for the superiority of your product or service.
- *Brand building:* Inform or remind the customer of the attributes associated with your brand.
- *Demonstration:* Show how your product or service works.
- *Comparison:* Provide evidence that your product is better than other products or services.
- *Testimonial:* Have someone express their satisfaction with your product or service.
- *Celebrity:* Have someone well-known endorse your product or service.
- *Slice of life:* Show your product or service in a use situation.
- *Command:* Order someone to take action.
- *Reminder:* Remind someone to use your product or service.
- *Bribe:* Use discounts or gifts.

Which approach is appropriate depends on the target market and target customer, the positioning, and the approaches followed by your competitors.

The style of your message is where you add your creative input. What signals might you use to get your target customer's attention and interest? There is no recipe approach to style. You must experiment until you find what seems to work best for your product or service with your target customers.

Message Criteria

Here are five questions to raise about any advertising message. Use them whenever you are evaluating advertising creative work:

1. What are the intermediate and action objectives of the message and are they clear?
2. What reason are we providing customers to change their behavior or attitudes? What is the benefit advantage?
3. Is the approach of the message effective given the situation?
4. Is the style of the message attention getting, understandable, and memorable?
5. Is the brand name mentioned?

Look at ads in magazines, on television, or wherever you might find them, and try to answer these questions. You might be surprised how many ads have unclear objectives or provide no reason to the customer, use an ineffective approach, or are confusing and difficult to remember. You might be even more surprised how many ads do not seem to mention the brand name or, if they do, make it very difficult to find. If the target customer does not know who paid for the ad, it is unlikely that the ad will be effective for that product or service.

Media

The media is how the message reaches the customer (Exhibit 19.5). Traditional advertising media include television, radio, magazines, newspapers, outdoor advertising, and the Internet. Nontraditional advertising includes a variety of diverse choices such as trade shows, events, sponsorships, and product placements. Within a given type of traditional media, a specific television show or a specific magazine is known as a *vehicle*.

Media Criteria

Advertising media and vehicle decisions are typically made by considering the following dimensions:

- *Coverage:* Often known as "reach"—the number of customers potentially exposed to the advertising—and "frequency"—the average number of times a customer is exposed to the advertisement.

Exhibit 19.5 Types of Media

Advertising	Identifiers	Sales Promotion	Personal Selling	Public Relations
Television	Packaging	Couponing	Qualifying customers	Press relations
Radio	Brochures/ manuals	Rebates	Presentations	Product publicity
Print	Décor (Atmospherics)	Premiums	Consultative selling	Company communications
Cinema	Spokesperson	Samples	Entertainment	Donations/ sponsorships
Outdoor	Stationery	Contests	Trade shows	Special events
Point of purchase	Signs	Sweepstakes	Telemarketing	Community relations
Direct mail	Uniforms	Trade shows		Lobbying
Internet	Vehicles			Crisis management
Nontraditional advertising	Web site			

Source: "Arrow Guide—Advertising Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

- *Cost per customer:* The cost to reach one customer, often expressed as cost per thousand customers reached.
- *Selectivity:* The ability to focus primarily on the customers in your target market (which means less waste).
- *Timing:* The ability to manage the time of the advertising to maximize coverage and minimize costs.
- *Presentation:* The appearance of the advertisement, including the effects of the media.
- *Flexibility:* The ability to change the media plans if necessary.

For a small organization, the key issues in your media choice will probably be coverage of the customers in your target market and cost. There is no simple answer to what will be the best media for you. You need to examine the choices available and compare the coverage with your communications objectives and the cost to your budget.

Always be on the lookout for new ways to reach your customers. For example, in Beijing, Ikea is using the interiors of elevators in low-income apartment buildings as advertising media by placing floor-to-ceiling posters in each elevator along with chairs, cabinets, tea pots, and mugs to give a homelike feel.[2] Bombay Sapphire, Virgin Atlantic, and Jack Daniel's, among others, are at work to use mobile phones to provide consumers with a brand experience.[3]

Budget

Three common ways to determine the amount of money to be spent on advertising are:

1. Percentage of sales
2. Competitive parity
3. Objective and task[4]

Percentage of Sales

With this method, you apply a percentage to your expected sales to calculate the advertising budget. Such a process is widely used but is way too simplistic. It is backward as it seems to make sales determine advertising rather than advertising lead to sales. One situation where it might make sense is a mature market where all the competitors are accepting the status quo. Then you might try to find what typical percentage of sales is being spent on advertising.

Competitive Parity

With competitive parity, you try to spend or outspend the competition. There is actually some rationale for this approach in that often sales can be expected to be correlated with your share of overall advertising expenditures ("share of voice") rather than the absolute level of your spending. This approach can be dangerous because it can lead to a war of advertising spending that may be just as destructive as a price war.

Objective and Task

With the objective and task method, you set a sales objective, then use the behavior funnel to determine how many customers are required at each stage to end up with your sales objective. The objective is the sales (or action) objective; the tasks are the intermediate objectives (for example, 170 customers prefer our product or service). For example, according to the numbers in Exhibit 19.4, you will need to make 1,000 customers aware of your product or service in order for you to have 40 customers actually make purchases.

To use the objective and task method, you need to estimate how many people will purchase your product or service as the result of a specific advertising campaign (Exhibit 19.6). It is not easy to make those estimates, but you

Exhibit 19.6 Estimating Advertising Results—Soap Example

Specific Advertising Campaign	Number Who Hear Advertising	Percentage Who Purchase	Number Who Purchase	Percentage Who Become Long-Term Customers	Number Who Become Long-Term Customers
Moisturizer advertisement	8,000	0.5%	40	50%	20

Source: "Arrow Guide—Advertising Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

can make a subjective estimate as to what you think might be the percentage who saw or heard your ad and would purchase your product or service.

Next, you would need to make an estimate of what you think a new customer might be worth to you. That would be based on how much you think they might purchase over time and your profits on those purchases. Then you can estimate the extra profit that you think you might obtain from an advertising campaign. By comparing it with the cost of the campaign, you can decide whether you wish to go ahead with the advertising.

The objective and task approach can be very helpful in giving you an overall idea of what type of advertising effort you will need to meet your business objectives. It requires you to think through the process of how you acquire customers, and that is often a useful exercise.

Evaluating Budget—Soap Example

Suppose you were launching a soap and believed you could advertise its moisturizing abilities to your target market: women 35 to 50 years old. You are considering a local radio spot. The radio station claims it will be heard by 8,000 women 35 to 50 years old. You believe that 12.5 percent of those who hear the ad (or 1,000 listeners) will become aware of your brand and 0.5 percent of those who hear the ad (or 40 listeners) will eventually make a purchase. Of those making a purchase, you estimate that 50 percent will like the soap and become long-term customers.

According to the calculations in Exhibit 19.6, your local radio spot will bring you 20 new long-term customers.

You estimate that each long-term customer is worth $200 over time in discounted profits. The spot costs you $800 so your net profit increases by $3,200 ($4,000 less $800) if you run the radio advertisement (Exhibit 19.7).

Exhibit 19.7 Evaluating Advertising—Soap Example

Specific Advertising Campaign	Number Who Become Long-Term Customers	Value of Long-Term Customer[a]	Value of New Long-Term Customers	Cost of Advertising	Profit (Loss) of Advertising
Moisturizer advertisement	20	$200	$4,000	$800	$3,200

[a]Estimated discounted net profit over time.

Source: "Arrow Guide—Advertising Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

You may want to go ahead with the advertising although you might also evaluate other possible advertisements the same way and select the best alternative.

Assembling the Advertising Strategy

You assemble an advertising strategy the same way you assemble an integrated communications strategy (see Chapter 18), by setting the advertising objectives and message content, then building it up by selecting different media and vehicles.

First you would fill out the objectives row for your overall advertising strategy in Exhibit 19.8, paying attention to both the intermediate objectives and the action objectives, and how they must be coordinated. If you use the objective and task approach, you would also know how many customers you would want in each stage and when. You would also determine the message you would want your advertising to deliver to your target customer.

Next, you would need to select which media and which specific vehicles you would employ to carry the message to your target customers to achieve your intermediate and action objectives. You would also decide how much to spend for each of those media and vehicles. Finally, the spending on the individual media and vehicles would be totaled to show you the overall budget needed for that particular advertising strategy. If the budget was too high or if it did not seem possible to achieve the objectives because the budget was too low, you would repeat the process until you obtained an acceptable advertising strategy.

Exhibit 19.8 Advertising Strategy

Target Segment: ______________ Target Decision-Making Unit Member: ______________

Communications	Components	Time Period 1	2	3	4
Overall advertising strategy	Objectives				
	Message				
	Effort				
Newspapers	Objectives				
	Message				
	Vehicles				
	Effort				
Magazines	Objectives				
	Message				
	Vehicles				
	Effort				
Radio	Objectives				
	Message				
	Vehicles				
	Effort				
Television	Objectives				
	Message				
	Vehicles				
	Effort				
Other media	Objectives				
	Message				
	Vehicles				
	Effort				

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Conclusions

Your target customers must know why they should purchase from you. Advertising is potentially one of your more important ways to communicate with customers. However, advertising can be expensive. It is important to be clear about advertising objectives and the message for your target market so you can be efficient in developing your advertising budget and allocating it among advertising media and vehicles.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

20

Identifiers

Identifiers stimulate a customer to think of all the attributes of your brand. Identifiers include your name, logo, tag line, color scheme, type font, shape, and sound. Identifiers can even be a distinctive aroma, such as that of KFC or Mrs. Fields's cookies, or a distinctive taste, such as that of Listerine mouthwash.

Brands are symbols and you must manage them carefully.

When you make any changes in your brand identifiers, you are changing your brand—one of your most valuable business assets. You can change your identifiers, but if you do, you need to be sure you are changing them in ways that support your brand and marketing strategies.[1]

When you make any changes in your brand identifiers, you are changing your brand.

You need a strategy for your brand identifiers to make sure that they communicate what you want your target customers to know about your brand. That is what this chapter is about.

Components of Your Identifier Strategy

There are four main parts of your identifier strategy. (These are the same parts you have in your communications strategy, shown in Exhibit 19.1):

1. *Identifier objectives:* The role of your identifiers in your marketing and branding strategies
2. *Message:* The attributes of your product or service with which your identifiers are associated
3. *Media:* The contact points with your customer—when your identifiers are visible
4. *Effort:* The amount of expenditure for your identifiers

Identifier Objectives

Generally, your identifiers help you in the first few stages of the communications process (see Exhibit 19.2). They establish awareness and knowledge in the mind of your target customer. Other communications methods can be used to move your target customer to action.

However, with impulse products or services especially, identifiers can also prompt purchasing. Packaging may be so appealing that it persuades your customer to take action immediately. Examples of using identifiers to generate impulse can be seen in the packaging of many prepared foods in supermarkets.

Message

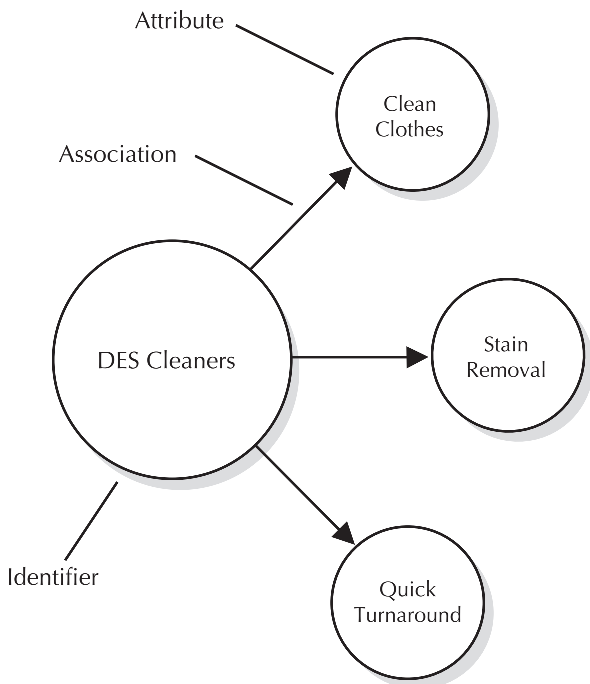
Brand image consists of the attributes associated with the brand. Your desired brand image is specified by your brand position, at most a few of the qualities that you want associated with your brand by customers in a given target market (see Chapter 12). These qualities should be benefit advantages—reasons that persuade your target customer to buy from you.

The message of your identifiers should consistently convey your brand position. For example, if your organization is an insurance company and you wish to be known for "caring," then your logo should convey caring and not consist, for example, of hard-edged block letters. If the name of your restaurant chain includes the word "fried," but you wish to move from that attribute association, then you may change your name to initials, as did KFC.

Determining Identifier Message—Dry-Cleaning Example

Suppose DES Cleaners (see Chapters 4 and 6) wanted to build a strong brand. They have decided that one of their target markets is households with two wage earners and no one free during the day. The benefits that they provide relatively well include cleaning clothes, removing stains, quick turnaround, and convenient hours. Suppose that their superior performance levels on cleaning clothes, stain removal, and quick turnaround are already strongly associated with DES Cleaners (Exhibit 20.1). For customers in this particular target segment, convenient hours may have special appeal. If the customers in the target market do not associate DES Cleaners with convenient hours (see Exhibit 20.1), then that benefit might be featured in the identifiers seen by these target customers.

Exhibit 20.1 Associations and Attributes



Source: "Arrow Guide—Brand Attribute Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Media

All the contact points where your identifiers are visible to your target customers comprise the media for identifiers (see Exhibit 19.5). Such contact points include:

- *Advertising:* Any representation of your product or service should clearly display the brand identifier.
- *Packaging:* Packages are like small billboards. They should be designed and evaluated the same way you would view an advertisement.
- *In use:* Some identifiers can be visible when the product or service is in use. DuPont's construction material, Tyvek, displays its name in large letters easily visible by anyone driving by a construction site where Tyvek is being used.
- *Brochures/manuals:* Any material that accompanies the product or service should show the identifiers.
- *Stationery:* All documents should clearly display identifiers. Notice that if the identifiers are changed, the stationery should be changed immediately.
- *Signs:* Any sign showing your brand should be consistent with your identifiers in color and type font.
- *Web site:* The look and feel of any Web site must support the brand strategy.
- *Motor vehicles:* Vehicles are roaming billboards—an excellent opportunity to show identifiers.
- *Uniforms:* Employees represent the organization. DHL, FedEx, and UPS, for example, use very distinctive color schemes for the uniforms of their employees—the same color schemes that are used in their delivery trucks.
- *Décor:* The ambience of offices and service areas should reflect the organization's brand. Sometimes the décor and general ambience is known as *atmospherics.* For airlines and banks, for example, the environment may have a major impact on the service experience.
- *Spokesperson:* Anyone serving as a spokesperson for your product or service becomes an identifier.

Developing Identifiers

Developing identifiers is both science and art. The science part is making sure that the attributes you want attached to the brand are associated with the identifier. The art part is graphic design—making sure that the appearance of the identifier is clear, balanced, and appealing.

Developing identifiers is both science and art.

When Burger King revised their logo, they considered a number of possible logos that showed flames—an association with their longstanding "flame-broiled burger" benefit. However, none of the logos with flames they tested looked graphically sound (and possibly some people did not want to eat a hamburger that was in flames), so they decided not to include flames in their new logo even though it was an attribute often linked to their brand. The logo they chose consisted of the old logo tilted and the color blue added. They likely made the right choice because their new logo is quite effective—preserving the meaning of the old logo while making a more powerful graphic statement.

For any product or service that is being sold internationally, it may be especially difficult to find effective identifiers as colors, shapes, and animals have different meanings around the world. In addition, words that make sense in one language may be nonsense or unpronounceable in another language.

To systematically develop identifiers such as names or logos, you must:

- Generate alternatives.
- Screen and evaluate alternatives.
- Market test final candidates.

Naming

Suppose you were trying to find a name for a new product or service. You first need to generate some possible names. At the outset, you should simply list all possibilities that occur to you. They may involve your name, the name of your product or service, your location, customer needs, initials, objects—whatever you think might work. Just write down all the names that you would like to consider. The more the better. You can edit them during the next phase in the process.

Once a list of possible names has been generated, you must evaluate them on several criteria such as:

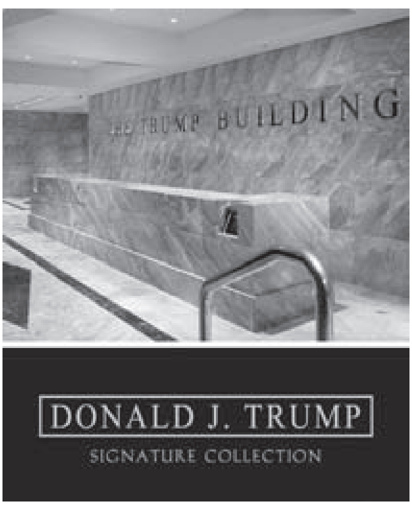
- Easy to pronounce
- Easy to spell
- Sounds good

- Looks good
- Unique
- Appealing
- Associations with desired brand attributes
- Clear
- Memorable
- Free of potential "new meanings"
- Free of legal threats

After passing criteria such as these, you should test the remaining names with members of the relevant audience for the product or service. The target markets are certainly one of your relevant audiences. However, you may want to test the name with other groups such as employees and members of the financial community. Again, if the name will be used internationally, it is important that you repeat the testing in all the countries where the product or service will be sold—certainly in the largest country markets.

Trump Identifiers: Buildings and Products

Your brand name should always appear in the same type font and, if possible, the same color. Notice in the photo below that "Trump" appears in the same font in the lobby of the Trump Building at 40 Wall Street in New York City as it does in the label for the Donald J. Trump Signature Collection®.



Wall Lobby.
Photo courtesy of The Trump Organization.

The process of generating/evaluating/market testing can and should be used for any identifiers, names and logos, tag lines, colors, and shapes—that is, all possible identifiers.

Coordinating Identifiers

Just as any other method of communicating with your target customer, identifiers need to be coordinated.

Exhibit 20.2 Identifier Strategy

Target Segment: ______________ Target Decision-Making Unit Member: ______________

Communications	Components	Time Period			
		1	2	3	4
Overall identifier strategy	Objectives				
	Message				
	Effort				
Packaging	Objectives				
	Message				
	Sizes/Types				
	Effort				
Signs	Objectives				
	Message				
	Locations				
	Effort				
Vehicles	Objectives				
	Message				
	Types				
	Effort				
Uniforms	Objectives				
	Message				
	Staff				
	Effort				
Other identifiers	Objectives				
	Message				
	Opportunities				
	Effort				

Source: "Arrow Guide—Brand Identity," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Many organizations accomplish this coordination with what is known as a style guide or brand book (this is discussed in Chapter 12; see Exhibit 12.3). A style guide describes in detail the name, logo, and all other identifiers by specifying font, type size, colors, even types of actors used in ads. Sometimes the managers who administer the style guide are known as "logo cops," but that is rather unfair because keeping the logo uniform is important to the value of the brand.

Assembling the Identifier Strategy

The main purpose of the identifier strategy is coordination—coordination of the identifiers experienced by your target customer at all contact points. The identifier strategy shown in Exhibit 19.2 is really an inventory of all the ways you are in contact with your customer and what message you are conveying at all those points. If one or more media are not on strategy—that is, they are not supporting your brand position—then expenditures on them may be wasted and, worse, may be blunting the effects of your other identifiers.

Conclusions

All of your identifiers—name, logo, tag line, and so on—constantly communicate to your customers what your organization, products, and services stand for. That communication should be consistent with your positioning. That communication is more powerful if all your identifiers are coordinated to give the same message.

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21

Sales Promotion

Sales promotion concerns the management of a number of quite diverse marketing tools, such as contests, special discounts, trade allowances, coupons, and premiums. Sales promotion methods support the efforts of other communications such as advertising and personal selling, and typically are not recurring but developed for a specific communications task.

In a world where customers swim in an ocean of advertising, promotion tools can be very effective in prompting customers to purchase. Usually, sales promotion can get you short-term results. The challenge of using sales promotion often is to convert those customers you convince to buy now into long-term customers.

You need to be familiar with and consider using the various sales promotion methods because they can be an important way to influence your target customers. (For an overview of sales promotion, see Mullin and Cummins.[1])

Growth of Sales Promotion

Over the past several years, sales promotion has gained in importance relative to advertising as a communications approach. This has occurred for several reasons:

- *Advertising clutter:* Traditional advertising has become pervasive and crowded with products and services. Frequently, you find many different brands in the same product category advertised on the same advertising vehicle, for example, automobiles on televised professional football games. Sales promotion can help break through that clutter to capture the customer's attention.

- *Reduced media effectiveness:* Because of advertising clutter and because of the wide variety of media and vehicles available, a specific advertising vehicle, such as a magazine or television show, may not be as effective as it once was.
- *Brand proliferation:* In many product categories, there is truly a plethora of brands—sometimes more than a potential customer can comprehend. Sales promotion can help give a brand character and distinctiveness.
- *Mature markets:* In a mature market, most customers may be well aware of most brands and, in addition, may not perceive all these brands to be very different. Sales promotion is an additional way to differentiate a specific brand of a product or service in a mature market.
- *Customer knowledge and behavior:* Once a customer or reseller has developed habits of purchasing a specific brand of product or service, those habits may persist. Sales promotion can sometimes break those habits and persuade the customer or reseller to try a new brand.
- *Power of the trade:* The trade consists of all the resellers involved in getting a product or service into the hands of the end-user. In many industries, the trade has substantial power. Sales promotion techniques are a way to gain the attention of resellers and obtain their cooperation.
- *Shorter-term focus:* Many managers are under pressure to deliver favorable financial returns in a short time. Sales promotions often have strong short-term effects on sales. (These short-term effects can later be a problem if sales increases today are borrowed from sales tomorrow.)
- *Need for accountability:* Marketing managers are being asked to justify their expenditures by evaluating the return on their marketing investment. Because customers or resellers participating in a promotion usually need to identify themselves, you can often track the impact of a promotion more easily than the impact of advertising.

Components of the Sales Promotion Strategy

The sales promotion strategy has components similar to that of the advertising strategy (see Exhibit 19.1).

- *Promotion objectives:* What you would like your target customer to do, feel, or think, as a result of the promotion.
- *Message:* What the promotion conveys to your target customer.
- *Media or method:* The specific type of promotion you employ.
- *Effort:* The expenditure on promotion.

Promotion Objectives

Sales promotion objectives often concern actions—by the customer in the target market or by a reseller somewhere in the distribution chain between producer and end-user. Such action objectives may be trial, repurchase, or

Orchestrating Marketing Communications: Miss Universe Organization

Cover Girl Amelia Vega Advertisement.
Photo credit: Dusan Reljin. Photo courtesy of Dusan Reljin, Amelia Vega @Trump Models, the Miss Universe Organization, and Cover Girl.

The Miss Universe Organization produces the Miss USA®, Miss Universe®, and Miss Teen USA® pageants and is a partnership between Donald J. Trump and NBC Universal. In 2005, they signed a two-year contract naming Cover Girl the cosmetics sponsor for the three competitions.

The organizations agreed to cooperate in various ways, including:

- Visitors to CoverGirl.com were able to view exclusive photos and interviews with MISS USA® contestants and cast votes that would be counted as a "virtual judge" in the preliminary judging panel.

(*continued*)

(*continued*)

- Visitors to CoverGirl.com could enter a sweepstakes for a chance to win a trip to a MISS USA® Pageant.
- The Cover Girl Spokesmodel, Molly Sims, served as one of the celebrity judges at a MISS USA® Pageant.

Paula Shugart, President of the Miss Universe Organization, observed that, "The relationship between Cover Girl and the Miss Universe Organization is a natural fit as both companies are dedicated to empowering women and both value inner and outer beauty."

Source: Press Release, Miss Universe Organization, March 21, 2005.

increased usage (see Exhibit 19.2). When promotions are focused on action objectives, they often consist of an added inducement to stimulate the customer to purchase a product or service, or a reseller to stock it. For example, a clothing manufacturer may offer two-for-one deals to consumers and advertising support to retailers. H&R Block has offered customers the chance of receiving double their tax refund if they have the firm do their income taxes.

Promotions can also be used to achieve intermediate communications objectives such as awareness, knowledge, liking, preference, and conviction in much the same way brand identifiers do. For example, Pillsbury has conducted their Bake-Off® Contest for many years and Marlboro offers a line of Western clothing, both activities help reinforce their brand positions.

Message

The message of your sales promotion should be consistent with your positioning. A company selling power tools should offer premiums of interest to do-it-yourselfers, such as a tool box, just as a cosmetic company might offer a makeup bag. Promotions can be used to reinforce your brand positioning. For example, shoe companies may sponsor basketball tournaments to showcase the attributes of their products. Healthcare companies may sponsor marathons to publicize the benefits they can provide.

The message of your sales promotion should be consistent with your positioning.

In developing your sales promotion, you should consider not only message content but message tone. If you are selling fine automobiles, any contests or premiums you might offer should be top-of-the-line as well. In fact, if you are selling top-of-the-line products or services, you may choose not to use sales promotion at all because it may seem out of character.

Media or Method

An extraordinary variety of types of sales promotion methods exists (see Exhibit 19.5). Usually, they are first classified by their target audience—the trade or consumers. Within those broad categories, the methods include incentives, allowances, discounts, selling aids, contests, premiums, samples, giveaways, and loyalty programs. (For more promotion suggestions, see Chapter 27).

Consumer-Oriented Promotions

Methods of consumer-oriented promotion include price deals, coupons, contests and sweepstakes, refunds and rebates, premiums, bonus packs, sampling, specialty advertising, licensing, and loyalty/continuity programs.

Objectives of Consumer-Oriented Promotions Consumer-oriented promotions often focus on managing the transaction with the consumer or customer but sometimes are intended to have longer-term effects. Objectives include:

- *Gain trial:* Promotions such as coupons, deals, refunds or rebates, premiums, and contests can be effective in persuading the target customer to try your product or service.
- *Accelerate purchase process:* Promotions such as contests, premiums, and rebates can influence the consumer to buy now rather than postpone the purchase.
- *Increase repurchase:* The customer retention rate can be increased with coupons or with loyalty programs. Airlines have pioneered here with their frequent flyer programs.
- *Increase usage:* Customers can be persuaded to buy more of a product or service by offering volume discounts or bonuses.
- *Build the brand:* If promotions are chosen carefully, they can enhance the brand. Land Rover dealers sell a wide range of clothing, luggage, and other items that are identified as Land Rover and use the Land Rover brown and green color scheme. The items are chosen to reinforce the Land Rover brand image of ruggedness and adventure.

Trade-Oriented Promotions

Methods of trade-oriented promotions include contests and sweepstakes, dealer incentives, trade allowances, point of purchase displays, merchandising kits, cooperative advertising, training programs, selling aids, trade shows, and exhibits.

Objectives of Trade-Oriented Promotions Generally, the objectives of trade-oriented promotions are to build support by your resellers. Specific objectives include:

- *Stimulate trade merchandising and sales support:* By providing trade allowances (discounts) or cooperative advertising, for example, one can try to influence the reseller to expend sales efforts on your products or services.
- *Expand into new markets or attract new customers:* Sales promotion can provide incentives for resellers to handle new products or services. In Latin America, 3M packaged some of their medical tape in a first-aid kit—an attractive product for many of their retailers to sell to new customers and one that also generated excitement for a somewhat dull product category.
- *Create excitement:* Creative promotions can kindle interest in resellers. For example, when BMW launched their Z-3 sports car in conjunction with *Golden Eye*, a new James Bond movie, dealers were given copies of the film to show in special screenings to their best customers. In addition, the car itself was presented at various dealerships and created much "buzz" among prospective customers and local media.

Generally, the objectives of trade-oriented promotions are to build support by your resellers.

Effort

The amount to spend on promotions depends on the estimated effects over time—especially regarding acquiring new customers, and increasing usage and loyalty of current customers.

Probably the most useful approach to apply in budgeting for sales promotion is the "objective and task approach" discussed and applied in Chapter 19.

In that approach, you begin by deciding on the number of new purchases or new customers you wish to obtain. Then you make assumptions regarding what percentage of those seeing your promotion will take advantage of it (see Exhibit 19.6). You also need to estimate the value of a new customer. That would be the revenue you might expect from them over the next few years less the cost of serving them. Then you can compare the value of the new customers brought in by the promotion versus its cost to determine whether you wish to go ahead with the promotion (see Exhibit 19.7). You can also use the objective and task approach to compare different promotions you might be considering.

Evaluating Promotion Budget—Health Club Example

For example, suppose you are running a small health club for people whom you provide personal trainers. A typical membership includes 20 workouts. To enroll more members, you are thinking of running an ad in the local newspaper offering a free workout with a trainer. Just as you did with the soap example in the advertising chapter (see Chapter 19), you estimate that of the people who see the ad, maybe 1 percent will follow up on the offer. Of those who have the free workout, you believe maybe 25 percent will buy a 20-workout membership in your club. The newspaper tells you that their circulation consists of 10,000 adults. Based on your assumptions, the ad would lead to 25 new members for your health club (Exhibit 21.1). You do have the capacity to handle that number of new members. Whether you go ahead depends on whether you feel the extra 25 new members would justify the cost of the ad and the cost of the 100 free workouts. (There is a cost to the workouts

Exhibit 21.1 Estimating Promotion Results—Health Club Example

Specific promotion method	Number who see promotion	Percentage who participate in promotion	Number who participate in promotion	Percentage who become 20-workout customers	Number who become 20-workout customers
Free workout	10,000	1%	100	25%	25
Towel premium	10,000	2%	200	5%	10

Source: "Arrow Guide—Sales Promotion Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Exhibit 21.2 Evaluating Promotion—Health Club Example

Specific promotion method	Number who become new 20-workout members	Value of each 20-workout member	Value of new 20-workout members	Cost of promotion	Profit (loss) of promotion
Free workout	25	$600[a]	$15,000	$3,100[b]	$11,900
Towel premium	10	$600[a]	$6,000	$600[c]	$5,400

[a]Net profit for 20-workout member.
[b]$100 for ad plus 100 lessons @ $30 for trainers.
[c]$100 for ad plus 100 towels @ $5.
Source: "Arrow Guide—Sales Promotion Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

because you must pay the trainers.) You estimate the net profit of 20-workout customers to be $600. That would be based on their $1,200 membership fee less your costs, including paying your trainers. According to the calculations in Exhibit 21.2, the free workout promotion would bring in more profit than it costs, so you may want to go ahead with it.

In Exhibits 21.1 and 21.2, there are also calculations for a second promotion: running an ad in the same newspaper and offering a free towel for anyone who stops by your club. Although you estimate that promotion will bring you more prospective clients, you believe a lower percentage will enroll because they may be coming by just for a free towel. However, that promotion is also profitable, so you might consider doing that one, too, providing you had the capacity to accommodate the new members from the promotion.

Assembling the Sales Promotion Strategy

Overall, you want to be sure that whatever promotions you use, they support the positioning of your product/market strategy and the message of your communications. Sales promotion is especially helpful when you would like to stimulate purchases. For example, perhaps you operate a motel and want to increase occupancy during the off-season. You might use promotion methods to attract more customers. You need to look at your overall communications objectives and decide where your purchases might require a boost. You might then consider whether the promotion should be directed to the consumers or customers, or to the trade for maximum effect. The worksheet in Exhibit 21.3 allows you to include several promotion methods at different times. Finally, you would estimate the cost of each of the promotions you are planning and enter that in the budget lines.

Exhibit 21.3 Sales Promotion Strategy

Target Segment: ______________ Target Decision-Making Unit Member: ______________

Communications	Components	Time Period			
		1	2	3	4
Overall promotion strategy	Objectives				
	Message				
	Effort				
Consumer-oriented promotion	Objectives				
	Message				
	Method				
	Effort				
Consumer-oriented promotion	Objectives				
	Message				
	Method				
	Effort				
Consumer-oriented promotion	Objectives				
	Message				
	Method				
	Effort				
Trade-oriented promotion	Objectives				
	Message				
	Method				
	Effort				
Trade-oriented promotion	Objectives				
	Message				
	Method				
	Effort				

Source: "Arrow Guide—Sales Promotion Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Conclusions

Sales promotion methods can be very effective in changing the behavior of consumers, customers, or the trade in the short term. Once you change behavior, however, you need to follow up to make sure that you keep the attention of the consumers or customers so that they continue to buy from you and the attention of the trade so that they continue to support you. Although promotion methods can be very helpful to stimulate sales, keep in mind that they cannot rescue a failing product or service.

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22

Personal Selling

Personal selling embraces all those transactions where there is human interaction between the seller and buyer. Personal selling is used in most business-to-business transactions and a great number of consumer transactions.

The key resource in personal selling is *time*.

Time spent with the customer is known as "face time" and it is very precious. Successful salespeople understand the value of face time and always try to make the most of it. In many organizations, sales force time is a bottleneck resource. Everyone wants sales force time, but there may not be sufficient time to meet everyone's business objectives. Often, marketing is organized by product and sales is organized by geography. Product managers may request more sales force time than is available in the sales territories. You need a sales strategy to resolve these possible conflicts and focus your organization's selling efforts. This chapter shows you how to make the best use of your salespeople's time.

Sales Strategy—The Strategy of the Sales Manager

The strategy for personal selling is known as the *sales strategy*. An effective sales strategy provides a plan for where and how members of a sales force will spend their time, especially their time interacting with customers. The sales strategy described here is the strategy that the manager of a team of sales representatives develops and uses.

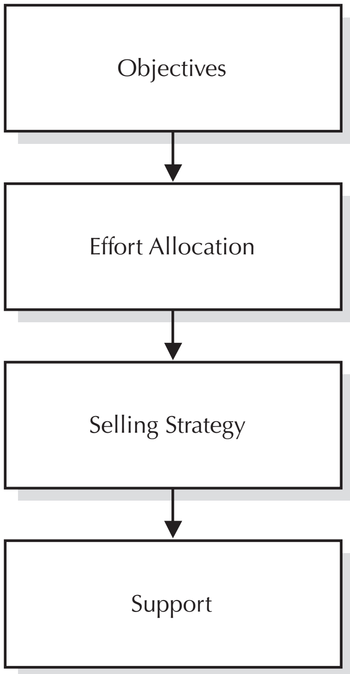
Note that there are similar sales strategies for national or regional sales managers, or for the sales representatives themselves. Each of those strategies would have the same components but at a different level of aggregation. For example, the sales strategy for the national sales manager would show the allocation of the selling time of the entire sales force across all products and services. The sales strategy for the individual sales representative would show the allocation of their selling time across the products and services that they are responsible to sell.

Components of the Sales Strategy

The main components of a sales strategy are (Exhibit 22.1):

- *Objectives:* These objectives derive from those for the marketing strategy. Usually they are expressed in unit or monetary sales. Some organizations also provide their sales managers with profit objectives.
- *Effort allocation:* These are guidelines for where the sales representatives should spend their time—on which products and services and on which customers. Sometimes these decisions are known as "time and territory management."
- *Selling strategy:* Included here are guidelines, sometimes very specific, as to how the sales representative should approach the customer, including what benefits should be stressed during the sales call and what should be the result of the call.
- *Support:* Salespeople require ongoing support in the field, ranging from materials to be used during sales calls to lists of prospects. Also included in this part of the sales strategy would be the policy for compensation and other rewards.

Exhibit 22.1 Components of Sales Strategy



Source: "Arrow Guide—Formulating Sales Strategies," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Sales Objectives

Objectives in the sales strategy are usually expressed as unit or monetary sales and are based on objectives stated in the marketing strategies for the products or services being sold. You should state these objectives quantitatively and break them out by product or service and by market. These objectives are the overall sales objectives for the sales manager, who then allocates these objectives among the sales representatives whom they direct.

For example, the annual sales objectives for the sales manager associated with Exhibit 22.2 total $88,000,000. In turn, the sales manager has allocated those objectives among the four sales representatives whom they manage.

Exhibit 22.2 Sales Objectives (in millions)

	Product			
Representative	**A**	**B**	**C**	**Total**
1	$7	$5	$2	$14
2	12	14	3	29
3	10	9	2	21
4	9	11	4	24
Total	$38	$39	$11	$88

Source: "Arrow Guide—Formulating Sales Strategies," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

REAL-ESTATE SALES: TRUMP INTERNATIONAL HOTEL & TOWER, LAS VEGAS

Trump International Hotel & Tower, Las Vegas.
Photo courtesy of The Trump Organization.

The 64-story Trump International Hotel & Tower Las Vegas was introduced on *The Apprentice,* and within a month deposits had been placed on 80 percent of the units. Construction was finished in less than 3 years and the units completely sold out with sales of more than $1.1 billion. Average price per square foot was nearly 25 percent higher and sales velocity (units sold per month) 50 percent higher than competing properties.

"Everybody wants to be in our building," Donald J. Trump explained to *Business Week*.

Sources: Linneman Associates, "The Trump Organization Value-Added Market Study," July, 2007; Christopher Palmeri, "Hike Your Odds on a Vegas Condo," *Business Week* (February 14, 2005), p. 94.

If you add up all the sales objectives for a specific product or service for all an organization's sales representatives, then you should obtain the overall sales objective for that product or service.

One exception is that, in some organizations, sales objectives for particular products or services may be set high to motivate salespeople.

You may set sales objectives in terms of both profits and sales. However, in some organizations, sales managers prefer not to provide their salespeople with information as to the profitability of their various products and services because they do not want to encourage salespeople to give discounts. However, if salespeople do not know which products or services are the most profitable, then it is especially important for you to sort out sales objectives by product and by market, as discussed in the next section.

Sales Objectives by Product and Market

Sales objectives should be made clear for specific products or services and for specific markets. Without that focus, sales representatives may spend their selling effort on the products they prefer and on the customers they prefer, rather than on those where the company would like selling effort. For example, Exhibit 22.3 shows a growth matrix (similar to what was discussed in Chapter 13).

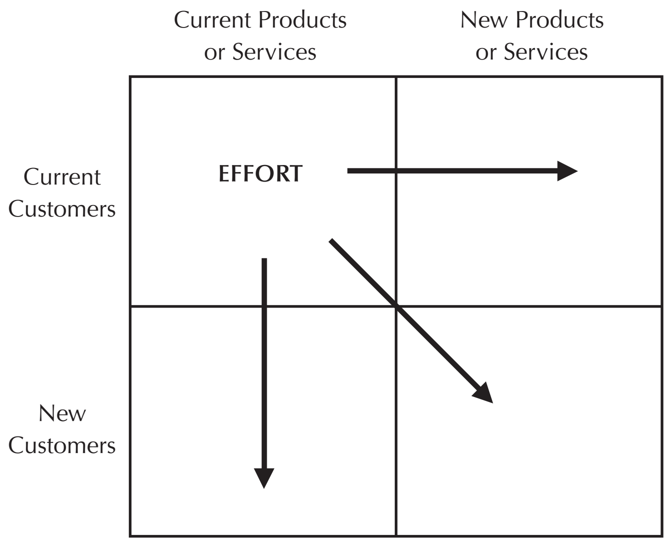
Sales objectives should be made clear for specific products or services and for specific markets.

Suppose you are a salesperson. Who would you rather call on: a customer you know really well or someone you have never met? Many people prefer to talk to people they already know. Similarly, would you rather try to sell a product that you know very well because you have been selling it for a long time or a product that you have just heard about? It is true that salespeople want new products, but the comfort level for selling current products is often higher.

If sales representatives are spending their time on current customers and on current products, then what happens to the organization? It may die—strangled by its sales force—because new customers or new products are not receiving sufficient sales effort.

You can solve this effort problem a variety of ways. The most direct way is for you to assign objectives to specific products or services and to specific

Exhibit 22.3 Allocating Sales Effort



Source: "Arrow Guide—Formulating Sales Strategies," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

markets, and then pay for attainment of each of those objectives. For example, some companies do not pay any sales bonus unless the objectives for every product or service and for every market are achieved. Another way for you to encourage attaining sales objectives for new customers and new markets is to improve training of salespeople through joint calls or product seminars. Such training can increase the comfort level of selling in new areas. Finally, you can establish two sales forces. Members of one sales force—the "farmers"—maintain relationships for current customers and current products. Members of the other sales force—the "hunters"—focus their efforts on new sales, new products, or new customers. Of course, to have two sales forces, there must be sufficient sales opportunities to support both of them.

Effort Allocation

Given sales objectives, how should the sales force allocate their efforts among products or services and among customers? The allocation of sales force time is summarized in the time allocation table (Exhibit 22.4), which has the same

Exhibit 22.4 Selling Time Allocation (person-days)

	Product			
Representative	**A**	**B**	**C**	**Total**
1	52	37	24	113
2	46	41	28	115
3	44	38	25	107
4	40	33	26	99
Total	182	149	103	434

Source: "Arrow Guide—Formulating Sales Strategies," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

dimensions as the sales objective table (see Exhibit 22.2). The difference is that the sales objective table shows all the sales objectives, whereas the time allocation table shows the time needed to achieve those objectives for each product or service and each customer or market.

The time allocation table is developed by considering how much selling time is available and how much time is required to sell a specific product to a specific customer. For example, generally, you would expect more time to be required to sell a new product or service (such as product C in the exhibits), or to sell to a new customer.

Experienced salespeople usually have a fairly accurate idea as to how much time and how many calls will be needed to make a sale. That information is used to estimate the time allocations for each product and customer. For example, if you estimate that 10 hours of "face time" with a certain type of customer is needed to make a $500,000 sale, then you might estimate that a total of 500 hours or 62.5 days might be needed to make total sales of $25 million. Although these estimates may not be accurate for each customer, they provide an overall forecast for the time that might be needed to achieve your sales objectives.

The total selling time available to the sales manager can be found by doing an analysis of how the sales representatives currently spend their time. Suppose, for example, the sales manager associated with Exhibit 22.4 finds that there is a total of 434 selling days available from the 4 sales representatives. The sales manager will allocate that time among products (and also markets) to maximize the chances that the sales objectives in Exhibit 22.2 will be met. In practice, the salespeople will likely not spend exactly the amounts of time shown in Exhibit 22.4 on the three products.

You will expect that unforeseen events, emergencies, and targets of opportunity will occur and change the plan somewhat. The purpose of these time allocations is *not* to be a straightjacket but to provide guidelines for the salespeople. Without such guidelines, often sales times can be misallocated or wasted.

Selling Strategy

A sales call must be managed. The sales representative should have a plan for how the discussion will flow, what will be discussed, and what should happen as a result of the call. That is the purpose of a selling strategy.

There are a variety of models used to develop a selling strategy. One of the most well-known is the AIDA model—attention/interest/desire/action.

- *Attention:* Engage the potential customer so that they will want to talk. Often, this can be accomplished by identifying a problem the customer has.
- *Interest:* Continue the discussion with the potential customer so that they will come to understand that you may have a viable solution for their problem.
- *Desire:* Persuade the potential customer that your solution to their problem is the best available.
- *Action:* Ask for the order—going for the "close."

Throughout this process, *listening* and, if the call is face-to-face, *observing* can be crucial to managing the sales call. You need to listen to the customer to learn what they want and to identify any possible objections they might have. Observing is important because there is much communication in body language, ranging from boredom to high interest.

A salesperson should always prepare an initial benefit statement (IBS)—a clear statement of the key benefits of your product or service that you present, formally or informally, to your target customer. The IBS often starts your discussion with the customer. But how you continue the discussion is crucial. *Effective salespeople are those who can manage the call as it proceeds, probing and following the customer's concerns but still controlling the conversation.*

Support

Support falls into three areas: materials, information, and compensation.

1. Materials include sales presentations, brochures, demonstrations—everything that might help the salesperson make their case to the potential customer.
2. Information on customers and on products or services (yours and those of your competitors) help the salesperson make more efficient use of their time. Prospect lists are a starting point for developing sales. Criteria for qualifying customers are valuable, particularly for new salespeople.
3. Compensation issues include straight salary versus commission or some combination. Generally, commissions are more effective and appropriate in those situations where the salesperson has significant ability to make the sale during the sales call. For example, if a prospective customer were interested in a tailored information system, then the salesperson may need to "design" the product during the sales call—this would be a situation where a commission or bonus might be effective.

Your sales people should know exactly what they need to do and how they will be rewarded when they do it if compensation is to be effective.

Assembling the Sales Strategy

The selling strategy begins with the sales objectives. (See the downloadable worksheet in Exhibit 22.5.) You must consider how those objectives will be attained and, consequently, what will be the necessary objectives for each of the sales representatives.

Next, you make an allocation of selling time. These time allocations are based on the sales objectives, the selling time each sales representative has available, and their abilities and selling efficiency (time required to get a sale).

The contents of the selling strategy, especially the IBS, come from the positioning of the product or service as you described it in your product/market strategy. The selling strategy will typically include the IBS and guidelines or suggestions for managing the sales call.

Exhibit 22.5 Sales Strategy

Target segment: ______________ Product or service: ______________

Personal Selling	Components	Time Period			
		1	2	3	4
Sales Manager	Objectives				
	Strategy				
	Effort				
Sales Representative 1	Objectives				
	Strategy				
	Effort				
Sales Representative 2	Objectives				
	Strategy				
	Effort				
Sales Representative 3	Objectives				
	Strategy				
	Effort				
Sales Representative 4	Objectives				
	Strategy				
	Effort				

Source: "Arrow Guide—Sales Promotion Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Summing the sales objectives and selling time allocations of all of your sales representatives gives your overall sales objectives and the overall selling time available to you (the sales manager).

Conclusions

Many products or services may require personal interaction for a sale to take place. Selling time is precious time, and must be managed and allocated carefully to achieve the maximum objectives possible. Selling strategy is the plan for what happens during selling time. Such plans must also be developed carefully so that sales contacts are effective and are consistent with the product/market strategy.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

23

Public Relations

How do you manage your relationships with all the people who have an interest in what you do? That is what public relations does. You need a public relations strategy just as you need a strategy for advertising or for personal selling—your public relations efforts should be proactive, not reactive. And your public relations efforts need to be integrated with all your other communications activities.

Small organizations especially can benefit from public relations. Public relations can be a very cost-effective substitute for advertising. Managing your public relations requires you to be patient, prepared, and creative in finding ways to publicize your business.

Managing your public relations requires you to be patient, prepared, and creative in finding ways to publicize your business.

Advantages of Public Relations

Although you may find it difficult to measure the effects of public relations, many managers consider it a cost-effective means of communication. Having positive news about your product or service featured on a news show is extraordinarily valuable exposure. Not only did BMW launch their Z3 sports car with the James Bond movie, *Golden Eye*, they placed other BMW models such as the Z8 sports car in later James Bond movies, then kept the buzz going by commissioning short movies by famous directors such as Ang Lee, John Frankenheimer, and Guy Ritchie. All of these efforts brought them priceless coverage from the news media. A local auto repair shop or beauty salon can get similar exposure in their market by sponsoring local teams, supporting local not-for-profit organizations, or other activities.

Contrary to the opinion of many, public relations does allow you to target particular groups and in a credible way. Public relations methods such as trade shows and sponsorships speak to members of particular audiences. For example, sponsoring a NASCAR car can build strong loyalty among NASCAR fans. Sponsoring a Little League team may create loyalty among Little League parents.

When information about your product or service appears in the media, it usually has more *credibility* than if the same information appeared in a paid advertisement. Think about it. When you see a product or service evaluated by the press, don't you give those statements a bit more weight than if you saw them in an ad?

Similar to sales promotion methods, public relations can help you *break through the clutter* of paid advertising. Events, sponsorships, and product placements, for example, can gain attention that would be difficult to achieve with traditional media.

Similar to sales promotion methods, public relations can help you *break through the clutter* of paid advertising.

Disadvantages of Public Relations

Public relations is more difficult to manage than most other communications programs because you do not have the same degree of control overall. For example, when you pay for an advertisement in a newspaper, you feel reasonably confident that the ad will appear when scheduled and the message will be what you planned. However, when you send a press release to a newspaper, you do not know whether the information will appear in the newspaper and, if it does, when, where, and in what form.

Public relations is also more difficult to manage because of the diversity in the audiences with which you need to deal. Audiences for your public relations efforts certainly include current and potential customers, but they also include investors, community members, politicians, regulators, and—a very important constituency—your employees. Each of these audiences likely has different needs and interests, and must be approached in different ways.

Determining the return on investment of public relations is also particularly difficult because it is not easy to link changes in customer attitudes or behavior to public relations efforts.

Target Audiences

The target audience for your advertising, promotion, and personal selling is typically the members of your target markets. Public relations efforts may be focused on a variety of audiences, including target customers, suppliers, community members/general public, opinion leaders, media representatives, educators, civic and business organizations, government, current investors and shareholders, potential investors and shareholders, and employees. For each of these audiences, you need a public relations strategy—plus an overall strategy that pulls all those efforts together.

Public Relations Strategy

A public relations strategy includes the same major components as other types of communications strategies (see Exhibit 19.1).

- *Public relations objectives:* As with any type of communications, you should have in mind what effects you hope will occur because of the communications. Such effects may include building excitement for a product or service, managing a crisis, or increasing the price of your stock.
- *Message:* The message is the information about your organization, products, or services that you want the target audiences to know.
- *Method:* Public relations methods consist of all the ways you can convey information to your target audience.
- *Effort:* The amount of effort—time and money—invested in public relations.

(For more on public relations, see Wilcox and Cameron.[1])

Objectives

Public relations may be used to achieve several quite different kinds of objectives that affect the attitudes or behavior of target customers and members of other target audiences (see communications objectives in Exhibit 19.2):

- *Build marketplace excitement:* If you can create "buzz"—intense and positive word of mouth—about your product or service, then you are creating awareness and moving your target customer toward a purchase.
- *Create news:* You would like positive information about your product, services, or your organization itself to be newsworthy. Such coverage is essentially free advertising and provides your customer with knowledge about the product or service.
- *Provide value:* If you send information to your customers on an ongoing basis, such as newsletters with advice, you are giving them extra value that may persuade them to try your product or service, or continue to purchase it. For example, a company that makes bath products for babies may provide advice on the Internet regarding how to care for babies. A store selling scuba equipment may send their customers a newsletter filled with diving tips and suggested dive locations.
- *Sell products or generate leads:* You should target information about your products or services to persuade the target customer to like, prefer, and decide to purchase the product or service. If you sponsor a local soccer team, that may make people receptive and interested in buying your product or service.
- *Develop relationships with customer or client:* You can use some public relations tools, such as e-mailed newsletters, to maintain a relationship with your customers so that you will remain in their minds. Consulting firms often update their clients with concepts presented in their newsletters.
- *Build brand:* Every contact point you have with your customer is an opportunity to build your brand. The message in all your public relations activities should be consistent with and reinforce your brand position.
- *Encourage investors:* Favorable press, annual reports, or charitable contributions can increase the attractiveness of publicly owned organizations to investors.
- *Influence opinions:* You may seek to influence the opinions of members of the general public, politicians, and bureaucrats.

- *Crisis management:* A crisis—for example, a problem with your product—can destroy your organization if you do not handle it properly. Crisis management is a very special use of public relations but a very important one. You need to be prepared should an unfortunate incident occur that puts your organization at risk.

Media or Methods

Methods used by public relations are classified into the uncontrolled media and the controlled media. The news media is the most obvious example of uncontrolled media. Controlled media includes newsletters, trade shows, and public service advertising (see Exhibit 19.5).

Uncontrolled media represent situations where you provide information, but whether the information will be used and, if so, in what form, when, and where are beyond your control. Such methods include news releases, press conferences, media tours and materials (for example, press kits), interviews, speakers, public service announcements, events, community relations, sponsorships and donations, lobbying, and crisis management.

With *controlled media*, the organization has more direct influence on the content and timing of the information being disseminated. Such methods include house (aimed at employees) advertisements and house communications (print and video); customer or client communications (for example, newsletters, e-mails); annual reports and similar communications, displays, and exhibits (for example, trade shows); events, sponsorships, product placements, online communications, public service advertising, and corporate or advocacy advertising. If your company or organization is small, you may not be able to use all of these public relations methods, but you can certainly use some of them. (See Chapter 27 for more public relations suggestions.)

Dealing with the Press

Working with local media is especially helpful for small organizations. If you provide them with newsworthy items, they will appreciate it and you will benefit from the publicity.

To utilize your local media, follow these suggestions:

- Take an inventory of the newspapers, magazines, radio programs, and television programs in your area that might carry information about your product or service, or organization.

- Learn the deadlines for the print media and for the broadcast media.
- Find out how they prefer to receive information. For example, if a newspaper prefers 4 × 6 color photos with a glossy finish, that is what you need to provide.
- Prepare a short (one page if possible) press release that you can send to all the media. The contents should make clear why the information will be of interest to their audience. Be sure to include your contact information on the release.

Getting Involved: Wollman Skating Rink

Wollman Rink Photo Courtesy of Donald E. Sexton.

The Wollman Skating Rink in Central Park, New York City, covers 30,800 square-feet and is one of the largest outdoor skating facilities in the United States. Enjoyed by many New Yorkers and visitors to New York, the rink also is the home of the largest United States Figure Skating (USFS) Basic Skills skating programs.

The Wollman Rink was built in 1950 with money from philanthropist Kate Wollman. After 6 years of renovations in the 1980s costing

$12 million, the rink was still closed, and in 1986 the city announced that they were starting all over again. Donald J. Trump offered to renovate the rink in 6 months at no cost to the city as his gift. Initially, his offer was spurned but finally an agreement was reached. Donald J. Trump provided the City of New York with the construction money and agreed to complete the work by December 15. The city would reimburse costs up to a cap of $3 million but only if the rink worked. The renovation was finished 1 month ahead of schedule and under budget. All profits went to charity and the Parks Department. The rink was reopened in late 1986, and is currently operated by the Trump Organization.

In front of a magnificent view of the Manhattan skyline, skaters enjoy skating, lessons, private parties, corporate events, and special theme nights throughout the season.

Sources: Wollman Skating Rink Press Releases, October 18, 2006 and October 17, 2007; Donald J. Trump and Meredith McIver, *Trump Never Give Up*, Hoboken, NJ: Wiley, 2008.

Wait to see what happens. Don't expect all the media to use your information, but you may be pleasantly surprised by the publicity you will get.

Exhibits

You may find it helpful to participate in conferences or fairs, or similar events that associations or others have established. Here is a checklist to help you prepare for an exhibit:

- Try to find out the type of audience that attends the event where you might exhibit.
- Plan your exhibit so it looks neat and attractive.
- Position your products or services as the central focus of your exhibit.
- Keep track of those who drop by—try to obtain their contact information for follow-up.
- Have materials for potential customers to look at during their visit or later. Be sure your contact information is included in the materials.
- Hand out give-away items if appropriate.
- Have your order book ready.

Events

Events that you host include receptions, parties, contests—anything that might draw a crowd of potential customers. You need to plan events carefully. Here are some things to keep in mind:

- Check to make sure that no competitive event is occurring on the day and time when you schedule your event.
- Make up your guest list or, if you plan to use mass communications for your invitations, choose media so that the attendees will be potential customers.
- Try to have some kind of "draw"—a celebrity, a contest, a curiosity, a celebration—that will attract the interest of potential customers.
- Make sure you have a way to capture the contact information for those who attend so you can follow up later if necessary.
- If possible, have give-away items with your contact information on them.
- Have your order book available.

Newsletters

For some businesses—especially personal services such as health clubs or consulting firms—a newsletter can be a cost-effective way to maintain contact with your customers or potential customers. Some authors use newsletters to stay in touch with people who buy their books.

You can either mail or e-mail your newsletter—depending on what you think your customers or potential customers would prefer. An e-mailed newsletter is easier to manage but may not allow you to reach any customers who are not regularly online. Here's a checklist to use when planning a newsletter:

- Assemble a list of your customers and others who might be potential customers. Try to obtain both their physical address and e-mail address.
- Plan your newsletter so the name of your organization or your brand is clearly visible.
- Include content of value for the reader. For example, a health club might include information on healthy eating and a consulting firm might provide business tips.
- Provide a way for your reader to contact you easily.

Press Release: The Donald J. Trump Signature Collection® Eyewear

Here's an example of a press release for one of the Trump licenses, eyewear. It provides the journalists with the essential facts as well as quotes from all those involved. A press release might also include contact information so the reporters can pursue the story if they wish.

Eyewear Designs Launches Donald Trump Signature Collection®

Syosset, NY (7/1/05)—Eyewear Designs Ltd. has announced the arrival of The Donald Trump Signature Collection®. The company has long enjoyed an impressive cadre of licenses. With its newest addition of Trump eyewear, there promises to be a buzz from the industry about this hot new signature brand. The new collection includes both men's and women's optical styles and is aimed at the sophisticated eyewear consumer.

"We are extremely excited to partner with The Trump Organization," says Andrea Gluck, Co-President of Eyewear Designs. "The timing is perfect. With Donald Trump's long standing success as a prominent businessman and his recent accolades with his top ranked reality TV show, it's clear that his popularity has reached enormous heights. He is the very definition of the American success story."

Mr. Trump stated, "Eyewear Designs Ltd. has all of the qualities I look for in a business partner . . . drive, integrity, vision and an entrepreneurial spirit. Eyewear Designs' commitment to excellence is the reason we have forged this relationship."

Cathy Hoffman Glosser, Executive Vice President of Global Licensing for The Trump Organization, expressed equal enthusiasm regarding the launch of The Donald J. Trump Signature Collection®. "Through our licensee partnership with Eyewear Designs Ltd., we are taking our accessory line to the next level. This trendy luxury eyewear collection will appeal to professional men and women who understand the importance of image. The styles are fabulous, with rich design elements and classic colors, and will be a stunning addition to the already successful Trump brand."

Crisis Management

Crises deserve special mention. A crisis is any situation that may cause your organization harm. Often, they escalate in intensity and disrupt all your operations. They can destroy your organization.[2]

Living through a true crisis is described as being in a firestorm. There is information overload, anxiety, stress, and a compulsion to take action without knowing what action to take.

If some tragic event occurs and you do face a crisis, you should keep the following in mind:

- Take charge and make sure you understand what the situation is.
- Get others' opinions because your judgment may be affected by the crisis atmosphere.
- Think through the consequences and develop a strategy for rectifying the situation.
- Communicate to the public and communicate consistently across audiences and over time.

Even better, prepare your plans before a crisis occurs. Know who will be in charge and who will communicate your positions.

Effort

The public relations budget is difficult to evaluate because it may be difficult to link public relations efforts to customer behavior—especially for activities such as publicity and sponsorships.

There often may be volatility in the effects of public relations, and that also makes it difficult to evaluate the public relations budget. If an organization undergoes a crisis dealing with product safety and the situation is mishandled, the organization itself may be at risk. How do you evaluate the return on those public relations efforts?

However, for some public relations activities, you can evaluate your spending the same way you can evaluate the impact of sales promotions (see Chapter 21). Such activities would include newsletters, exhibits, and events. In each of those situations, you would know your expenditures on public relations and, if you kept accurate records of the contacts you made through those activities, you would know how many customers you obtained because of the public relations effort (see Exhibit 23.1).

Exhibit 23.1 Estimating Public Relations Results—Beauty Salon Example

Specific Public Relations Activity	Number Reached by Public Relations Activity	Percentage Who Become Long-Term Customers due to Public Relations Activity	Number Who Become Long-Term Customers	Value of Long-Term Customer	Value of New Long-Term Customers	Cost of Public Relations Activity	Profit (Loss) of Public Relations Activity
"Get Acquainted" open house	90	20%	18	$800	$14,400	$2,900	$11,500

Source: "Arrow Guide—Public Relations Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Evaluating Public Relations Budget—Beauty Salon Example

Assume that you were opening a new beauty salon and thought you might introduce yourself to the community with an open house. You advertise the event in the local newspaper. You purchase decorations and some snacks. You also pay a few of your staff to do free manicures during the day of the open house. The total cost of your open house, including advertising, comes to $2,900.

You estimate that you make an average profit (discounted net profit) of about $800 from each new customer over the period they stay with you.

Suppose that 90 women come to your open house and, because you kept track of their names, you know that 20 percent, or 18, became new customers. If you assume that these women became customers only because of your open house, then the net profit you obtained directly from the open house is $11,500 (see Exhibit 23.1). Notice that you actually may have received a higher profit from the event because some women may become your customers later because your open house raised their awareness of you now.

Assembling the Public Relations Strategy

The starting point for your public relations strategy is your message (Exhibit 23.2). What message do you want to convey to all your various constituencies? Often that will be your brand position or will be related to your brand position. Then you must make sure that message is consistent across all your public relations approaches. Exhibit 23.2 shows a few of those

Exhibit 23.2 Public Relations Strategy

Target Audience: _____________ Target Decision-Making Unit Member: _____________

Communications	Components	Time Period			
		1	2	3	4
Overall public relations strategy	Objectives				
	Message				
	Effort				
Press relations	Objectives				
	Message				
	Method				
	Effort				
Product publicity	Objectives				
	Message				
	Method				
	Effort				
Company communications	Objectives				
	Message				
	Method				
	Effort				
Donations/ sponsorships	Objectives				
	Message				
	Method				
	Effort				
Special events	Objectives				
	Message				
	Method				
	Effort				

Source: "Arrow Guide—Public Relations Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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approaches but does not include all the possible programs that may fall under public relations. For each approach, such as product publicity or donations, the message must reinforce your positioning. Your specific objective may vary by target audience, but in general, your objectives will focus on persuading members of each audience to think and act favorably toward your product, service, and organization. For each approach, there may be several specific methods. For example, product publicity includes product placements and trade shows, whereas company communications includes videos, house advertising, newsletters, and contests. Together, the strategies of each public relations method form your overall public relations strategy.

Conclusions

Public relations is an important way for you to communicate with customers and potential customers, but also with members of the many other audiences that can affect your marketing performance. As is true for all other forms of communications, public relations must be integrated into the organization's overall communications strategy and provide a message consistent with your position.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

24

Internet Marketing

These days you need a presence on the Internet, and you should be actively marketing on the Internet. Whether you want to use the Internet simply to provide information to your customers or go far beyond that to provide customer service and take orders, you need to understand what it can do for your business.

These days you need a presence on the Internet, and you should be actively marketing on the Internet.

The Internet is a deceptively simple medium. You need to know its tone and its capabilities. Direct approaches that work in other media may not work on the Internet. Generally, you cannot simply take the content of your brochures or sales pitches and put them on the Internet.

Direct approaches that work in other media may not work on the Internet.

You need to tailor and think about not only what you want to say, but how you want to say it. In addition, the Internet has rapid interaction capabilities that no other medium possesses—you need to consider whether you want to use them. Marketing on the Internet can involve advertising, identifiers, sales promotion, selling, and public relations—all the communications approaches covered in the preceding chapters. But because the Internet is special, it deserves its own chapter. (For further discussion of online marketing, see Scott.[1] For many practical suggestions, see Weber.[2])

Internet Marketing Strategy

Your Internet marketing strategy should consist of four major components (see Exhibit 19.1):

1. *Internet objectives:* The impact you hope to make on your target customer
2. *Message:* The opportunities you provide your target customer, for example, to obtain information, provide comments, or order product
3. *Method:* The Internet capabilities you plan to use such as maintaining a Web site or sending e-mail
4. *Effort:* Your expenditures on your Internet marketing activities

Web Site

A Web site can help you accomplish many different types of marketing and communications objectives, including:

- Outbound activities that:
  - — Build awareness of your brand.
  - — Convey knowledge by providing information on your products or services.
  - — Increase liking or preference for your products or services.
  - — Encourage conviction to purchase by promoting your products or services.
- Inbound activities that:
  - — Enable transactions.
  - — Manage transactions.
  - — Gather information.

Although traditional advertising can accomplish most of the outbound objectives, a Web site is special because you can use it to *develop a relationship* with your customers, especially through the inbound activities.

You can develop relationships with personal selling but usually at a much greater cost and one that is probably not justified for many products or services. Internet marketing is a relatively low-cost way of accomplishing what the corner store used to do—understanding and satisfying customer needs, and building a long-term relationship with the customer.

Keep in mind that, although the Internet can be effective with many of your customers, customers in some market segments may not be online and you will not reach them with your Internet efforts.

Remember also that others besides customers will be looking at your site—suppliers, members of the press, potential employees, investors, and banks, even competitors. You may want to have specific sections on your Web site addressing the needs of each group (with the notable exception of your competitors).

Web sites need to engage—they should not be simply uploads of traditional marketing materials.

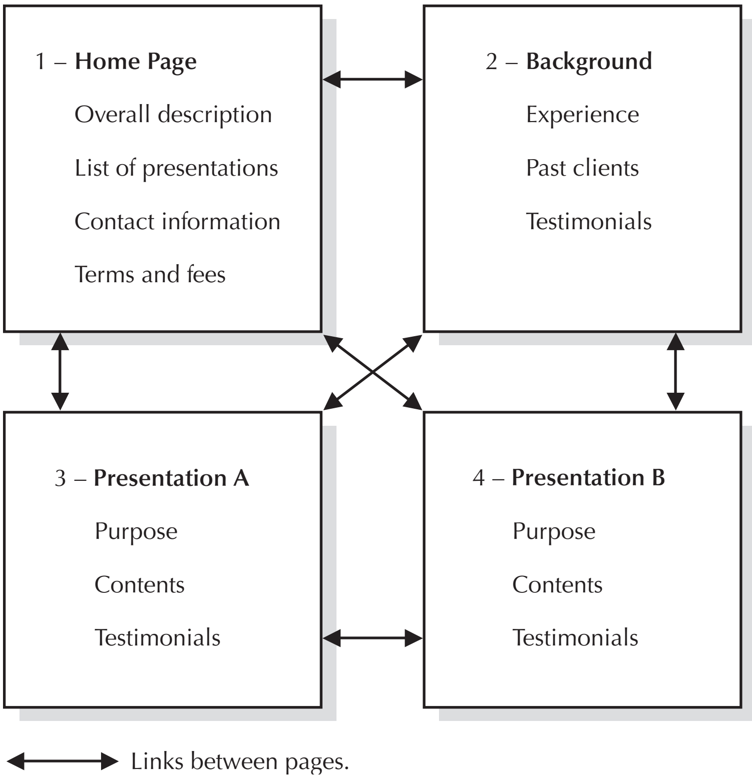
Building a Web Site

You first need to consider what you hope your Web site will accomplish. Usually, it is a good idea to start simply—perhaps just providing information to your customers. Later you can add more capabilities.

You can rough out the contents of your Web site by developing draft pages. For example, suppose you have a small business where you give presentations on selling techniques to sales representatives. The four sample pages in Exhibit 24.1 include a home page, a page with your credentials, then two pages that each describe one of your presentations. As you add more presentations to your portfolio, you can simply add more descriptive pages to your Web site. At some point, you might also add video clips of you presenting to each of the pages that describe your presentations. You need to think about how the pages should link to each other and how your visitors will navigate the site. For example, you probably want to make it possible for a visitor to reach any page on the site from any other, as shown in Exhibit 24.1.

Unless you are very comfortable and capable with Web site software, you should hire someone to build the site for you. As you would with any supplier, you should consider at least three possible site builders. Look at their work on the Internet—they should be proud of it—and of course, contact their references. You should also be sure that you own the Web site that they construct for you as a "work for hire."

Exhibit 24.1 Web Site Construction—Speaker Example



What Makes a Web Site Successful

Your Web site should have the following characteristics:

- *Be easy to find:* Choose a domain name that most people would think of if they were trying to find you and one that is easy to remember. Manage your positioning on search engines.
- *Download quickly:* Most Internet users are impatient, and if a site does not download in a matter of seconds, they may move on.
- *Be inviting:* The home page needs to be attention getting. Look at other Web sites—inviting and not inviting—to stimulate your ideas.
- *Provide comprehensive content:* Information on the site should cover all the areas of interest to the target customer.

- *Have the right tone:* Information should be presented without the spin or hard sell present in advertisements.
- *Be engaging (be "sticky"):* The contents should be kept fresh and in-depth. If possible, the information provided should be tailored to the visitor's needs and interests and be interactive. If appropriate, activities that appeal to your visitors (for example, contests, games, surveys) should be built into the site.
- *Create buzz (be "viral"):* If you can get your visitors to recommend your site to others and send them your link, then your Web site takes on a life of its own.
- *Be easy to navigate:* Information the customers need most should be easy to find and access. Moving from one part of the Web site to another should not require much time. Waiting time on the Internet is magnified in your customers' perceptions and can seem interminable to them.
- *Be personal:* The visitor to your Web site should feel like a member of a community. If feasible, there should be opportunity for interaction and communication. Be sure to make your privacy policy clear.
- *Support your product or service market strategies:* The messages on your Web site should be consistent with your positioning, and the objectives for your customers should fit in with your overall marketing objectives.

Web Site Effort

To evaluate your Web site, you can set up a counter to determine the number of visitors; you can also obtain other measures of their visits to your site. You can even include a survey focusing on your customers' attitudes and behaviors.

However, the real measure of the impact of your site is how it helps you find and obtain long-term customers (Exhibit 24.2). You might include a code word or number and provide a discount or small premium to those who mention the code word or number when they contact you or order from you to allow you to credit certain orders or customers to your Web site efforts. Then you can develop a measure of the return you receive much like the way returns were estimated for promotions (see Chapter 21) and public relations (see Chapter 23).

For example, suppose a speaker obtained 40 leads from their Web site, of whom 5 percent, or 2, eventually became clients (Exhibit 24.2). If an average client was worth $20,000 and the Web site cost $2,000, then the speaker received a net return of $38,000 on the Web site.

Exhibit 24.2 Estimating Web Site Results—Speaker Example

Web Site	Number of Potential Customer Contacts due to Web Site	Percentage of Contacts Who Become Long-Term Customers	Number Who Become Long-Term Customers	Value of Long-Term Customer	Value of New Long-Term Customers	Cost of Web Site	Profit (Loss) of Web Site
Inquiries from Web Site	40	5%	2	$20,000	$40,000	$2,000	$ 38,000

Source: "Arrow Guide—Internet Marketing Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

E-mail

E-mail can have objectives similar to those for advertising. E-mail marketing has some of the properties of direct-mail advertising, such as immediacy. However, e-mails have special characteristics, such as the ability to tailor a message and the ability to facilitate a response from the target customer.

E-mails can be announcements or calls to action for your customers. You can also use e-mail to provide your customers with a newsletter like the one described in Chapter 23 on public relations.

What Makes a Successful E-Mail

Your e-mails should:

- *Be targeted.* Don't be seen as a spammer.
- *Be engaging.* The subject line and the opening line of the message should intrigue your recipients.
- *Have the appropriate tone.* No outrageous claims. No smiley faces. No all-caps text or screaming.
- *Provide value to the recipient.* All customers need reasons for actions including why they should read your e-mail message.
- *Be consistent with your positioning.* Provide the recipient a reason to take action.
- *Allow replies.* Respond in a timely way.
- *Make clear your privacy policy* to encourage replies.

Finally, write your e-mails as if everyone in the world might see their contents—it is possible that they will.

E-mail Effort

You should keep track of what happens as a result of your e-mail messages. In particular, you would like to know how many leads came from which messages and how many of those leads you were able to convert to long-term customers. The calculations would be similar to those in Exhibit 24.2.

Internet Advertising

Banner ads are not viewed with much favor these days. People can delete them very quickly, and they do. If you are going to place ads on the Internet, they need to be *sticky* and *viral.*

Sticky means that people will want to read them and pursue their links. That means you need to include value in your ads, such as customer advice or time-limited discounts. *Viral* means they will want to send them to others. That means whatever value you put in your ads must be seen by the recipient of your ad as worthwhile to pass along to others—perhaps an interesting news item or contest, or a special short-term offer.

Blogs

Blogs are informal communications among you, your customers, your employees, and anyone else who might be interested. They are opportunities to encourage word-of-mouth for your products, services, and brands, and develop relationships with your customers on a personal level.

Blogs can:

- Develop a community related to your products or services.
- Make information available on your products or services, including advice on using them.
- Provide an opportunity for customer feedback about your products or services.
- Allow you to interact with your customers.
- Create buzz.

What Makes a Successful Blog

Because blogs are relatively uncontrolled, you may be apprehensive about using them. However, it is exactly that lack of control that makes blogs credible, leads to their impact on your customers and potential customers, and helps create buzz.

Your blog needs to have the following characteristics:

- *Easy to find:* Preferably, it should have a name that is descriptive and stimulating. Just as with a Web site, it should be easy to remember.
- *Engaging:* Your graphic design should involve your visitors but should not be a distraction.
- *Uninhibited (within reason):* Resist the urge to overmanage the contents. If all postings are edited for content, you run the risk of losing the freshness and spontaneity that is expected of blogs. However, it is acceptable to have rules such as being truthful and accurate, and not being insulting.
- *Updated often:* Post new material regularly; otherwise, visitors will stop coming around. Use RSS (Really Simple Syndication) feeds so others will know when you post new material.
- *Content rich:* Include advice, issues, information—anything that will involve your visitors and make their visit worthwhile.

Blog Effort

Blogs represent an enormous opportunity to get close to your customers. Be careful that you do not get too greedy and try to sell too aggressively. As the relationships with your customers develop, sales will follow. Calculations such as those in Exhibit 24.2 can also be performed for your blog efforts. Remember that you can ask your blog visitors for their thoughts on your products and services. You may find their comments invaluable as guidance to how to design your product or service. In addition, the trust you show them may be reflected in the trust they show you.

Social Media

Social networking media (in addition to blogs) present a variety of ways you can develop a relationship with your customers or potential customers. They include MySpace, Facebook, Friendster, Gather, Classmates, LinkedIn, Xanga, Squidoo, Twitter, Orkut, Bebo, Ning, del.icio.us, Second Life, Flickr, and YouTube, and by the time this book is published, probably another dozen new media may have appeared (and perhaps others disappeared).

The numbers are overwhelming. MySpace has upward of 200 million members, whereas Facebook has more than 100 million devotees, and 60 percent of them log on to the site at least once a day. More than 65,000 videos are uploaded on YouTube daily.[3,4] In 2008, the five brands most often

Celebrity Apprentice: Social Media

Apprentice Blog.
Photo courtesy of The Trump Organization.

During episodes of *The Celebrity Apprentice* reality show, participants were expected to show their leadership qualities as they were challenged with various tasks. The final task was to run a charity auction and concert event. The show raised more than $1 million for charity and provided charities with much-valued exposure.

Trump University enhanced the experience of viewing *The Celebrity Apprentice* through comments by Donald J. Trump on the Trump Blog and use of the Trump University Facebook fan page and Trump University's Twitter account. A Trump University faculty member—a former *Apprentice* winner—provided weekly comments on the lessons learned. All viewers were invited to take a quiz, The Trump Apprentice Challenge, to see if they have leadership qualities and how they compare to Donald J. Trump. Viewers had many opportunities to provide their own comments, creating a dialog. These are examples of how to use social media to develop relationships with your customers.

mentioned on social media were iPhone, CNN, Apple, Disney, and Xbox.[5] (iPod was number 7, giving Apple three spots in the top 10.)

How Can You Market With Social Media?

The first rule of social media is *not* to think of using social media as *marketing*—at least not marketing in the traditional sense of developing communications so that they persuade the customer to buy. Harry Gold, founder of a social media consultancy, observes, "Social media is about socializing"[6] You use social media to join your customers in conversation and develop a relationship with them. Overt selling would not be effective.

You use social media to develop relationships with customers or potential customers.

All the experts on using social media provide the same advice: Try it. You will learn as you go. Join. Communicate. Participate. Initially, you ought to become familiar with the different types of media, not just what they are, but how they communicate—tone and content—and who is communicating with whom. Each of the media has its own voice. Find out what others—perhaps your competitors—are doing with these media.

Just like any strategy, your social media strategy should make clear the people with whom you want to develop a relationship. For example, there are sites named Dogster and Catster, for people interested in dogs and cats as you might guess. If you are a veterinarian or if you offer grooming services, you might want to become familiar with those media. Some media appeal to younger adults, some to older. Gather, for example, was developed for middle-aged adults, although given the size of their memberships, you can expect MySpace and Facebook also to reach a substantial number of middle-aged adults.

Think about what you have to say to people. If you are an expert in some area, such as repairing antique furniture, you might want to consider Squidoo, where experts provide one-page summaries of their knowledge and advice. Flickr provides you the opportunity to show photos that might intrigue others, whereas YouTube allows you the chance to show yourself or others in action. If you are a consultant who travels and provides presentations, Twitter allows others to keep track of where you are and, if convenient, perhaps leads to appointments with potential clients when they learn you are in town.

What Makes Social Media Successful

Similar to most other forms of marketing on the Internet, social media must connect to people. It must:

- Be authentic—others can tell when you are insincere. If you try to be other than you are, if (and when) people find out, it will not go well for you.
- Make it easy for people to find and contact you. Provide your addresses to people with whom you wish to develop a relationship.
- Communicate with others and reply to their messages. These media are called *social media* for a reason.
- Have content that people care about. Just like at a social function, the more interesting, entertaining, insightful you are, the more popular you will be.
- Keep your material fresh. If your material rarely changes, people will feel that they do not need to return or at least not return very often.
- Use lots of links. That is another way to provide value to your visitors.
- Be engaged!

Internet Marketing Strategy

Assembling your Internet marketing strategy follows the same process used in the earlier chapters for other communications approaches (Exhibit 24.3). Your objectives for your target customers who are Internet users are stated

Exhibit 24.3 Internet Marketing Strategy

Target Segment: ______________ Target Decision-Making Unit Member: ______________

Communications	Components	Time Period			
		1	2	3	4
Overall Internet marketing strategy	Objectives				
	Message				
	Effort				
Web site	Objectives				
	Message				
	Type				
	Effort				
E-mail	Objectives				
	Message				
	Type				
	Effort				
Advertisements	Objectives				
	Message				
	Type				
	Effort				
Blog	Objectives				
	Message				
	Type				
	Effort				
Other	Objectives				
	Message				
	Type				
	Effort				

Source: "Arrow Guide—Internet Marketing Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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over time and support the objectives for your overall product or service marketing strategy. Next, you would consider how your different Internet activities might help you achieve those objectives. It might be easiest to start that thinking with your Web site and what it might do for you. In particular, will your Web site be passive or will it be interactive?

Will customers be able to place orders on your Web site? The answers to these questions will lead to a statement of your Web site objectives. Then you might consider other Internet activities such as e-mails, blogs, and the various social media, and consider how they will help you attain your objectives. All these initiatives are interconnected, so be sure that your message is consistent throughout. Your efforts or expenditures should be sufficient for you to develop your Internet presence. Big budgets are *not* necessary to get big effects.

Conclusions

The targeting and interaction possible with Internet marketing have created enormous opportunities for marketers to develop relationships with their customers. As with any relationship, Internet relationships must be managed and should not be abused. Although the monetary cost of an e-mail contact is low, the time costs for the recipients are often perceived to be high. Respect for the customer must guide your Internet contacts.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

25

Pricing

Surveys have shown that marketing managers typically consider pricing to be the most difficult of the marketing mix to manage. When setting prices, managers often have the feeling that they have priced too low and "left something on the table." But they also often feel that they have priced too high and lost business because they did not price correctly. Making matters worse, many of the common ways prices are set almost ensure that pricing mistakes will be made.

You can price well. But to price well, you need to consider pricing systematically, and you need to understand how pricing works. That is what you will learn in this chapter.

Roles of Pricing

Pricing is difficult because of the many roles prices play:

- *Captures value:* Price generates return for the organization either through margin or demand, or both.
- *Covers costs:* If price is not sufficient to provide a contribution that covers costs, eventually the organization is out of business.
- *Affects top and bottom lines:* The price level determines the top line through price and unit demand, and affects the bottom line through contribution per unit and through total contribution.

- *Pressures competitors:* Pricing can be used to cut into competitors' cash flow, although you must be careful not to cut severely into your own cash flow.
- *Allocates:* In free-market economic systems, prices serve as signals for which activities should receive more resources. The same is true within organizations.
- *Communicates:* For some customers, higher prices signify higher performance on benefits and lower prices signify lower performance.
- *Attracts regulatory attention:* Pricing probably receives the most regulatory attention of any program in the marketing mix. When making a pricing decision, if you are in any doubt regarding the legal issues, you should always talk to an attorney.

Common Approaches to Pricing

The common approaches to pricing are comparatively simple and usually lead to prices that are too high or too low and do not secure the optimal financial return (see also Nagle & Hogan).[1]

Competitive Parity Pricing

With the competitive parity pricing approach, you simply match the prices of your competitors. The first problem is that you may ignite a price war, which no one will win except perhaps the customers. The second problem is that, if you price at the same level as a competitor, what are you suggesting to the customer? Often, the customer will assume the two offerings are the same and there is no need to compare them. If you have a strong position for your product or service, you want your customers to think and compare when they are making the purchase.

Target Return on Investment Pricing

The target return on investment (ROI) pricing approach can make sense in situations that are not open market. The process starts by defining a specific return desired for the investment being made. Given that target ROI, financial calculations are made to determine the price that would need to be charged. The main problem with this method is that the volume needs to be known before the price is set. In an open-market situation, price influences demand, and you cannot estimate demand without first knowing price. This same problem occurs with cost-plus pricing. The one area where target ROI pricing might be appropriate consists of contracts, such as certain government contracts, where agreement as to the volume purchased is made before the price is set, typically on the condition that a specific ROI be allowed.

Cost-Plus Pricing

The cost-plus pricing approach is quite common because it is very simple and does not require much thinking. Unfortunately, it can easily result in prices that are either too low or too high.

Cost-plus pricing begins with a demand estimate. Based on that demand estimate, average cost per unit is calculated. A markup is added to the average cost per unit, and that is the price.

The first problem is the same problem as with target ROI pricing, namely, that demand is being estimated without knowing price, which means

THE TRUMP EFFECT: TRUMP PARK AVENUE

Trump Park Avenue.

Photo credit: Ali Goldstein. Photo courtesy of The Trump Organization.

The legendary Hotel Delmonico, a fine example of New York's pre-war architecture, was converted into the Trump Park Avenue in 2005. The 120 ultra-luxury condominiums range from one to seven bedrooms and are described as having "solid oak floors and majestic crown moldings . . . opulent layouts and traditional New York City views." The kitchen and bathrooms make lavish use of marble and the doorknobs are hand-crafted Italian brass. The penthouse has two outdoor terraces, a double staircase, and a huge space for entertaining.

The residents' daily needs are served by an attentive staff, including 24-hour hotel-style concierge service. The building has a fitness center and valet/laundry service, and is wired for advanced telecommunications.

Price per square foot on the average is nearly 10 percent above comparables in the area.

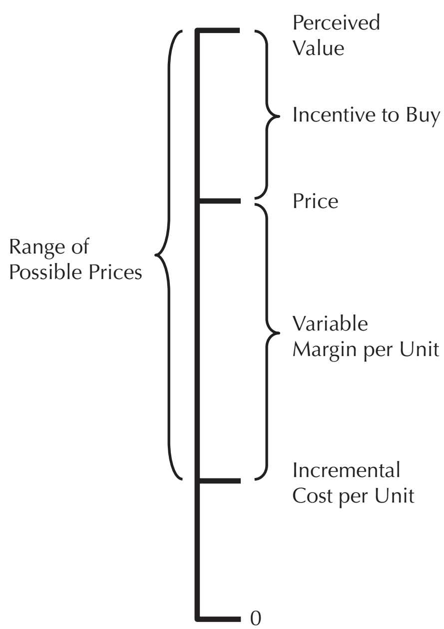
Source: Linneman Associates, "The Trump Organization Value-Added Market Study," July, 2007; website, The Trump Organization.

that the impact of price on demand is assumed to be nil. The second problem is that average cost is often computed with allocated overhead costs (also known as *indirect costs*), which means that how a company allocates its overhead is determining its pricing. Often, the person doing that allocation is the most removed from the customer. The third problem is that some people seem to believe that the markup percentage is guaranteed profit per unit. Unfortunately, that is true only if the organization sells exactly the number of units assumed when the price was set. If fewer units are sold, the profit per unit may be lower than the markup profit and could easily be negative. Of course, if more units are sold, the profit would be higher than the markup profit. The difficulty is not knowing which events will occur.

How Price Works

The ceiling on your price is perceived value—the maximum the target customer will pay for your product or service. The floor on your price is the incremental cost per unit. Between those two values is the range of possible prices you can charge (Exhibit 25.1).

Exhibit 25.1 Determinants of Price



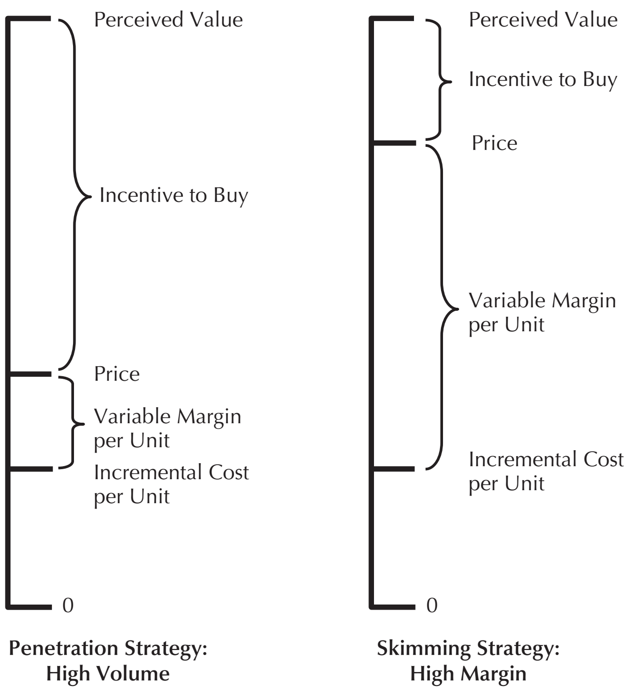
Source: "Arrow Guide—Pricing Analysis," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Where you price determines two quantities: your margin per unit and the incentive for the customer to buy. Your variable margin per unit is the difference between your price and your incremental cost per unit. That is how much incremental profit you make for each unit of your product or service sold. The incentive for your customer to buy is the difference between the perceived value and your price. The larger the incentive, the more likely the customer is to buy. To show how all these elements work, consider two different pricing strategies: penetration and skimming (Exhibit 25.2) (see also Sexton).[2]

In a *penetration strategy*, you set price low. That yields a low unit margin but creates a high incentive for the customer to purchase and allows you to penetrate a market quickly.

In a *skimming strategy*, you set price high. Your unit margin is now high, but you have left the customer with very little incentive to buy, so your sales growth will be slow—coming only from those customers willing to pay the high price.

Exhibit 25.2 Pricing Strategies



Source: Don Sexton, "Pricing, Perceived Value, and Communications," *The Advertiser,* New York, NY, March-April, 2006. Used here with permission.

Pricing is a trade-off between how much of the difference between perceived value and cost per unit you will keep for yourself in the form of margin and how much will you give to your customer in the form of the incentive to buy.

VALUE/COST PRICING

Value/Cost Pricing is an approach to pricing I developed that maximizes contribution by managing the trade-off between unit margin and incentive to the customer. It is not simpler to apply than the common approaches to pricing described earlier, but it does not have their weaknesses. Value/Cost Pricing makes sense conceptually and can give you financial returns superior to those from the common approaches such as cost-plus pricing.

Value/Cost Pricing is an approach to pricing I developed that maximizes contribution by managing the trade-off between unit margin and incentive to the customer.

Value/Cost Pricing consists of six steps:

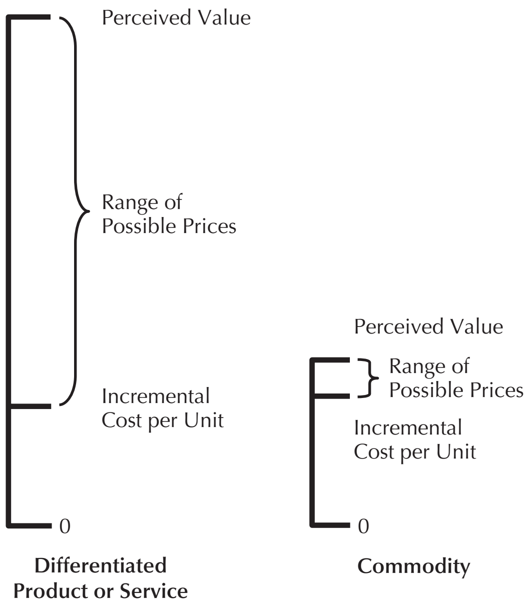
1. Estimate perceived value.
2. Determine incremental cost per unit.
3. Set objectives for overall contribution.
4. Forecast likely actions of competitors.
5. Develop tentative product/market strategy, including tentative price.
6. Evaluate financial consequences of price.

Estimate Perceived Value

Perceived value is the ceiling on your price and should be the starting point for setting your price. Perceived value should be well above your unit costs. If it is not, then your product or service is what is known as a *commodity* and you may have very little latitude as to the price you can charge (Exhibit 25.3).

There are many ways to estimate perceived value, such as the value-in-use, direct customer response, and indirect customer response methods discussed in Chapter 5. If you cannot use some of the Chapter 5 methods because of budget issues or because of a lack of time, you should still find it very useful

Exhibit 25.3 Types of Products



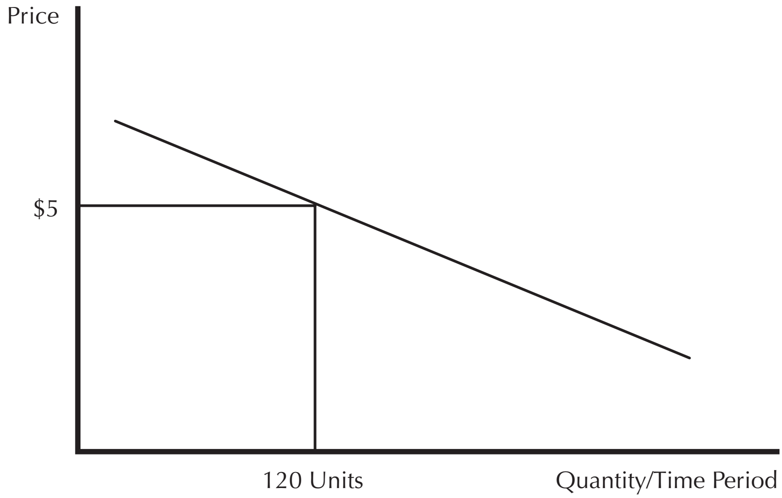
Source: Don Sexton, "Pricing, Perceived Value, and Communications," *The Advertiser,* March-April, 2006. Used here with permission.

to estimate perceived value. One inexpensive way is to discuss perceived value with some trusted customers. Another is to examine current prices in the marketplace for products and services similar to your own—or even prices for products and services either inferior or superior to your own—then make subjective estimates of what perceived value might be. Such ad hoc methods will not have the statistical rigor the Chapter 5 methods provide but will still allow you to bring thinking about perceived value into the pricing process. One final suggestion: When in doubt about perceived value, choose a higher value. It is always easier to lower price than to raise it.

Determine Incremental Cost per Unit

Incremental cost per unit is the floor on your price. You cannot price below your unit costs for any length of time and expect to stay in business. Surprisingly, managers in many organizations do not seem to know the incremental cost per unit of their product or service. If that cost is known, organizations do not seem to do an effective job of communicating it to their managers. I frequently conduct programs on measuring and managing marketing ROI,

Exhibit 25.4 Forecast Likely Actions of Competition



Source: "Arrow Guide—Value/Cost™ Pricing," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

with hundreds of managers in many countries, and few of them say that they know the incremental cost per unit of their product or service.

If incremental cost per unit is not known, then you might use average cost per unit in developing pricing, but keep in mind that average cost per unit will be higher than incremental cost per unit, and in some industries, such as service industries, the disparity between average and incremental costs per unit may be extremely large.

Set Objectives for Overall Contribution

Typical financial objectives are unit sales and margin per unit (return on sales). Unit sales objectives are most likely achieved with low prices, and return on sales objectives are most likely achieved with high prices. In fact, if you use contribution as your objective, you are considering both the unit sales objective and the margin objective:

Contribution = Unit sales × Variable margin per unit

A demand curve shows the relationship between your price and the units that would be sold at that price (Exhibit 25.4). Most managers do not know the demand curve for their product or service, so it may be necessary to sketch out your demand curve by trying out different possible prices and, for each, estimating the unit sales. In turn, that allows you to make estimates of the contribution from that price. In this step of the pricing process, it is necessary to make at least a rough determination of the contribution you hope to receive from the product or service.

Forecast Likely Actions of Competitors

Obviously, you must price with regard to what competitors might do. That does not mean you need to price at the same level as competitors. It does mean that your price should be set with some consideration given to what you expect your competitors to do.

Obviously, you must price with regard to what competitors might do.

If competitors seem likely to price low, you must be concerned about a price war, and if you do not plan to follow with a low price, then you must develop a strategy that focuses on target markets or customers who will accept higher prices or includes a product or service with added qualities for which members of the target market would be willing to pay higher prices.

Develop Tentative Product/Market Strategy, Including Tentative Price

The tentative product/market strategy should include all the components of a product/market strategy: target market, positioning, and programs (such as advertising and distribution).

A tentative price is part of the tentative product/market strategy. Given a tentative product/market strategy, it is now possible to forecast unit sales. If you will recall, inability to make a reasonable unit sales forecast was a major weakness of both target ROI pricing and cost-plus pricing.

Evaluate Financial Consequences of Price

When you have a unit sales forecast, you can evaluate the *financial impact* of your tentative price. (See Chapter 35 for more on Financial Analysis and

Chapter 37 for more on forecasting.) Your price must pass the following four tests:

1. Is price greater than the variable cost per unit? If not, we lose money on every sale!
2. Is estimated contribution greater than direct fixed costs? Direct fixed costs are those costs that would disappear if this product or service were not produced. If the contribution of the product or service is not greater than its direct fixed costs, the business is below what is called the *shutdown level.*
3. Is estimated contribution greater than direct fixed costs plus indirect fixed costs? Indirect fixed costs are also known as *overhead.* Typically, they are general to the organization and are allocated to specific products or services. If the contribution of the product or service is not sufficient to cover all fixed costs, then the business is below the *break-even level.*
4. Is estimated contribution greater than direct fixed costs plus indirect fixed costs plus target profit? *Target profit* is what you hope to obtain from the sales of this product or service. If the contribution of the product or service does not provide sufficient profit after all costs have been deducted, then you should challenge the use of this particular price.

Determining Price—Soap Example

Suppose you are selling a soap to 35- to 50-year-old women on the basis of its cleaning and moisturizing capabilities. You need to price it.

First, you need to get some idea of the perceived value for your soap. Where you can start is examining the prices of products you think are similar to yours. You will find the prices of high-end soaps to be most relevant because the low-end soaps will likely be well below their perceived values. If you think your soap is superior to the other soaps on the market, you may want to add a premium to the prices of those soaps to estimate the perceived value for your soap. If you have the budget and the time, you can also conduct some marketing research regarding perceived value as discussed in Chapter 5.

Once you have an idea of the ceiling for your price, you need to know the floor. You should know your incremental cost per bar of soap. Most likely it will consist of materials and labor. Your contribution objective is how much you hope to make from this venture. It should be enough to cover all your costs and leave enough profit so this business is an attractive use of your time.

To forecast competitors' actions, you start by making a list of those brands of soap you think might be closest to yours in the minds of your target customers. You decide which of them will be the most dangerous competitors to you. Then you forecast what you think they will do in the future—especially when they see you entering the market. They may ignore you or perhaps they might do a special promotion to try to make it difficult for you to come in to the market. You have to think through how their actions might cause you to change your pricing.

Now you are ready to put together a tentative product/market strategy, including price. It need not be as detailed as a final marketing plan. However, for two reasons, you do want to think about how much you might spend on communications to support your price. First, you need to decide how much you will spend to ensure the target customer values your product, and second, you need to know the amount of communications expenditures that have to be covered by the contribution of your product. Based on your tentative marketing strategy, you predict your unit sales. You may want to consider three sales forecasts: pessimistic, optimistic, and most likely. Then perform the four financial tests to determine whether your tentative price makes sense. If it does not, then repeat the process.

Assembling the Pricing Strategy

As competitive conditions change, you may need to change your pricing strategy. For example, over time, customers typically become shrewder and competitors become more aggressive. The worksheet in Exhibit 25.5 allows you to display your estimates as to how you think perceived value, incremental cost per unit, and competitor actions might change over time. You also need to keep in mind your capacity over time, because that will limit your sales at lower price levels. By examining some of the key drivers of price, you can consider your objectives over time and whether you wish to change them. In turn, that will provide a foundation for determining your general price level over time.

Exhibit 25.5 Pricing Strategy

Target Market: ______________________

	Time Period			
	1	**2**	**3**	**4**
Pricing strategy				
Objectives				
Perceived value				
Incremental cost per unit				
Competitors				
Capacity				

Source: "Arrow Guide—Value/Cost™ Pricing," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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CONCLUSIONS

You price to be rewarded for the value you are providing your customers. Sound pricing starts with perceived value. The role of costs in pricing is to veto prices that do not allow you to cover costs and make the profit you deserve and want. Costs alone should never be used to set prices. Perceived value and costs must be considered *together* when setting price.

For more on how price affects financial performance, see Sexton (2009).[3]

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

26

Distribution

You have a product, but unless you are able to sell it directly to your customers, you need to arrange distribution. Even if you have a service, such as a small inn or hotel, you may need to sell it through agents.

Distribution consists of others who sell your product or service such as wholesalers or retailers or agents. Resellers give you *access* to customers. Without them you have to find the customers yourself, and that can be expensive and time-consuming.

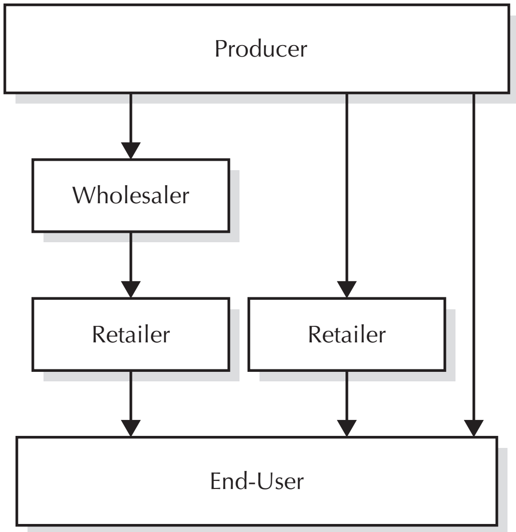
In this chapter you will learn how to develop a distribution strategy, including how to choose resellers and how to manage them. (For more information on distribution, see Coughlin, Anderson, Stern, & El-Ansary.[1])

Distribution Chains

Some products or services are sold directly to the end-user by the organization that produces them. These include many business-to-business products. However, many products and services are sold through *distribution chains* consisting of one or more layers of intermediaries or resellers (Exhibit 26.1).

These intermediaries fill two general functions: making the products or services available to their customers *(allocating)*, and providing their

Exhibit 26.1 Distribution Chains



Source: "Arrow Guide—Distribution Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

customers with assortments of products and services that make their shopping easier *(assorting)*. For example, you may go to a Farmer's Market and buy vegetables directly from the person who raised them. But the convenience of shopping at a supermarket with a huge variety of items is hard to match.

Retailers sell directly to end-users who are typically consumers. Wholesalers may sell to retailers or, especially with industrial products and services, to relatively large end-users. There may be several levels of wholesalers in a distribution channel. Producers may also sell directly to end-users through their sales force and also through the Internet.

Distribution Strategy

Your distribution strategy is focused on the customers in your target market and consists of four components (Exhibit 26.2):

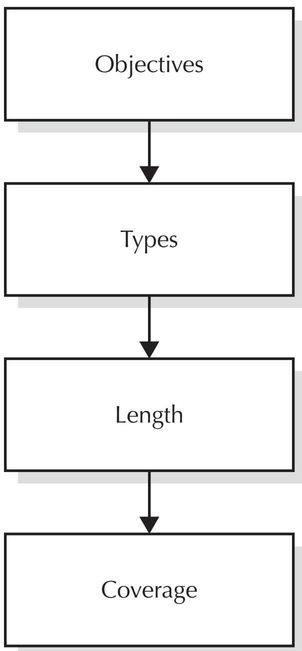
Objectives: Your expectations regarding margin and sales over time
Type: Size of reseller and their range of assortment

Selective Distribution: Donald J. Trump Signature Collection® and Federated Department Stores

For the launch of the Donald J. Trump Signature Collection® of men's clothing, including suits, shirts, and neckwear, Federated was selected as the exclusive retailer. The size and composition of their market coverage made them a "good fit" for the Donald J. Trump Signature Collection® marketing strategy.

Source: Press release, The Trump Organization, 2005.

Exhibit 26.2 Distribution Strategy Components



Source: "Arrow Guide—Distribution Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Levels: The number of levels of distribution required to efficiently reach your target customer
Coverage: How much of your market is covered by your resellers

Objectives

The return on a reseller's assets (inventory, facility) depends on both their sales turnover and their margin:

$$\frac{\text{Net Profits}}{\text{Assets}} = \frac{\text{Net sales}}{\text{Assets}} \times \frac{\text{Net Profits}}{\text{Net sales}}$$

$$\text{Return on Assets} = \text{Turnover} \times \text{Margin (Return on Sales)}$$

Resellers focus on turnover, margin, or both (Exhibit 26.3). For example, specialty stores tend to have higher margins and low turnover; discount stores have lower margins and high turnover.

Your objectives for your product or service may include sales or margin and should be reflected in your resellers' objectives. If margin per unit is more important to you, then you would likely select specialty resellers focused on a relatively narrow clientele, such as wine connoisseurs or audio aficionados. If unit sales are more important, then you would want to consider resellers with broad audiences who can give your sales an immediate boost.

Type

Retailers vary in size and assortment, and range from small specialty stores to very large specialty stores and from small variety stores to very large variety stores. Wholesalers may also vary but tend more to specialize in particular areas such as electrical supplies or textiles.

Your choice of type of reseller will depend on your capacity, your bargaining power, and on the shopping habits of your target customers.

The larger the reseller, the more exposure you will receive for your product or service. You need to coordinate your ability to handle volume with your distribution plans.

Exhibit 26.3 Types of Resellers

Source: Adapted from J. Barry Mason and Morris L. Mayer, *Modern Retailing: Theory and Practice,* Homewood, IL: BPI/Irwin, 1990. p.12.

For example, if you are producing a new soap but at the moment do not have large capacity, you would not be able to supply the needs of a large reseller and would likely need to start with smaller resellers. If you are trying to sell 100 copies of your handcrafted volume of poetry, you might find your local bookstore more appropriate than Barnes & Noble or Borders.

The size of reseller you can attract will also depend on your bargaining power. A large manufacturer or one with a powerful brand can likely gain entrée into any retailer they wish. However, a small start-up organization, such as a company producing a new health drink, may need to proceed much more slowly—beginning with a few specialty retailers perhaps, then gaining acceptance by wholesalers, and eventually dealing directly with retailers.

Perdue chicken supposedly started by distributing in specialty food stores in New York City until they established their brand reputation. Snapple beverages initially focused on the so-called cold channel—convenience stores and delicatessens—before winning shelf space in supermarkets—the warm channel.

Besides size, you need to think of the assortment of products or services a reseller provides their customers. The assortment is one of the main drivers for shoppers visiting them. You need to find resellers where your product or service "fits in"—that is, the customers visiting that reseller will be looking for what you are selling. For example, your health drink might fit in well at a store selling health foods but perhaps not as well in a liquor store.

Levels

The number of levels in the distribution channel will vary with the amount of contribution involved. Typically purchases producing large overall contributions, such as aircraft engines and large computer systems, will be sold through shorter distribution channels as it will be worthwhile to sell them directly.

Products or services that are complicated and require technical assistance will often be sold by the producer or by large wholesalers who possess the necessary technical expertise.

Products that are perishable must go through fewer levels of distribution simply for physical reasons. Products that are difficult to transport for whatever reason also would tend to be shipped through shorter distribution channels to minimize handling costs.

Products that go through longer distribution channels, then, tend to have lower prices, be simpler to understand, and are not perishable.

If you are a small business owner, the length of the distribution channel is not usually under your control. For large companies, it might be under their control.

Coverage

At any level of the distribution channel, you need to ask how wide do you want your market coverage to be. At one extreme is *intensive coverage*—many outlets. For example, Bennetton and Starbuck's utilize intensive coverage. *Selective coverage* means relatively fewer, more focused outlets. The extreme case of selective coverage is exclusive coverage—only one reseller in an area. Sometimes exclusivity is an additional benefit for products or services such as luxury items, restaurants, and clubs.

Choosing a Reseller

You may have alternative resellers from which to choose. Your choice criteria might include the following characteristics:

- *Product or service coverage.* Is your product or service a "good fit" with the assortment that the reseller carries?
- *Market coverage.* What proportion of the customers in your target market purchase from these resellers?
- *Market reputation.* Does the reseller have a well-known brand? If so, what does it stand for, and is their brand position consistent with yours?
- *Marketing and sales expertise.* Are they savvy in marketing and selling products or services such as yours?
- *Marketing and sales efforts.* Can you expect them to put effort into marketing and selling your products or services?
- *Facilities and inventory.* Are their facilities in good condition and can (and will) they stock sufficient inventory to support sales of your product?
- *Financial stability.* Can you expect them to continue in business?
- *Management ability.* Are their managers capable?
- *Management rapport.* Can you work with them?
- *Business objectives.* Are their business objectives for the product or service consistent with yours?
- *Willingness to be a partner.* Do they want to work with you?

How do you answer all these questions? You need to visit them, observe their operation, and talk with them. You should also talk with their customers. If possible, you should talk with some of their other suppliers, perhaps organizations supplying products that do not compete with your own.

Reseller Conflict

You should expect some conflict in your relationships with resellers. It is normal and often can be resolved. Three major areas of conflict concern objectives, areas of responsibility, and customers.

Alliances of any sort tend to be more stable the more the parties have similar objectives, and that holds for the producer/reseller relationship as well. If your prime objective is margin per unit, you should probably not be considering Wal-Mart as a partner. If sales growth is your prime objective, then they might be an excellent partner.

Areas of responsibility covers a lot: customer service, guarantees, advertising, inventory management, credit, etc. Responsibilities in these areas should be spelled out in the contract you have with the reseller. For example, who repairs or replaces defective products, including who pays for the repairs and replacements? Who decides advertising content, and who pays for the advertising?

Customers—whose customers are they? Yours or the resellers? You need to be clear with the reseller at the outset as to whom they can sell *and* to whom they cannot sell. For example, suppose that you have decided to sell your soap to hotels in your area. If you are using a retailer, can they also sell your product to those hotels? If you are not careful, you can end up competing with yourself.

Finally, keep in mind that your distributor is also your customer. You need to help them satisfy their needs (as long as you can do it at a profit). For example, Holly Farms tried to launch a fully cooked chicken, but the retailers initially would not stock it because it had a short shelf-life. Holly Farms listened to their retailers, improved the packaging, and their sales doubled.

Assembling the Distribution Strategy

You start with your target customer in your target market. How can you get your product or service to them? You need to find out where they currently buy products or services similar to yours. You may want to distribute your product or service in those outlets, but you might also decide to use a different method entirely.

Once you have decided on the general type of reseller to use, you need to refine your choice of reseller by considering your objectives. Your objectives will also help determine the market coverage you want.

Finally, you need to consider your distribution strategy over time. Your objectives may change and you may need to plan for your distribution to change as well.

Exhibit 26.4 Distribution Strategy

Target market____________________

Distribution	Components	Time Period			
		1	2	3	4
Overall Distribution Strategy	Objectives				
	Types				
	Coverage				
Specialty Store	Objectives				
	Coverage				
Convenience Store	Objectives				
	Coverage				
Discount Store	Objectives				
	Coverage				
Wholesaler	Objectives				
	Coverage				
Other Reseller	Objectives				
	Coverage				

Source: "Arrow Guide—Distribution Decisions," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Conclusions

If you do not sell your product or service directly to your customers, then you need to develop a distribution strategy. You must find resellers who have similar objectives to yours and with whom you can work. They have access to customers, and you have a worthwhile product or service. That should make for an effective partnership.

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

27

Guerrilla Marketing

You probably do not have the marketing budgets of Toyota or Procter & Gamble or Nokia. In fact, when you think of all the companies in the world, few organizations command those amounts of resources. Guerrilla marketing is about marketing without a large budget.

When you do not have a huge budget, do the principles of marketing still apply? Of course they do. Maybe even more so because smaller organizations with limited resources cannot afford to squander their resources without a strategy. And they cannot afford to make foolish mistakes. The marketing principles still work—you just need to be more creative and perhaps more careful about how you put them into practice.

When you do not have a huge budget, do the principles of marketing still apply? Of course they do.

Many small businesses fail because they do not understand the power of the basic principles of a marketing strategy: *target* your market and *position* your product or service to be superior to the products or services of your competitors.

Concentrating the Guerrilla Marketing Strategy

Your guerrilla marketing strategy *must* concentrate your efforts on a specific target market. (For more examples, see Levinson.[1]) Without a clear target market, smaller businesses do not concentrate their efforts on specific markets. They may end up spreading their resources too thin. Instead of focusing on target customers and building loyalty among them, they obtain occasional purchases from customers who know them only slightly and have no reason to return.

Coordinating the Guerrilla Marketing Strategy

Your guerrilla marketing strategy must coordinate all of your efforts to support the positioning of your product or service. Without clear positioning, it is difficult to communicate with your customers and build your brand position. The temptation is to tell customers every good thing possible about your product or service. The consequence is that your customers may remember very little about what is good about your product or service that is important to them.

Communicating the Guerrilla Marketing Strategy

Guerrilla marketing starts with a clear statement of your target market and a clear statement of the positioning of your product or service. Your staff must have a clear understanding of your target market so their actions will support your strategy. For concentration and coordination to occur, the marketing strategy must be communicated to all those in your organization who will be involved in implementing your marketing strategy. The guerrilla marketing strategy can be communicated very simply—with *just one page* consisting of the answers to the questions in the worksheet in Exhibit 27.1.

Guerrilla marketing starts with a clear statement of your target market and a clear statement of the positioning of your product or service.

Guerrilla Marketing Strategy—Bookstore

Suppose you run a small bookstore on the main street of your town. You have a long and abiding interest in books, and you enjoy sharing your passion with your customers. Your target market consists of people with similar views on reading and books. You try to focus your communications on the individual reader.

Exhibit 27.1 Guerrilla Marketing Strategy Summary

What customers do we want? (Our target market)	People 30 and older interested in significant fiction and nonfiction
To whom, specifically, do we need to communicate? (Our target decision-making unit member)	The individual reader
What competitor do we want to beat? (Our target competitor)	Outlets of large chain bookstores
Why should customers buy from us? (Our benefit advantage)	Personal attention and advice
Why will we win? (Our competitive advantage)	Personal interest in our customers

Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Your competitors are large bookstores that are part of national chains. You feel that you can differentiate yourself from your competitors through your personal knowledge of your customers and your ability to advise them about books that you believe will be of high interest to them. That level of personal attention will be difficult for a large store to match.

Guerrilla Target Market

Your target market consists of those customers with whom you wish to do business. Ideally, you need to describe them with demographics or some other basis that allows you to find them, talk to them, and persuade them to do business with your store.

For example, a family restaurant should focus their efforts on families. That sounds reasonable and also simple. However, that assumption has tremendous implications. A focus on families will affect the menu, the chef, the waitstaff, the décor, and that's just the start. A family focus will also guide how you price, where you advertise, and whether you might sponsor a youth soccer team.

Guerrilla Positioning

Positioning is crucial. Positioning is how you distinguish yourself from your competitors. It is how you might distinguish your family restaurant from other family restaurants. The difference might be what's on the menu, what's on the walls, and how the waitstaff sing "Happy Birthday." One family restaurant in my neighborhood distinguishes their establishment by serving large colorful fruit drinks specially for children, whereas another has chocolate cereal as an entrée on their children's menu.

You should be able to defend your positioning. It should be difficult for another restaurant to copy. Perhaps your fruit drinks have a secret recipe or your waitstaff sing a special version of "Happy Birthday."

Positioning includes specifying your target competitors. If you have a small organization, do not go head-to-head with large competitors. Instead, try to find out what you can do better than they can. Generally, large organizations use "fixed cost" weapons because they can spread those costs over more customers. For example, a restaurant chain may use a promotion featuring a round-the-world trip as a prize. Smaller restaurants are typically better off using "variable cost" weapons such as personalized service—for example, tailoring dishes for finicky children.

If you can, tailor your guerrilla marketing position at the level of individuals. For many years, McDonald's and Burger King positioned themselves for children, whereas Wendy's positioned themselves for adults. Those different choices affected their menus, their promotions, and their advertising, and made their strategies more precise and more effective.

Guerrilla Branding

What is the secret of building a strong brand? Consistency—over time and over everything that you do. That is true for large and for small organizations.

Once you have decided on the positioning of your product or service, then you define the brand position—for what should the product or service be known? It should be something the target customer wants—a benefit or a need—and something that you do well. Then every contact you have with the target customer should repeat that brand position. The name, the logo, the tagline—all should reinforce that brand position.

Suggestions

- Select a name that communicates what you offer to your customers. Your name need not be fancy but should be distinctive. For example, instead of Dr. J. J. Jones, a children's dentist might be known as "The Painless Dentist" or "The Smile Doctor."
- Develop a tagline. For example, "where teeth are happy."

- Keep the typeface the same in all your communications.
- Choose colors that you keep the same in all your communications.
- Develop a logo. It need not be fancy, but it should be easy to recognize (like a tooth or a smile).

Guerrilla Service

Much of the satisfaction of your customers depends on the interactions between them and your people.

Suggestions

- Be sure that your employees who are in touch with your customers are polite, courteous, and friendly—and have sufficient training, especially regarding listening to customers' problems.
- Keep your business space clean and neat—your employees also should appear clean and neat.
- Be open for business when your customers are available to do business with you.
- Add small touches that people appreciate and remember, such as cookies or doughnuts in your waiting area and fresh coffee, including decaffeinated.

Guerrilla Communications

Guerrilla communications are precisely targeted. If they are not targeted, money is being wasted on eyeballs or ears that are not connected to the target customers. Guerrilla communications do not overwhelm with volume—they achieve their goals through selectivity.

Guerrilla communications clearly state your position—your key benefits—and how to contact you. Find out where your customers get information—bulletin boards, radio stations, mailers, wherever. Then try to utilize those communications channels.

Guerrilla Advertising

Keep in mind that there are a great variety of ways to advertise—many that can be much more precisely targeted than the mass media.

Suggestions

- Make your signs work for you—they should be easy to see, make clear what you do, and show your contact information. "Reliable Plumbing—no water worries. Telephone: (area code) your number."
- Print one-page advertisements that you can use as mailers, circulars, signs, mini-posters, inserts, and handouts.
- Place circulars on local bulletin boards.
- Your business cards are small billboards—they should look good, perhaps multiple colors or photos. They can also do much more than providing your name and contact information. They can provide reasons why customers should buy from you, and they can show how to find your establishment. Use both sides of the card if necessary.
- Your stationery should also be well designed, include your logo and tagline, and communicate what you do that your customers should want.
- Use unusual media. Consider banners, sidewalk displays, searchlights, skywriting, or tethered balloons or blimps.
- Send customers or clients personal messages—on holidays, their birthdays or anniversaries, or on other occasions (such as when they need a medical checkup or when their furnace needs to be cleaned). Send them thank-you notes for their business.
- Contact your customers or clients with newsletters. They should have the same look as all your other communications and contain information of value. For example, a hardware store might provide do-it-yourself advice and a bookstore might give previews of new releases.
- Send videos. Many service businesses, for example, summer camps and bands, send these out to give customers a feel for the experiences they provide.
- Use Yellow Page ads—consider what your competitors' ads look like, then decide on the size of your ad and the use of color or photos to make it stand out. Provide as much information in the ad as possible, including why a customer should buy from you and how to contact you or find your business.
- If you would like to use mass media such as print or broadcast advertising, keep in mind that some print and broadcast advertising can be purchased as *remnants*, which are advertising spaces or times that are unsold and can be purchased at the last minute at relatively low rates.
- Be sure that if you run ads, you run them on days you are open.

Guerrilla Selling

Selling is like hand-to-hand combat. You need to give your salespeople all the help they can get.

Suggestions

- Provide training for your people in basic selling skills and also in knowledge of your products or services.
- Develop circulars, brochures, or other material for your salespeople to hand out—be sure your contact information and an order blank are included.
- Inform your salespeople on which products or services you want them to focus, either because they are more profitable or for some other strategic reason.
- Use a commission compensation system for maximum effort.

Guerrilla Promotions

All promotions should have themes that amplify your brand positioning.

Suggestions

- Use contests. Perhaps develop relationships with other local businesses and trade products or services to use as prizes. An optician might give away eyeglass frames, a garage an oil change, or a bookstore a new mystery novel.
- Organize contests where the winner is someone who says something nice about you, "Why I like . . . " You can use these testimonials in ads (with permission) and, if you do, use the names of the people providing the endorsements as many people believe that makes testimonials more effective. Try to arrange the contest so that people come to your store to enter and provide their contact information. Have several winners. Remember that winners tend to become steady customers.
- Hand out inexpensive items that will remind customers and potential customers of your products or services. Examples include T-shirts, caps, or paperweights, but perhaps you can be more creative. A therapist gave out rubber balls to squeeze to "relieve stress." Lexus

dealers in Germany give their customers surprise gifts such as bottles of wine or elegant clocks.

- Develop customer groups. Shisheido has a club in Japan for millions of their customers who receive custom magazines and various offers. Huggies has sent personalized letters and magazines on baby care to women who are pregnant. In France, Nestlé has provided parents 24-hour access to nutritionists specializing in child care. You can develop the same relationships with your customers. One local store selling children's clothing uses mailing lists of their customers and potential customers to support a group interested in parenting issues.

Guerrilla Public Relations

Public relations is the quintessential guerrilla communications—low cost, high impact.

Suggestions

- Develop a conversational relationship with your local newspaper and radio station reporters so that they will consider your ideas for news items.
- Write short, content-rich press releases and direct them to reporters *before* their deadlines. Include photos if they are accepted.
- Print reprints of articles about your business and use them as mailers or circulars.
- Be part of the community. Show the work of local artists. Contribute to auctions of local not-for-profit organizations.
- Join local associations—but do not appear to have joined only for sales contacts.
- Give talks for local associations.

Guerrilla Internet

Remember that all communications with customers should have the same look and feel, including your Web site and e-mail messages. When you have a small budget, it is especially important that all communications reinforce each other.

Suggestions

- Set up a Web site that communicates your positioning and includes your contact information, including an easy-to-use e-mail service.
- Put (limited use) coupons and other offers on your Web site.
- E-mail a newsletter to your customers and prospective customers.
- Use chat rooms.
- Set up a blog.
- Get listed on free directories.
- Manage your search engine placement.
- Utilize social media.

Guerrilla Pricing

Small organizations are generally more flexible than larger ones. They can more easily tailor product or services to their customers, including price. That does not mean small organizations should necessarily compete on price with large organizations. In a price war between a large organization and a small organization, it should not be difficult to guess the winner. What is true, however, is price discounts are more expensive for a large organization to maintain because they may have to offer the same discount to all their customers. A discount offered to thousands of customers can add up to a rather large expense. The small organization may be able to tailor prices because they are tailoring their offering to different customers.

Suggestions

- *Know your competitors' prices:* Do not price exactly the same as your competitors do. You want your customers or prospective customers to think of both your value and your price, and not focus only on price.
- *Use coupons:* Often coupons can build trial or traffic for you. For example, restaurants often provide two-for-one meal coupons and health clubs might give a first session for free. (Note: Coupons should have a triangle shape so they can be cut easily from a page.) Your contact information should be both on the coupon and the page, so what remains after the coupon is gone still functions as your ad.
- *Use gift certificates:* They can also build trial and traffic.

- *Target your pricing:* If feasible, target your pricing with discounts for your customers who buy more.
- *Consider simplifying your pricing:* For example, use the approach of a salad bar where the customers make their own salad, then pay for it by weight regardless of the ingredients.
- *Be careful* that you don't use low price to offset poor product or service performance.

Guerrilla Marketing Research

Guerrilla organizations are usually close to their customers. Talk to them; get to know their concerns and needs.

Suggestions

- Collect the contact information of customers and prospective customers wherever and whenever you can. For example, ask people to leave their business cards in a bowl and each month select cards for winners of some product or service.
- Trade leads with other businesses with which your customers are likely to do business. For example, a caterer might trade wedding contacts with a florist.
- Try to get leads from your own customers by offering them discounts or premiums for the names of potential customers.
- Keep track of where your leads come from—so you can target your future efforts.
- During transactions, try to find out how satisfied your customers are with your products or services and see whether they have any suggestions.
- Ask friends how they are treated when they visit your place of business. On occasion, call your business to see how you are treated on the telephone.
- Organize informal focus groups. Invite five or six of your customers or potential customers to discuss your products or services over coffee or snacks.
- Conduct a mail survey or use students as interviewers.
- Determine the value of your customers. Estimate the average sales per customers per year and your profit on those sales. Be sure your employees know the value of each of your customers.

Conclusions

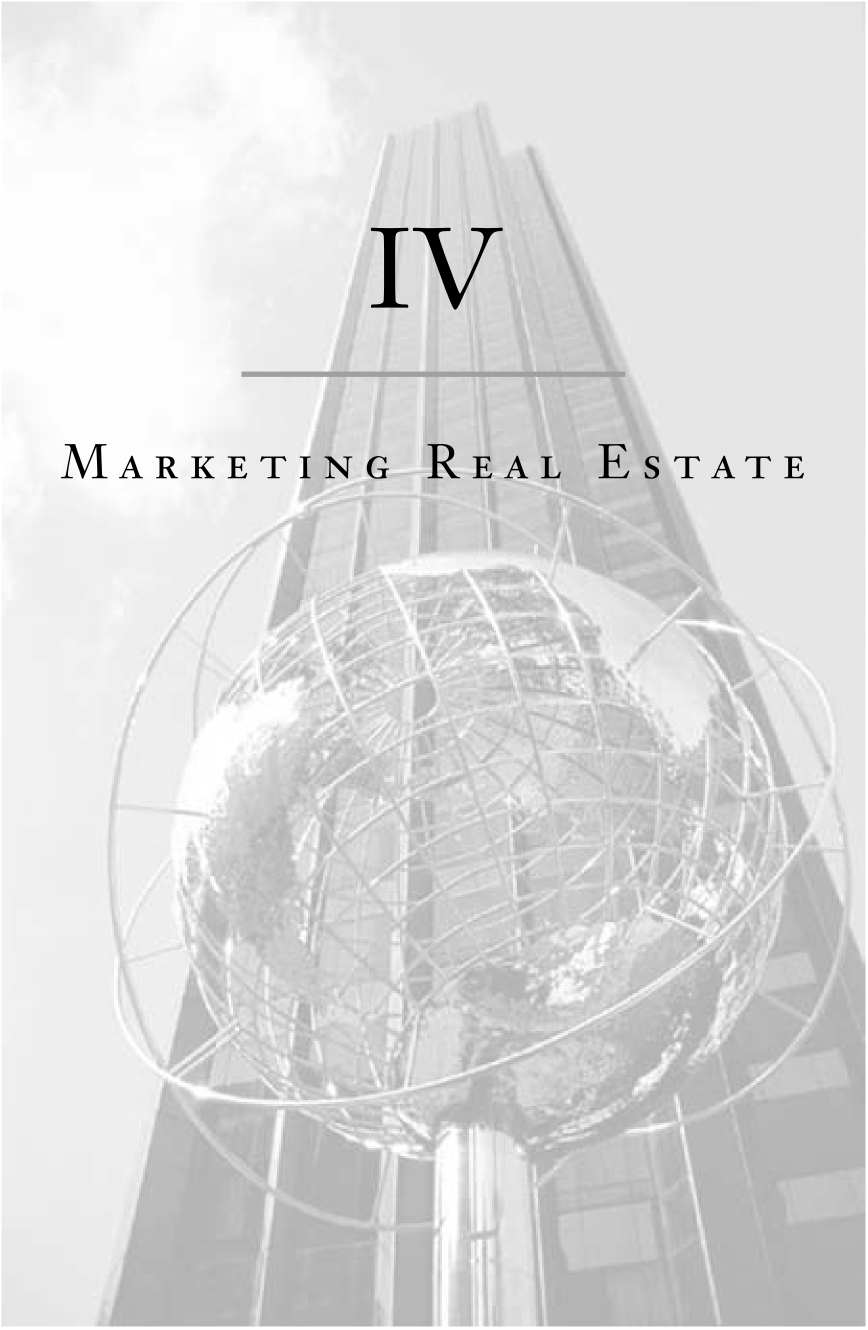
Marketing does not have to be expensive to be effective. However, it does need to be targeted to be effective. Guerrilla marketers know the customers they want and know the reasons those customers should be buying from them. All their marketing efforts are guided by those principles.

Besides all the suggestions in this chapter, be sure to review Chapter 24 on Internet Marketing. Many of the ways you can market online are ways that a small organization can obtain a large return for a relatively small investment.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

IV

Marketing Real Estate



28

Marketing Residential Real Estate

There are special considerations when marketing real estate. The main principles of marketing strategy—targeting and positioning—still apply, but they may be more difficult for real estate agents to make operational. For example, they are selling a product for which typically they had no role in design or development and are dealing with customers with very specific individual needs, the importance of which are magnified by the size of the purchase. While it is still essential to focus precisely on customers and understand their needs, much of the success of real estate agents depends also on their sales management skills. This chapter shows you how to develop on-target residential real estate marketing strategies, and the next chapter describes how to implement them with effective sales activities.

Location, Location, Location: Trump SoHo New York

The glass tower of Trump SoHo New York will soar 46 stories above the trendy SoHo neighborhood of Manhattan. Owners and guests have

(*continued*)

(*continued*)

Trump SoHo New York.
Photo courtesy of The Trump Organization.

striking views of the Manhattan skyline and the Hudson River. Rooms have butler's pantries and stocked bars for easy entertaining. Furniture, carpets, and draperies are custom designed. Facilities include a private rooftop club, wine cellar and library, 24-hour room service, business center, conference rooms, swimming pool, and spa and fitness center.

Trump SoHo New York is the only luxury hotel condominium in Manhattan's fashionable SoHo area.

Source: Press releases, Trump Organization, September, 2007.

What Is Special About Real Estate Marketing

There are several ways real estate marketing is special.

Buyer versus Seller

The real estate agent is not usually an employee of the buyer or an employee of the seller. (For more discussion of what is special about real estate marketing, see Rosenauer and Mayfield.[1]) He or she usually works *for* one of them and works *with* the other. That means the agent must understand well the needs of both buyer and seller and must try to find an agreement that will be satisfactory to both. Since the real estate agent has not developed the home being sold, he or she must find a *match* between what a seller has and what a buyer wants simply to initiate a possible transaction between the buyer and seller.

During the interaction between buyer and seller, the agent must manage the pricing discussion so that the party *for* whom he or she is working achieves their financial objectives and that the other party *with* whom he or she is working is satisfied with the financial arrangements. That places the real estate agent squarely in the middle between the buyer and the seller.

Suspects and Prospects

An important part of the real estate agent's job is *prospecting*—finding possible buyers or sellers. That means an agent needs to be creative in searching for clients, both through direct contacts and by obtaining referrals from others. Agents also need to know techniques for *qualifying* customers—determining if the prospects really want to sell or buy.

Levels of Marketing

In real estate, you need to use marketing thinking at two levels. The first level concerns the marketing of your own real estate abilities to sellers and to buyers. The second level concerns how you might market a particular property to a potential buyer. In both cases, you need to utilize targeting and positioning to guide your efforts.

To market a real estate agency, you need to decide which types of home sellers and buyers on which to concentrate and you must determine how to position yourself—how to differentiate yourself from competitors. To market a home, you need to understand what makes a home distinctive and how that home may or may not appeal to the buyer with whom you are working. As one real estate journalist summarized, "the property [must be] presented to the market in the best possible light with the best possible selling strategy."[2]

Personal Services

A real estate agency is a personal service firm—providing tailored services for its clients. There are many types of personal service firms, such as accountancies, tailors, dental clinics, and health spas. All personal service firms have special marketing issues that are related to the intangibility of service offerings. (For more on marketing services, see Sexton.[3])

In particular, with services it is usually more difficult to gain customer trial than with products. While a customer might try a bowl of a breakfast cereal, it is difficult for a surgeon to provide a patient with just a part of a surgical procedure. Similarly, it is not possible for a real estate agent to provide a client with a sample property transaction by selling just part of a home.

Consequently, with personal services, communications aimed at target customers often consist of testimonials—by well-known personalities or by people to whom the target customers can relate. In real estate marketing, that means the most effective marketing communications are generally *referrals*—recommendations from former clients.

Testimonials are often very effective in marketing personal services such as real estate.

Another aspect of services is that the customer is typically part of the production process. For example, if someone does not know how to behave at an airport, they can easily clog the lines at the airline counter or at security. Service marketing often must include educating the customer. In real estate, that means explaining to a seller how a home should be shown, explaining to a buyer how to evaluate a home, and possibly explaining to both how to negotiate a price.

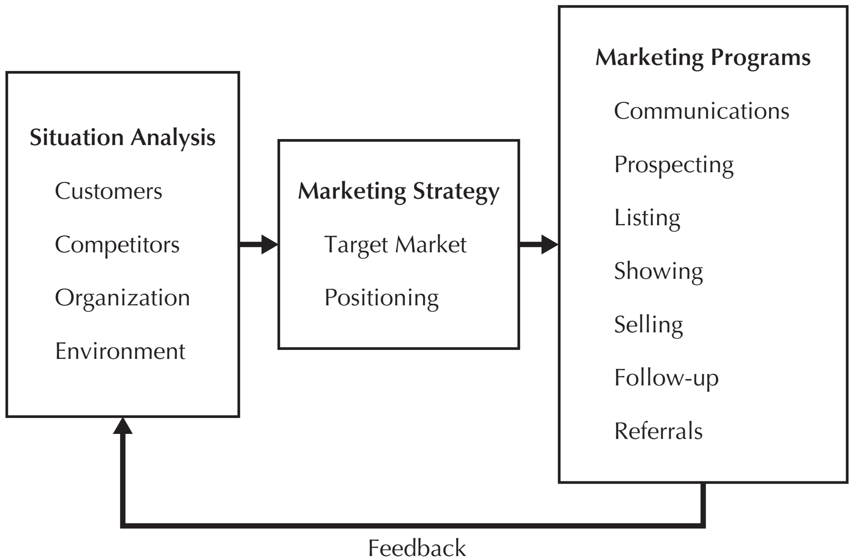
Residential Real Estate Situation Analysis

A sound marketing plan starts with sound preparation (Exhibit 28.1). In real estate, that means doing a thorough Situation Analysis and getting to know your market very well.

As discussed in Chapter 3, a Situation Analysis includes four major steps:

1. *Customers.* Knowing who are the potential sellers in your geographical area and who are the potential buyers (keeping in mind that other buyers will come from out of the area).
2. *Competitors.* Identifying other real estate agents, their strengths and weaknesses, and what they are likely to do.
3. *Organization.* Knowing what you and your associates do well—your strengths and weaknesses.
4. *Environment.* Having an overview of the geographical area in which you are specializing, as well as detailed knowledge including schools and other facilities, types of properties and their expected prices, as well as any trends.

Exhibit 28.1 Marketing Residential Real Estate



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Customers

In 2001, 68 percent of home buyers were married couples and in 2008 only 61 percent, while in 2001, 22 percent of home buyers were single compared to 30 percent in 2008. Married couples still represent nearly 70 percent of repeat home buyers, but singles and unmarried couples now represent almost half of first-time home buyers.[4]

Whether your target buyers are married couples, singles, or some other category affects how you approach them. For example, Exhibit 28.2 shows what members of different types of households look for in a neighborhood according to a National Association of REALTORS® survey. Keep in mind that these percentages represent averages; within each group, people likely differ considerably. Nonetheless, you can see some patterns in Exhibit 28.2. For example, not surprisingly, more than one third of the married couples are concerned about the quality of schools as compared to only around 15 percent of the singles. Higher percentages of single men are interested in proximity to entertainment and recreational facilities. On the average, convenience to shopping has similar appeal to all four groups.

Exhibit 28.2 Factors Influencing Neighborhood Choice

	All Buyers	Married Couple	Single Female	Single Male	Unmarried Couple
Quality of neighborhood	62%	64%	59%	61%	62%
Convenient to job	51	50	50	54	58
Overall affordability of homes	41	40	44	42	45
Convenient to friends/family	38	36	45	36	37
Convenient to shopping	27	27	28	26	26
Quality of the school district	27	34	14	15	19
Design of neighborhood	24	25	23	22	23
Convenient to schools	21	26	14	11	17
Convenient to entertainment activities	19	17	19	27	20
Convenient to recreational facilities	16	17	12	19	12
Availability of larger lots or acreage	15	18	7	11	16
Convenient to health facilities	9	9	9	9	5
Home in a planned community	8	9	8	7	5
Convenient to public transportation	7	7	8	9	7
Environmentally friendly community	6	6	6	7	6
Convenient to airport	6	6	4	8	4

Source: National Association of REALTORS®, *Profile of Home Buyers and Sellers,* Washington, DC, 2008, Exhibit 2-11.

You do not necessarily need to make a survey, but you should be thinking of who the likely buyer types are in your area, and what they might want, so that you can employ the segmentation techniques described in Chapters 9 and 10.

Similarly, you should think of who the likely seller types are in your area and how you might appeal to them. About 60 percent of sellers give the same response for what they want most from a real estate agent. You can guess that answer. They want help in selling their home, especially within a reasonable time interval. Most of the remaining 40 percent say they want specific help with pricing, including determining their asking price, finding ways to fix up their home to sell at a higher price, and negotiating the deal with buyers.[5] You need to be prepared to persuade your target sellers that you can provide those services.

Competitors

It is not enough, however, merely to be capable of providing those services to the sellers and finding neighborhoods and homes of interest to the buyers. You must do these things better than others—better than your competitors can.

Once you have explored your market in terms of customers, you should take stock of the competitors operating in the same area. Look at their ads, listen to what others say about them, put together an impression of what each competitor is good at. It is likely that you know many of them from associations to which you all belong. Real estate is a personal business. You should be able to evaluate the capabilities of your competitors and even guess with fair accuracy what they might do next.

These observations about your competitors should be assumptions underlying your marketing plan as explained in Chapter 6.

Organization

You should know your own organization better than those of your competitors. List your strengths and your weaknesses. And make those lists honestly, with candor.

Do you know the school systems well? Are you willing to be available round-the-clock for your clients? Do you have current contacts with the local banks? How often do you update your comparables?

You should prepare a Capability Chart similar to Exhibit 7.1 to spotlight what you do well and where you might improve. This information is crucial both to determining where you need to improve your organization's capabilities and to selecting your target markets and determining your positioning.

Environment

Analyzing your environment includes surveying all the players in the marketplace. That of course includes your potential customers and your competitors. You should also consider all the trends that are reshaping your marketplace. Demographic trends are an example—perhaps your area has become "hot" and singles are moving into condos or row houses in your area, or perhaps children have grown up in many families, creating new empty nesters who are moving, leaving large homes vacant and available. Such trends are valuable information as you try to facilitate transactions in your market.

In real estate, the Environment Analysis also includes an in-depth examination of all the facilities and institutions in your geographical market. People moving into an area want to know about the schools—where they are and their quality—and about shopping and restaurants, parks and recreational areas, entertainment, hospitals, transportation, and the government.[6] The well-prepared agent should be able to answer any of those questions.

The successful real estate agent knows his or her neighborhood very, very well.

CMA stands for "Competitive Market Analysis." You can examine the sales that have taken place in your area over time *and* the sales that did not occur and acquire the expertise to evaluate the worth of any home or property. When you are dealing with a seller or a buyer, you should be able to quote to them comparable transactions, including details about the characteristics of each home as well as the financial terms. The importance of such expertise cannot be stressed too much. It is key to persuading both buyers and sellers to have reasonable expectations and therefore increases the chances that a transaction will take place.

You should gather the general information you need for CMAs during the Situation Analysis. When you are working with a seller or buyer, you will develop a CMA that is more specific to the needs of that seller or buyer.

Residential Real-Estate Marketing Strategy

The main components of the marketing strategy for a real estate agency are the same components we discussed in Chapter 3, Building a Marketing Strategy (Exhibit 28.3):

1. *Target Market.* On which customers or clients do you plan to focus efforts?
2. *Business Objectives.* What you need to get out of the business with respect to revenue, profits, and cash flow—and when?
3. *Positioning.* Why will your target customers or clients want to do business with you rather than with your competitors?
4. *Programs.* How specifically will you implement your marketing strategy?

Exhibit 28.3 Marketing Plan for Real Estate

Quarter	1	2	3	4
Financial Objectives				
Target Market and Positioning				
Marketing Programs: Communications Prospecting Listing Showing Selling Follow Up Referrals				

Source: "Arrow Guide—Real Estate Branding," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

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Keep in mind that the real estate marketing plan we are discussing now is the plan to market your real estate agency or, if you are working as part of a larger firm, the plan to market your own real estate capabilities. Later, we will consider how to use marketing thinking to market specific properties.

Target Market

You can apply the segmentation techniques discussed in Chapters 9 and 10 to determine what should be your groups of target customers. In Exhibit 9.1, for illustration, five possible segments are considered: singles, young couples, young families, mature families, and empty nesters. Each segment can be evaluated in terms of how attractive they might be to you and how able you would be to obtain their business (Exhibit 10.1). You may focus on more than one market segment but you should be careful not to focus on everyone. If you have no market focus, you can easily end up with an agency that relies more on luck to attract clients than on its own efforts.

If you say yes to every customer, you do not have a marketing strategy

Business Objectives

Your business objectives should cover at least a year and be broken out quarterly or—better—monthly, and expressed in numbers. For example, $180,000 in income for the year; $800,000 in sales in the first quarter. Objectives should stretch you but not be so large that they become intimidating. When objectives are set too high, they demotivate rather than motivate (see Chapter 39).

Positioning

As you know from Chapter 11, positioning is the heart of any marketing strategy. Positioning consists of the key benefits that customers want and that you can provide at a level superior to that of your competitors—hopefully over some time period.

Exhibits 28.4 and 28.5 show the factors that sellers and buyers consider most important when selecting a real estate agent, according to a survey by the National Association of REALTORS®. The number one factor for sellers and the number two factor for buyers is the reputation of the agent. Reputation would be the brand of the agency—what current and prospective clients believe that the agency stands for. As explained in Chapter 12,

Exhibit 28.4 Most Important Factors when Seller Chooses Real Estate Agent

Reputation of agent	36%
Agent is honest and trustworthy	23
Agent's knowledge of the neighborhood	13
Agent is friend or family member	12
Agent's association with a particular firm	5
Agent has caring personality/ good listener	5
Agent's commission	1
Professional designations held by real estate agent	1

Source: National Association of REALTORS®, *Profile of Home Buyers and Sellers,* Washington, DC, 2008, Exhibit 7-7.

you would build your agency brand by choosing one or at most two characteristics of your agency, such as neighborhood expertise or 24/7 responsiveness, and then *consistently* emphasizing your selected characteristics in all your actions and in all your communications with sellers and buyers. If you do that over time, you will have built your brand. (For more on branding real estate, see Sexton.[7])

The number-two factor for sellers and the number-one factor for buyers is being "honest and trustworthy." Other important factors are "knowledge of the neighborhood" and "caring personality/good listener." Any of those factors could be the basis for the effective positioning of your services and for your real estate agency brand.

Customers will pay for value they perceive.

Notice that commission was a factor for only 1 percent of the sellers. Don't assume that price is always on the customer's mind. They want value—especially honesty, caring, and knowledge—and will pay for those qualities.

Exhibit 28.5 Most Important Factors When Buyer Chooses Real Estate Agent

Reputation of agent	21%
Agent is honest and trustworthy	29
Agent's knowledge of the neighborhood	12
Agent is friend or family member	17
Agent's association with a particular firm	4
Agent has caring personality/ good listener	12
Professional designations held by real estate agent	1

Source: National Association of REALTORS®, *Profile of Home Buyers and Sellers,* Washington, DC, 2008, Exhibit 4-15.

The job of the agent is to make sure the prospective customers understand the value that they will receive from a property.

Programs

According to the National Association of REALTORS®, nearly 70 percent of sellers contact only *one* real estate agent when searching for an agent to help them sell their home![8] You want to be that real estate agent. The programs in your marketing plan implement your marketing strategy and comprise much of the work of being an agent.

The real estate marketing plan includes all the communications programs discussed in Chapters 18 through 24 in this book, such as advertising, promotion, and the internet. However, there are specific customer-centered activities that are especially important in real estate marketing. These include:

- *Prospecting*. Finding potential sellers and buyers through a systematic and ongoing effort.
- *Listing*. Identifying sellers and persuading them to list their property.
- *Showing*. Presenting the property to prospective buyers.
- *Selling*. Connecting a buyer to a home that meets his or her needs and facilitating the sale of the property.

- *Follow-up*. Ensuring satisfaction of seller and buyer by staying in contact with them.
- *Referrals*. Securing referrals that lead to new business.

We will discuss each of these activities in much more detail in the next chapter. What is important to keep in mind is that your overall marketing strategy should guide you as you pursue these activities. For example, if your real estate agency positioning is based on market knowledge, then you need to be sure you are up to date on what is happening in your market area. If your real estate brand is based on responsiveness, then you must be easily accessible to your clients. The marketing strategy is the theme that holds your programs together.

Conclusions

Marketing residential real estate requires a lot of personal effort. You will find your efforts are more efficient and more effective the more you develop an overall marketing strategy. That strategy should include clearly defined target markets—both the customers you want and those you do not want—and clearly defined benefits you intend to provide your clients. Remember that if you try to appeal to all possible clients, you will probably appeal to no one.

For more information on residential real estate, see Eldred[9] and Sexton.[10]

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

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Selling Residential Real Estate

Success in real estate marketing finally depends on how well you implement your strategy. Programs consist of the actions required to implement the marketing strategy. In this chapter you will learn how to find potential customers and how to move them to the sale.

Residential Real Estate Marketing Programs

There are several different types of programs you need to pursue, usually at the same time:

- Communications
- Prospecting
- Listing
- Showing
- Selling
- Following Up
- Obtaining Referrals

You need overall communications such as advertising and public relations to drive potential clients to find you and you need to spend time to find potential clients.

Once you have identified potential sellers, you want to persuade them to list with you, and once you have identified potential buyers, you want to show them properties that you believe will interest them. During the selling process, you bring buyer and seller together to agree on a mutually beneficial

Record-Breaking Sales: Trump International Hotel & Tower Waikiki

Trump International Hotel & Tower, Waikiki.
Photo courtesy of The Trump Organization.

A two-day sales event was planned for Trump International Hotel & Tower Waikiki but two days were not needed. The 454 condo/hotel units sold out *within 8 hours*, with a top price of more than $9 million and an average price of approximately $1.5 million. Total sales were estimated to be over $700 million—a new record for sales for a residential development in a single day.

According to Ivanka Trump, "About 40 percent of the buyers were from Hawaii and Asia, and the remainder came from all over the world." All the units were sold before 8 p.m. on the first day—hundreds were left on the waiting list. "I predicted that Trump International Hotel & Tower Waikiki would be the most luxurious development in Hawaii, and buyers responded," commented Donald J. Trump.

The property will have a two-story lobby, full-service spa, 6,500 square feet of dining and retail space, and a cascading sixth-floor waterfall.

Sources: Allison Schaefers, "$700M in Trump Tower Sales Hit World Record," *Sat Bulletin*, November 11, 2006; "Trump Expands to Hawaii," *Multi-Housing News,* November, 2006, p. 16.

deal. During follow-up, you stay in touch to see that all has gone well, and, hopefully, to obtain referrals.

Communications

Satisfied clients mean more business. According to the National Association of REALTORS®, 26 percent of all sellers and 11 percent of all buyers use an agent that they had used before (Exhibit 29.1). Satisfied clients not only lead to repeat business; they also lead to referrals. Close to 40 percent of sellers, more than half of first-time buyers, and over one-third of repeat buyers find their real estate agent through referrals from friends, neighbors, and relatives (Exhibit 29.1).

Exhibit 29.1 How Sellers and Buyers Found Real Estate Agents

	All Sellers	All Buyers	First-time Buyers	Repeat Buyers
Referral by friend, neighbor, or relative	38%	43%	55%	35%
Used agent previously	26	11	2	18
Referral through employer	5	5	2	7
Referral by another agent	3	4	4	5
Internet Web site	3	9	10	9
Open house	5	7	6	7
For Sale/Open House sign	4	7	7	6
Personal contact by agent (telephone, email, etc.)	4	3	3	3
Walked into or called office	3	3	3	3
Newspaper, Yellow Pages, or home book ad	2	1	1	1
Direct mail	2	*	*	*
Advertising specialty (calendar, magnet, etc.)	1	*	*	*

Source: National Association of REALTORS®, 2008. *Profile of Home Buyers and Sellers*, Washington, D.C., 2008, Exhibits 4-12, 7-1.

The bottom line is that one of your most effective communications tools as a real estate agent is working hard for your customers. The percentages in Exhibit 29.1 are averages. If your current clients feel that you have done exceptionally well for them, you can expect even more new clients from past clients or from their referrals.

You can also expect referrals made by employers and other agents to lead to another 6 to 12 percent of your new clients. On the average, that leaves roughly 30 to 40 percent of new clients due to various forms of communication you manage. You need to make the effectiveness of those types of communication superior to the effectiveness of similar communications from your competitors.

Web Site

As discussed in Chapter 24, effective web sites should be easy to find, quick to download, and easy to navigate. They should provide information of value (not just selling material), and should be consistent with your overall marketing strategy. If you are targeting more than one market (for example, young married couples and singles), you may want to organize your web site so that members of each group can easily find the information they need—school information for the couples, and information on entertainment for the singles.

Your web site should also provide different pages for buyers and sellers, and, if possible, virtual experiences.[1,2] Notice that, overall, relatively more buyers than sellers find agents through web sites. That represents an opportunity if you can find ways to attract sellers to your web site.

Open House

Traditional methods still can lead to new clients. Look for potential clients who fit your target market. Try to make that all-important initial contact. Have sufficient supplies of your business cards. You can add appeal to an Open House by offering a seminar on a topic of value to prospective clients, such as "How to Sell Your Home During Tough Economic Times."

You can also organize "caravans" for other real estate agents so that they can visit your listings if they have the time and interest. In Los Angeles, competition to persuade agents to join caravans has been so intense that food at the homes viewed has been used as an enticement. One LA agent bakes chocolate chip cookies from scratch and, for homes up a difficult canyon road, she offers white chocolate chip macadamia nut cookies! Other agents hire professional caterers to set out buffets.[3]

For Sale Signs

Be sure that any "For Sale" sign has your name and contact information. If you are not already doing so, you may wish to consider a secondary sign that provides your information. Keep in mind that a prospective client must be able to read this information from a distance and probably from a moving car.

Personal Contact

We will discuss these approaches more when we consider prospecting. Whenever contacting a prospective client, be sure to have a strategy—your objective for the contact and how you expect to achieve that objective. For example, if you are trying to obtain a listing, you need to review the prime reason for the seller to list with you.

Walk-ins or Office Calls

On average, walk-ins result in as many new clients as your hard-won personal time with prospective clients. When someone walks into or calls your office, the main point is that you are *prepared*. You will have only a short time to persuade him or her to work with you (especially on the telephone) so you must try to prolong the contact and learn the prospective client's needs. For example, if someone calls your office and asks how many bedrooms are in a listed property, don't just answer "three." Answer "three, how many do you need?" Try to establish a relaxed rapport with the caller or visitor as soon as you can.

Advertising

Notice that traditional advertising such as the Yellow Pages, direct mail, and specialty promotions, on average, do not lead to relatively many leads, especially among buyers. That does not necessarily mean that you should not pursue those efforts—only that you should try to make them focused so that you will obtain a higher return from your expenditures. For example, if you run a contest as a promotion, you should offer as a prize something that a home seller or a home buyer will appreciate, such as a makeover of a room. If you offer a reward with more general appeal, such as a trip to Las Vegas, you may get more entrants but relatively fewer who will be prospects.

Community Support

Sometimes local government may allocate funds to increase the buyer pool. Dearborn, Michigan, for example, budgeted $350,000 for a campaign to promote the city to home buyers, including both newcomers and people already living in Dearborn who wanted to relocate. They formed a committee to contact real estate agents, relocation specialists, and others "with a stake in the city" and developed a media campaign focused on the city's amenities such as the University of Michigan–Dearborn and the ambience of the tree-lined streets.[4]

Prospecting

How many prospects do you need? As many as you can find. One real estate expert estimates that you need at least 25 prospects for one deal, and that estimate might be a bit optimistic.[5]

Organize your prospecting. Develop a data base with software such as ACT that allows you to keep track of your leads, your contacts with them, and the results.

There are several possible sources of residential real estate prospects, including:

- FSBO's ("For Sale By Owner")
- Expired listings
- COI's ("Centers of Influence")
- Farming

FSBOs

FSBOs are sellers who have decided to manage their own sales efforts, often to avoid paying a fee to a real estate agent. When you call on one of these sellers, you have a strong argument for them to list with you, namely that the median price of homes sold through agents is more than one-third higher than the median price of homes sold by owner.[6] If you assume that the population of homes sold through agents is similar to the population of homes sold by owners, then, even when they pay a commission, on the average sellers will likely receive more money for their homes if they use an agent than if they try to sell their homes themselves.

Another argument concerns security. An FSBO showing his or her home may have no control over who visits and may not want to risk opening his or her home to a parade of strangers. An agent acts as a screener for potential buyers through contact with the potential buyers before showing a home.[7]

Higher return and higher security are two strong arguments to use with FSBOs.

However, you should approach FSBOs very carefully. Some may be selling their homes themselves because they do not like real estate agents. To get their attention, you might tell them that you have buyers you have been unable to help and and ask to send those buyers to them. That will allow you to suggest that it would be helpful for you to look at their property so that you will know which buyers to send. (For more detailed suggestions on how to win over FSBOs, see Hamilton.[8])

If you are able to visit a FSBO, they will likely be very sensitive to any attempt by you to try to persuade them to let you represent them. A low-key approach is called for. Leave your briefcase in your car, and make it clear that you are just taking a quick look. *Do not* try to persuade them to list with you on your visit to "look around."*Do* stay in touch with them and be there if and when they finally decide they need to work with a real estate agent.

Expired Listings

A listing may expire for a variety of reasons. It may well be that the seller has unreasonable expectations for the price that they believe their home will fetch. If the seller does have unreasonable price expectations and cannot be persuaded otherwise, then you may be better off allowing one of your competitors to add this listing to their portfolio.

On the other hand, if the seller has now learned that it may be necessary to alter their asking price, then they may be appreciative of your efforts to renew efforts to sell their home. (When contacting "expireds," be sure you know your local Board of REALTORS® rules relating to expired listings.) During your first contact, establish that they still wish to sell their home. Then ask them why they think it has not yet sold.

A property may not sell because it may be run-down or may otherwise lack curb appeal. If those negatives can be fixed, then the seller may be a worthwhile client for you.

COIs

A center of influence is someone like a life insurance agent or accountant or beauty salon owner or dentist who regularly talks with people and can be expected to hear if someone is thinking of selling (or buying) a home.[9] For example, florists or caterers are COIs because they are often involved with weddings—the newly married couple may well need help in finding a home.

If the COI might be willing to mention your name or provide one of your business cards, then you might expect a stream of prospects from them.

Why would they help you? You might be in a position to help them in return. If a single person or a couple moves into your area, they may need a medical doctor or an auto insurance agent or a pet groomer, and you might be in a position to return the favors that they have done for you.

Help your COIs and they will help you.

Stay in contact with your COIs. Remind them with e-mails or letters every few months that you are still in real estate and would be happy to help anyone they know who might be selling or buying a home.

Farming

Residential real estate farming consists largely of cold calling and can be difficult work. You need to target part of your geographical area and cover homes in that area.

If you call at homes in person, be prepared for a fair amount of rejection. Most people are not sitting in their living room waiting for an agent to arrive and ask them if and when they are going to sell their home.

Telephone contacts are more efficient except rapport may be harder to establish during a telephone call than if you are face-to-face with someone. On the telephone, the main rule is to be relaxed.

I used to make telephone survey interviews for a major consulting firm and most of the time could develop rapport with whomever I was talking in a rather short time. I am not sure I could provide you with the formula for how I did it. I do know that I clearly introduced myself at the start of the call and explained why I was calling. Often at that point, the party broke contact, but that was OK—you do not want to waste the time of someone who does not want to talk with you, and you certainly do not want to waste your own time. If after my introduction the other person was still talking to me, I would try to rephrase the questions that had been supplied to me in my own language, so I was comfortable with how they sounded. People can tell on the telephone if you are reading from a script. You need to be natural. I always had notes but I did not read from them—I used them only to remind me of the key points I wanted to make and the key questions I needed to ask.

Whether in-person or on the telephone, you need a short explanation as to why the person might want to have you represent them. If they demur, then you might try again later but this is not the time for a hard sell. It is too easy for someone who is annoyed to close the door or just hang up.

You can focus your farming efforts by checking the newspapers for wedding announcements, birth announcements, and obituaries. Changes in life often result in changes in homes. Dan Hamilton, a very successful real estate agent, also suggests stopping at garage sales and asking if they are just cleaning house or planning to sell their home. Often people hold garage sales before they move.[10]

You are hoping to find some prospects who are interested in working with you right now. However, keep in mind that much of this effort is to establish your name and contact information in the minds of potential clients who may contact you at some later time.

Qualifying

You should attempt to qualify any leads you discover. Qualifying means checking to see if they may be a legitimate client—someone who may do business with you—as opposed to someone who is simply going to waste your scarce time. Most sales people have questions they use to qualify customers.

You must qualify your prospects.

In my consulting business, I ask potential clients if they have a budget for the project we are discussing or when the decision to go ahead will be made. If there is no budget or no plans to make a decision, then they are in the information-gathering stage and I do not expect any business from them in the near future. Another question I often use is, "Who else are you considering?" If they answer that question, it provides me with a lot of information. If they have no one else in mind, they may be very early in their thinking or may not have thought through the project yet. If they are looking at many competitors, then they are just casting a large net, and the probability of gaining the business may be small. If they are looking at a few competitors and I know who they are, then that helps me develop my own presentations—not to denigrate the competitors, but to emphasize the capabilities where I have an advantage over the other firms they are considering.

You can use similar questions for qualifying real estate customers such as, "When do you want to buy?" and "What homes have you looked at already?" Other questions that you might use to qualify real estate clients include:

- "When do you want to move?"
- "What do you think your house is worth?"
- "What type of home do you wish to buy?"
- "How much are you willing to pay?"
- "Are you pre-qualified for a loan?"[11,12]

After a while, any agent develops their own qualifying questions along with a sense of whether a prospect is truly interested in what you might do for them or if they are simply gathering information for the long term.

Listing

If you can secure a listing, then others will be working for you, trying to find a buyer. You need to prepare a short pitch explaining why a seller should list with an agent and you in particular. If you are speaking with someone who has been referred to you, you will likely have less persuading to do. But you cannot count on that, so you should have your arguments prepared in advance.

When you first contact a possible seller to arrange an appointment to discuss listing, you should try to obtain on the telephone enough information so that you can put together a CMA (Competitive Market Analysis—see Chapter 28) that you can use when you later speak to the seller in person. Questions include the number of bedrooms, the number of baths, the style of house, and the lot size. Also try to learn the price they are expecting so that you have some idea of how you may need to approach the meeting.

You should probably allow around two hours for the listing appointment. Make sure that everyone involved in the decision will be there. If the seller is a couple, then most likely you should talk with both partners at the same time. Otherwise you will not be able to close the agreement.[13]

During the appointment, you should discuss how you can market the property and the actions you will take on the seller's behalf. You also need to work with the seller to determine the appropriate price for the listing. Here is where a CMA will be invaluable in bringing the discussion to the right price for the seller.

Salable listings are the life blood of a real estate agent. They attract buyers and they attract sellers.

Showing

Showing a home requires planning. You should advise the sellers of what needs to be done to show their home to best advantage. Clearly, rooms should be clean and neat. Open the drapes. Get rid of clutter, both inside and outside. Paint if needed. Clean the carpets. Have available receipts for recent major repairs or for any appliances you are leaving. (For more suggestions, see Maguire[14] and Mayfield.[15])

Plan the route you will take to bring the buyer to the home. What they see en route will affect how they view the property.

The sellers should not be present during the showing. Even with the best intentions, they will find it difficult to keep quiet and may interfere with the prospective buyers' evaluation. It is difficult to debate the pros and cons of a home with the sellers present. When you are showing a home, you should also allow the prospective buyers to have time alone. They need that time to organize their own thinking. (For other suggestions on showing a home, see Rosenauer & Mayfield.[16])

Well-researched CMA information is vital during the showing. Potential buyers need to have a framework within which they can evaluate the home they are seeing. A comprehensive CMA provides that.

Showing requires the same endurance and follow-through that is true of most real estate activities. Dan Gooder Richard believes that on the average you may need to show 18 homes to obtain a sale.[17]

If a home has been on the market for a while, the agent needs to determine why it is not moving—the advertising, the price, the appearance? "One of the biggest mistakes a seller can make is to leave a slow-selling property on the market forever, hoping that it will eventually sell rather than properly altering the sale strategy."[18] The real estate agent needs to coach his or her seller to change their marketing approach as needed.

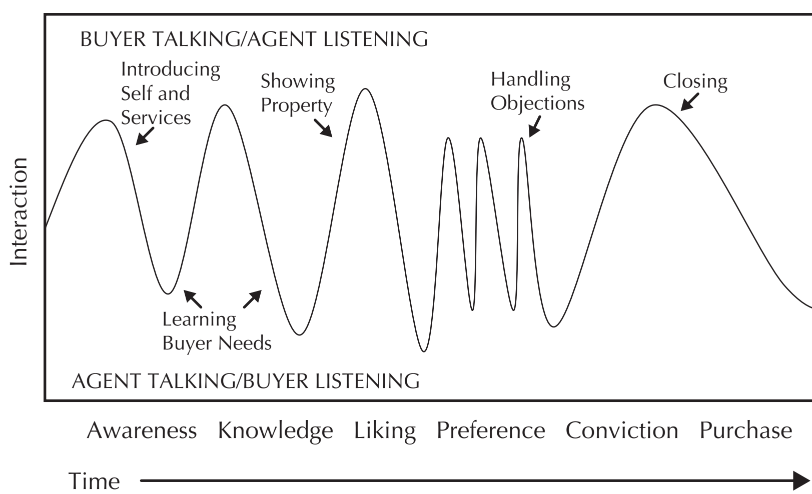
Selling

There is no single way to sell. You need to tailor your sales approach to your own personality, to the needs of your prospective customers, and to the circumstances.[19]

Most models of the selling process divide it into several stages (Exhibit 29.2):

- *Awareness*. Informing the prospective customer of who you are and how you can help them
- *Knowledge*. Giving the customer more detailed information, and also listening to them to hear what they need
- *Liking*. Matching what the customer needs with what you can provide—checking with them to see if what you are offering meets their needs
- *Preference*. Persuading the customer that your offering meets their needs best
- *Conviction*. Moving them to make a decision to purchase from you—"going for the close"
- *Action*. Following up and making sure that the purchase takes place

Exhibit 29.2 The Selling Process



Source: "Arrow Guide—Communications," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

During *consultative selling*, the sales person should be in continuous contact with the prospective customer. Above all, listen and watch your potential buyers. They will signal their interest or disinterest in a property. They will ask you questions and make comments that will give you priceless information on their attitudes toward the home that you are showing them. (For more discussion of selling technique, see Hanan[20] and Bosworth.[21])

Exhibit 29.2 shows that selling is a dialogue between the agent and the buyer. There should be much more give-and-take than can be easily shown in the diagram. The point is that the agent needs to be *interacting* with the buyer and the agent must alter his or her message depending on what the buyer is saying *and* what the buyer is signaling.

Selling is a managed dialogue between sales person and prospective customer.

Signals—comments or body language—help you manage the selling process. When potential buyers ask for specific details, such as room dimensions, and start saying things like, "Carol will have this bedroom and Bobby will have that bedroom and the television will go there," that usually means that they have started to place themselves in the home. That also means that they are ready for the final stages of the selling process.

Selling is helping people to a conclusion that is beneficial to them—and, of course, to you. Most people will have some objections to a purchase. You first need to make sure that these are valid objections. Sometimes people will voice an objection because they are afraid of making a decision, because they do not know how to make the decision, because they are not convinced that this property is the best they can find and want more time, or because they simply cannot afford the property and do not want to say that explicitly (See also Rosenauer & Mayfield.[22])

The job of the sales person is first to find out the reason for the objection. For example, if the prospective buyer is fearful or unclear regarding the decision, you can help him or her through the decision process. If they need more time to find a more attractive or less expensive property, you can also help.

If the objection is specific to the property under consideration, then you need to make sure you understand the concern and then try to remove it. You are trying to move them into the conviction stage.

You can prepare to handle objections by *anticipating* them—developing a list of the possible objections the potential buyer might have for that property and then preparing answers for each one. For example, you might expect the buyer to be concerned about the class sizes in the local school. You do research and learn that more teachers will be added in the coming year.

When you are face-to-face with the prospective buyer, you need to ask questions to learn what the objections might be and then systematically address them to the buyer's satisfaction. Buyer: "I am concerned about the crowding in the school in this area." Agent: "I understand why that would be a concern. However, you need not worry about that. The school district is about to announce the hiring of more teachers for the coming school year."

Anticipate and understand possible objections.

After you have dealt with objections, you need to try to close the sale. There are many types of closes. Here are a few:

- *Trial close*. Used to see if the client is ready to close. Example: "When would you like to move in?" If they react negatively, they are not ready to close.
- *Assumptive close*. The client must act to stop the process. Example: "Shall we meet to work out the closing arrangements on Friday?"
- *Alternative close*. Two answers—both lead to the sale. Example: "Shall we meet to work out the closing arrangements Friday at 10:00 a.m. or at 1:00 p.m.?"
- *If/then close*. Client agrees to an implicit promise to buy. Example: "If I can persuade the seller to leave the outdoor grill, will you buy the home?"
- *Take away close*. Remove the option if client does not agree. Example: "If you do not want to purchase this property at this price, perhaps we should look for a house with less land."
- *Ad absurdum close*. Show how small a price difference really is. Example: "You plan to live in this home for, what, twenty years? Then how much a year is that $6,000 over the price you want to pay? Isn't it worth that small additional amount to get the home you like so much?"
- *Advisor close*. Let the buyer talk to a friend, relative, or other trusted advisor before making their decision. "If you want, why don't you check with your accountant? If they are OK with the deal, we can move ahead immediately."

(For more types of closes, see Hamilton[23] and Rosenauer & Mayfield.[24]) Remember that however you approach the close, you must *ask for the order*.

Following Up and Obtaining Referrals

After the sale, your job is not done. You should follow up with both the seller and buyer to be sure that all is satisfactory and, if not, fix it.

You will likely want to give your clients a closing gift. Try to give an item that will last and will remind them of you. Dan Hamilton suggests giving them a binder to hold all their important home documents.[25] You can put their name on the middle of the binder cover and your name and contact information toward the bottom of the cover or on the inside front cover.

Stay in touch with your former clients—easy to do with a digital newsletter. Try to develop a newsletter that provides value such as tips for taking care of a home or homeowner-friendly information about the geographical area. Remember, you are hoping to receive their repeat business and also to receive referrals from them. You should remind your satisfied sellers and buyers to provide referrals, both right away if possible and certainly in the future. You want to build an ongoing business.

Conclusions

Selling residential real estate begins with prospecting. However, once your business is in gear, you can expect much of your business to consist of repeat business from past clients and referrals from past clients and others who know you. Your task is to persuade sellers to list with you and buyers to buy with your help. Then you need to follow up each sale to keep the process moving. Once you accomplish that, you will have a virtual circle of sales and profits.

For more information on residential real estate, see Eldred.[26] For suggestions on managing real estate brands, see Sexton.[27]

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

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Marketing Commercial Real Estate

The business of commercial real estate is related to the business of residential real estate, but the two represent different businesses. Marketing commercial real estate covers more types of services than residential real estate. For example, besides marketing and selling properties, commercial real estate practitioners may be involved in property management, property leasing, site selection, feasibility studies for developments, and investment analysis.[1] Rewards for commercial real estate and residential real estate may differ. For example, the value of the average commercial sales transaction is more than twice the value of the average home sales transaction.[2,3] In this chapter, you will learn how to apply the principles of marketing to increase your chances of success with commercial real estate. The next chapter focuses on how to implement your commercial real estate marketing strategy.

Commercial Real Estate versus Residential Real Estate

Marketing commercial real estate is both similar to marketing residential real estate and different. The similarities tend to be related to personal skills; the differences to technical skills.

Similarities

People successful at marketing residential real estate often succeed at marketing commercial real estate. That is because certain skills lead to success regardless of which business you are in. These skills include:

- Being observant
- Following through
- Selling ability
- Endurance

Being Observant To succeed in any type of real estate business, you need to keep your eyes and ears open. You can find deals everywhere—on signs, in the newspapers, during conversations with friends and acquaintances—you need to be sure that you notice these opportunities when they appear.

Following Through You probably know many people who talk a good game but do not deliver. Why? Because they do not do the hard work to follow through on their ideas. In real estate, that means calling on prospects, qualifying them, learning their needs, selling, and, after the sale, making sure that the buyer and seller are satisfied. All of those activities involve effort—and not always effort that leads to immediate rewards.

Selling Ability Effective sales people in any field know how to listen and learn from a customer, how to manage a customer's expectations, and then present the customer with a solution to their problem that will lead them to make the purchase. Usually, such a person likes people and is able to empathize with people. At the same time, effective sales people do want to persuade others—they want to get the "close." While selling residential and commercial real estate may require different technical expertise, selling ability is a skill that is often transportable from one business to another.

Endurance Effective sales people need to be able to handle rejection. That does not mean that they like to be rejected, but it does mean that they expect to experience rejection as part of their job. When they experience it, however, they do not dwell on it but keep going. Endurance is important in most endeavors—actors, for example, also need to be able to handle rejection if they are to succeed eventually. Endurance is crucial for both the commercial and residential real estate businesses.

Generating Excitement: Trump Real-Estate Brokerage

View from 40 Wall Street.

Photo credit: Ali Goldstein. Photo courtesy of The Trump Organization.

Real estate marketing in Manhattan was comparatively dull before Donald J. Trump burst onto the scene. Trump's mix of bravado and flash combined with the best locations and highest quality created a new 'super luxury' market segment that was wildly successful. Pre-Trump, the luxury real estate segment in Manhattan was rather staid and devoid of any widely recognized brands. By establishing his own name brand at the very top of the market, Trump created a perceptible quality that distinguished itself above the nameless competition. Independent market studies later revealed that Trump significantly out performed comparable properties in both sales price and sales velocity. This became known as the "Trump Factor" which added measurable value and marketability to Trump signature developments.

Applying his potent formula to all his projects, Donald J. Trump established an unrivaled global super brand, known and trusted the world over as the highest quality standard in real estate. As a result, some Trump developments have completely sold out within hours of being announced, well before a brochure was printed or a shovel put into the ground.

Donald J. Trump is famous for being a master developer, deal maker, and world renowned celebrity. By incorporating his indomitable skills and unabashed style with exceptional product, the "Trump Formula" is the most cost-effective marketing concept ever developed—one that literally sells itself.

Source: Michael Martin, Trump Real Estate Brokerage.

Effective sales people need to be able to handle rejection.

Besides personal skills, marketing commercial real estate and marketing residential real estate are similar in that the marketing process is generally the same.

Just as residential real estate agents target markets and position their services, commercial real estate agents must target markets and position their services.

Programs for both commercial and residential real estate marketing include activities such as prospecting, showing, and selling. How each of these activities is conducted differs between commercial and residential real estate marketing, but their purpose remains the same within the overall marketing strategy.

Differences

Marketing commercial real estate differs from marketing residential real estate in several ways including:

- Types of properties
- Types of services
- Financial analyses
- Use analyses

Types of Properties Commercial real estate agents may focus on a variety of properties such as:

- Developable land
- Office buildings
- Multifamily buildings
- Retail buildings
- Shopping centers
- Industrial buildings
- Hospitality buildings
- Senior housing
- Farms and ranches

(For more detailed descriptions, see Keim.[4])

Each type of property requires different types of expertise. Many commercial real estate practitioners consider themselves specialists in a particular type of property. The National Association of REALTORS® found the leading specialty to be land sales—nearly one-fifth of the commercial practitioners they surveyed claimed land sales as their specialty (see Exhibit 30.1).

Commercial real estate practitioners differ markedly in the types of properties in which they specialize and in the services they provide.

Types of Services Besides sales, often commercial real estate agents are involved with other services—20 percent of the commercial practitioners surveyed by the National Association of REALTORS® called leasing their specialty, 9 percent named property management, and 7 percent mentioned property development. These functions are considerably different than those typically performed by most residential real estate agents. In this chapter and in Chapter 31, we will be discussing primarily property sales since property management, property development, and leasing are beyond what can reasonably

Exhibit 30.1 Primary Business Specialty of Commercial Real Estate Practitioners

Specialty		*Specialty*	
Land sales	19%	Commercial property management	6%
Office leasing	11	Retail leasing	5
Multi-family building sales	11	Consulting	5
Retail building sales	10	Industrial leasing	4
Office building sales	8	Commercial appraisal	3
Industrial building sales	8	Multi-family property management	3
Development	7	Hospitality/resort sales	2

Source: National Association of REALTORS®. (2007). *Commercial Member Profile,* Washington, DC, Exhibit 1-8.

be covered in this book. However, you might wish to consult Chapters 18, 19, and 20 of the companion book, *Trump University Branding 101*,[5] which explains how to attract tenants for your properties as well as how to develop a real estate brand; see also McMahan.[6] For a specific case of using marketing to sell condominiums to seniors, see Adler,[7] and for an example of property branding, see Tucci.[8]

Financial Analyses Commercial real estate agents require business financial expertise so that they can provide their clients with cash flow projections and other measures of financial return for the properties under consideration.

The home buying decision does depend on economic concerns but it depends also on emotional or aesthetic concerns—the curb appeal of the home, the ambience of the rooms, the effect of the landscaping—the overall feel of the dwelling. That means the residential real estate agent manages several types of customer expectations. While certainly commercial real estate decisions may include aesthetic concerns such as the elegance of an office building or the beauty of a hotel lobby, the Financial Analysis—what monetary return can the buyer expect—will generally have a much larger impact on the purchase decision for most commercial properties. That means the commercial real estate agent must know the difference between "Scheduled Gross Income" and "Effective Gross Income," what the "Cap Rate" is, and how to do a Discounted Cash Flow Analysis if he or she is to persuade the prospective buyer to purchase the property.

Commercial real estate purchases depend a lot on expected financial return.

Use Analysis In many purchase situations, the commercial real estate agent will need to know not only the current use of the property but what else it might be used for. The "best alternative use" of the property may provide the buyer more value than the current use. For example, a golf course may be worth more as a site for a housing development than as a golf course. To determine the best alternative use, the agent first needs to have a knowledge of local zoning laws, what they allow, and what changes might be possible. You can expect zoning codes to vary widely by municipality so you should not make any assumptions about zoning without checking. The agent must also have imagination to see other possibilities for the property—to convert an industrial building into loft apartments, for example.

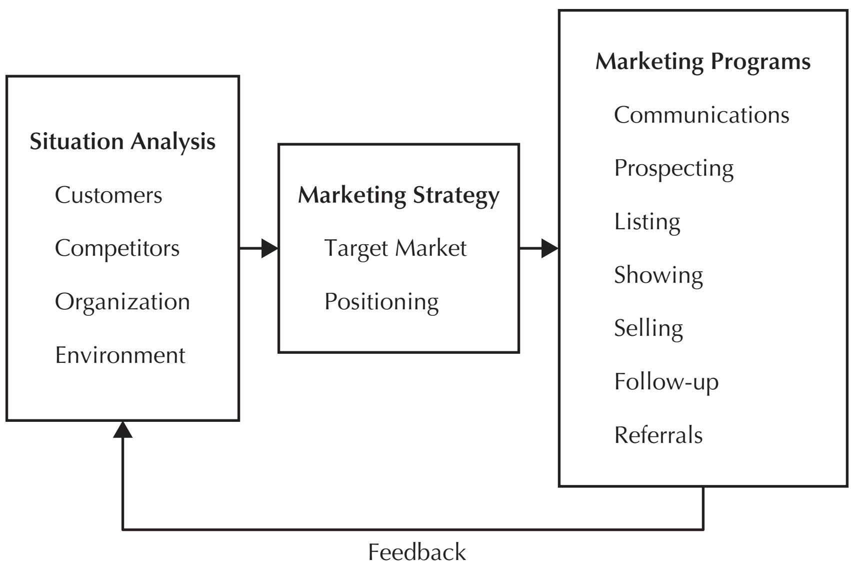
Commercial Real Estate Situation Analysis

You begin to develop your commercial real estate marketing strategy the same way you usually begin a marketing strategy (Exhibit 30.2), with a Situation Analysis that covers:

1. *Customers.* Potential sellers and buyers
2. *Competitors.* Other organizations vying for the business
3. *Organization.* The capabilities of your organization—what you are good at and not so good at
4. *Environment.* The key players and key trends in your marketplace; what you think will happen next

All these areas have been covered several times in the book—see for example Chapters 4 through 8 and the section on the Situation Analysis in Chapter 28, Marketing Residential Real Estate—so we will discuss only a few aspects of the Situation Analysis that are specific to commercial real estate marketing.

Exhibit 30.2 Marketing Commercial Real Estate



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Customers

The customers you want to consider depend on the types of property in which you wish to specialize and the types of services you wish to provide. For example, if you plan to specialize in leasing office space in Class A (highest quality) multi-use buildings, the customers on which you focus will obviously differ from those on which you concentrate if instead you choose to specialize on selling small retail complexes such as neighborhood or community centers. In residential real estate marketing, you may begin by looking at most of the homes in a local residential market; in commercial real estate marketing, usually you will look at a portion—that related to your specialty—of the entire commercial market.

If you are or are planning to be a commercial real estate agent, be wary about the temptation to sell single-family homes. They may distract you and cause you to lose market focus. According to John Peckham, chairman of a commercial investment real estate brokerage firm, "Eventually [commercial practitioners] learn that, with their specialized knowledge and administrative support, they are much better off in terms of income and satisfaction when they stick to their specialty."[9]

Competitors

You will likely know your competitors who specialize in the same types of properties and services as you do. You may not know other commercial practitioners who are moving from neighboring specialties into your specialties or residential real estate agents who are beginning to sell commercial real estate. You need to be alert regarding who is being mentioned as different deals take place so you are always up to date knowing who your competitors are.

For each of your recognized competitors, you should know their capabilities—their area of expertise, for example. You should also predict what deals or types of deals they might be working on.

Organization

Generally, a commercial real estate agent requires more skills than a residential real estate agent and so there is a longer list of potential strengths and weaknesses to consider when you evaluate your organization. In particular, you or a colleague may need to be expert in financial analysis of the income and appreciation potential of properties—and each type of property may call for different expertise. Hotels and retailers, for example, have quite different business models that you would need to understand to evaluate the income potential of a property. Similarly, you may need staff members with expertise in leasing or property management—skills not usually needed in a purely residential real estate office.

Environment

While the customer and competitor analyses may be more focused in the commercial real estate Situation Analysis than in the residential real estate Situation Analysis, the Environment Analysis may be broader. You need to consider not just the economic health of neighborhoods; you also need to evaluate the economic health of the geographic area in which you operate. That in turn will affect the markets of all kinds of commercial property such as office buildings, malls, and hotels. You should try to see if your geographical area has a master plan that you can review.[10]

You need to know the economic health of your area—now and in the future.

The type of properties in which you specialize will determine in part the size of the geographic market with which you need to be familiar. For example, if you specialize in retail space, you should know that according to the International Council of Shopping Centers, neighborhood centers draw customers from up to 3 miles, community centers from up to 5 miles, regional malls from up to 15 miles, and super-regional malls from up to 25 miles.[11]

You also need to know the trends in your specialty. For example, the popularity of open-air centers (with open walkways between retailers) versus malls (enclosed walkways) and the appeal of lifestyle centers (retailers grouped village-style with planned ambience). In addition, you will need to be an expert on competition in your specialty in your geographic area. What, for example, do you expect to be the impact of the opening of a new outlet center in your area on existing retailers? That means you also need to understand the behavior of customers in your specialty. If people will drive 5 to

15 minutes for groceries, 15 to 30 minutes to a regional mall, and 60 minutes for specialty stores or outlets, what are the implications for the properties with which you are involved?[12]

You can obtain some of the needed information on the environment conditions from government sources such as municipality planning studies and zoning reports. You also should be in contact with others involved with community development such as the local Chamber of Commerce and executives

Exhibit 30.3 Marketing Plan for Real Estate

Quarter	1	2	3	4
Financial Objectives				
Target Market and Positioning				
Marketing Programs: Communications Prospecting Listing Showing Selling Follow Up Referrals				

Source: "Arrow Guide—Real Estate Branding," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

of local financial institutions. Reporters may also provide a useful perspective on the prospects of a geographical area.

Commercial Real Estate Marketing Strategy

As we have discussed throughout the book and especially in Chapter 3 (Building a Marketing Strategy), there are four main components of any marketing strategy (Exhibit 30.3):

1. *Target market.* The customers on which you will concentrate
2. *Business objectives.* The financial results you hope to achieve
3. *Positioning.* The main reasons customers will do business with you
4. *Programs.* What you need to do to implement your strategy

Target Market

In what types of property will you specialize? Office buildings? Retailing? Hospitality? Apartments? Industrial? Hospitals? Multi-use? And where—in what geographical areas?

You may choose to specialize within a specialty. For example, retailing includes neighborhood centers, community centers, small box, big box, residential conversions, regional malls, super-regional malls, life style centers, and outlet centers. Industrial includes light manufacturing and heavy manufacturing. Hospitality includes motels, hotels of various classes, and resorts. You should use the techniques presented in Chapter 10 (Selecting Your Key Target Market) to select your specialty based on how attractive that market is to you and the abilities you have or can acquire.

Business Objectives

If you are a small business entrepreneur, you have expectations about what you would like to earn. These objectives may be simply to earn more than you can in another profession or they may be based on the type of life style you wish to enjoy. Whatever their basis, you need to write them down—year by year. Then you can translate those earnings objectives into the amount of commercial transactions you would need to achieve them—year by year. That will help you evaluate whether this business is promising for you.

Positioning

Service and expertise comprise the heart of positioning for most real estate agents. You need to decide what type of service you will provide and why you can provide it at a higher level of performance than your competitors. Dimensions of service include how you understand customers' needs, how you find properties that meet their needs, how you respond to their problems, and how accessible you are. Expertise depends on what you need to know to help them sell, buy, lease, manage, or develop properties. As in any business, your positioning should set you apart from the other agents and brokers. Your financial analyses may be the most accurate or your marketing to tenants may be the most effective. Once your positioning is determined, it should be proclaimed in all your communications *and* in all your actions.

Programs

What makes a commercial real estate marketing strategy special are the programs —how you go about making your strategy succeed. Commercial real estate programs include your communications as well as prospecting, listing, showing, selling, following up, and obtaining referrals—the same categories we used when we discussed the residential real estate marketing strategy, but with different approaches. The next chapter describes them in detail.

Conclusions

Commercial real estate consists of many different types of property, each requiring its own expertise. The commercial real estate practitioner must be clear as to what types of property he or she will handle. In addition, he or she must decide what types of services to provide. These choices form the basis of their business strategy.

Their marketing strategy needs to define their customer targets and their positioning. In turn, that marketing strategy orchestrates all the activities required to implement the strategy. Just as "location, location, location" is key in real estate, "focus, focus, focus" is key in marketing.

For more on commercial real estate, see Lindahl.[13] For managing real estate brands, see Sexton.[14]

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

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Selling Commercial Real Estate

Strategies without programs are strategies that are not implemented. All real-estate marketing and selling requires "legwork"—getting out to contact the customers. The commercial real-estate marketing strategy provides guidance for all those activities so that the commercial practitioner is making efficient and effective use of his or her time. The programs lead to the sales. In this chapter you will learn what needs to be done to find and obtain customers for commercial real estate.

Commercial Real-Estate Marketing Programs

Very generally, the programs used to market commercial real estate resemble those used to market residential real estate (Exhibit 31.1).

However, they may differ considerably in how they are carried out. This chapter focuses mainly on what is special about the marketing programs for commercial real estate. The programs include:

- Communications
- Prospecting

- Listing
- Showing
- Selling
- Following up
- Obtaining referrals

Exhibit 31.1 Marketing Plan for Real Estate

Quarter	1	2	3	4
Financial Objectives				
Target Market and Positioning				
Marketing Programs: Communications Prospecting Listing Showing Selling Follow Up Referrals				

Source: "Arrow Guide—Real Estate Branding," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

A blank version of this page can be downloaded from www.trumpuniversity.com/branding101 and customized for your personal use. For any other use, contact Don Sexton at Marketing101@thearrowgroup.com.

Communications

There are fewer customers in the markets for commercial properties than in the residential property market. That means you should use more focused forms of communication than the print or broadcast advertising a residential real-estate agent might use.[1] Effective for the commercial real-estate agent are all the personal forms of communications such as e-mails and letters. In addition, client events such as seminars or even movies or picnics can be effective in generating leads. You may also schedule open houses for other agents and brokers so they can see what you have listed.

You can expect calls and visits from signs you place on properties. One well-known commercial real-estate agent claims that 18 percent of his incoming calls are due to signs.[2] These calls and visits must be transformed into prospects. Whoever answers your telephone should know that they need to obtain the contact information from the caller, as well as information about the property they wish to sell or buy. You might consider training courses for your administrative assistants (or yourself) to be sure these calls are converted into leads. The same is true for walk-ins. These people have contacted you because they saw something that made them believe you could help them. Don't disappoint them!

Transform call-ins and walk-ins into prospects.

Prospecting

Your first step in prospecting is to target a market (or, possibly, a few markets). Especially in commercial real estate, it is very difficult to be everything to everyone. Trying to cover numerous types of properties will cause you to try to be an expert in many areas and you may end up not being an expert in any one of them. For example, if you are dealing mainly with Class A or B high-rise office buildings, you probably would find it difficult to be an expert on garden apartment buildings. This is not to say you should not try to broaden your horizons, just be careful you do not try to go too far too fast. You might broaden your practice to include all kinds of office buildings or to include multi-use buildings since then your experience with Class A or B high-rise office buildings will be helpful. However, adding small retail strip shopping centers to your listing portfolio would be riskier.

Top-Tier Tenants: Gucci

Gucci at Trump Tower.

Photo credit: Ali Goldstein. Photo courtesy of The Trump Organization.

The Gucci flagship store in Manhattan occupies a prime piece of New York real-estate—the corner of Trump Tower and three floors of storefront space. Gucci is located in perhaps the most upscale retail neighborhood in New York City, with existing stores such as Bergdorf Goodman and Tiffany and planned locations for Giorgio Armani and Hugo Boss all close by. The store's interior design calls to mind Art Deco. Gucci products include jewelry, apparel, and accessories and merchandise, much of it exclusive to Gucci Fifth Avenue.

Primary target customers include wealthy residents and wealthy visitors. However, some real-estate observers interpret Gucci's move to Trump Tower as a way to broaden their clientele. According to Ben Fox, head of Winick Realty Group, "To be on Fifth Avenue is center stage in the world marketplace. . . . If you're looking to broaden your audience, you go to Fifth Avenue as opposed to Madison."

Brokers estimate that it cost between $50 and $70 million to build and that the rent is in excess of $20 million per year for about 46,000 square-feet. They think that potential annual revenue may be more than $100 million.

Source: "Gucci Pays Homage to Couture," *The Real Deal*, March 3, 2008.

Recall the discussion in Chapter 13 concerning growth and risks. Those ideas apply here as well.

In general, prospecting for commercial clients involves the similar types of sources discussed in Chapter 29 on implementing your residential real-estate marketing plan. (For suggestions on finding prospects, see Fisher,[3] Bowman,[4] and Lindahl.[5])

Sources of prospects include:

- Expired listings
- Centers of influence
- Newspapers
- Real-estate publications
- Advertisements
- Yellow pages
- Tax rolls/owner lists
- Farming

Expired listings are often relisted again in a very short time frame. You need to contact the property owner. Do not automatically assume you want that listing. There may be an important reason why the listing expired. For example, perhaps the property is overpriced, or perhaps there are problems with the site or with the building. However, if you believe that this is a listing you want, then you need to persuade the owner why you will do a more effective job than your competitors (but do not mention your competitors by name).

Centers of influence include just about anyone you know or to whom you are related. You may not think that all of these people will help you market commercial real estate, and you would be right. However, there may be a time and a place where one of them might be in a position to provide you with a lot of help, simply by mentioning your name and giving your contact information to a prospective client. For that to happen, you need to be sure that they know what you do—sell commercial real-estate—and that they know how people can find you.

Look over the real-estate pages in your local *newspaper* and the pages for your area in the local *real-estate publication*. You will see mentions of many sales with information about the buyer and the seller. These names can become your contacts. Even recent buyers may be persuaded to sell soon if you can find them an even more attractive deal.

Advertisements placed by other commercial real-estate agents or brokers can provide you with substantial lead information, especially if you are operating in an open listing market when many brokers can sell a property and if you can determine the property referred to in the ad. Ads placed by owners also represent leads. However, when contacting an FSBO ("For Sale by Owner"), you need to consider how you will persuade them to sell with your help. As discussed in Chapter 29, one effective argument with an FSBO is the higher yield they can achieve with your help.

Check the *Yellow Pages* listings for "shopping centers," "hotels and motels," "office buildings," and "apartments"; you will often find contact information that will lead you to the property owners.

Transform owner names into prospects.

Tax rolls are public records so you can peruse them for types of property, assessments, and owners. If you choose to specialize in undeveloped land, vacant property owners may be a source of leads. These are individuals who purchased property usually with development plans but whose plans later changed. You can find them by looking at local tax records for lots zoned for commercial use that are not built. The owners may be delighted to have you contact them and put their properties on the market.

Your area may also have an association that publishes a list of *property owners* in your area. You can focus on streets with offices or retailers and contact the various building owners.

Farming consists of focusing on a particular industry area, such as hospitality, and then concentrating your efforts on members of associations for that industry and otherwise raising your profile with them. You can do this with letters, e-mails, and attending conferences. Eventually you will begin to obtain leads as you will be the person in their minds at the time they want to buy or sell.

As discussed in Chapter 29, while *prospecting*, do not forget to qualify potential clients. (For several suggestions on qualifying prospects, see Peckham.[6]) Develop questions that allow you to determine whether they are serious sellers or serious buyers. Such questions might include, "When do you plan to move your business?" or "What are your price expectations?" You will develop your own qualifying questions. Keep in mind that all "suspects" are not "prospects." (For descriptions of qualified sellers, see Fisher.[7])

Unlike residential real estate, where often the home owner contacts just one agent, in commercial real estate, the typical seller may interview three or four agents before deciding on which one to choose for the listing.[8] You need an effective presentation to persuade the prospective seller to list with you.

Before you meet the seller, you should send them a package of material that provides them with information on yourself and your company. As we mentioned in Chapter 28 on marketing residential real estate, especially effective are testimonials from your satisfied clients. During the interview with the seller, you need first to determine his or her objectives. Then you will explain how the marketing and sales capabilities of yourself and your office will assist them in achieving their objectives.

You may need to manage their expectations on price. That is why you should certainly have developed a Competitive Market Analysis (CMA) for their property before the meeting. The CMA will allow you to show them comparables so they will have a broader foundation on which to determine their price expectations and objectives.

Showing

Showing in commercial real estate involves showing the physical property, but it involves more. In particular, it is necessary to show the financial characteristics of the property and what the owner might expect.

For sales, the agent needs to show key *financial measures* that demonstrate why this property is the best use of the buyer's money. For income-producing properties such as retail centers and office buildings, you need to consider reporting various financial measures.[9]

Scheduled Gross Income is the income if the building were fully occupied. The Gross Income Multiplier (GIM) is a simplistic way to compare properties:

$$\text{GIM} = \frac{\text{Sales Price}}{\text{Scheduled Gross Income}}$$

A major problem with the GIM is that it does not account for likely vacancies and does not include expenses, so properties with the same GIM may vary considerably in profitability and, consequently, in return on investment.

Effective Gross Income is the income with a "normal" amount of vacancies. Deducting expenses gives Net Operating Income (NOI), an important measure for determining return on investment in a property:

$$\text{NOI} = \text{Effective Gross Income} - \text{Operating Expenses}$$

The Capitalization (or Cap) Ratio uses the NOI to provide a rough measure of the return on the property investment.

$$\text{Cap Ratio} = \frac{\text{NOI}}{\text{Sale Price}}$$

The Cap Ratio is the annual earnings return on the property as a percentage of the investment, assuming that the purchase was made in cash.

However, most purchases involve financing. To incorporate the cost of financing, you can use the Cash on Cash Return Rate which is the net return on your cash outlay. To calculate the Cash on Cash Return Rate, you compute the cash throw-off by deducting mortgage payments from the NOI. Then you divide by the cash invested (down payment and closing costs) to obtain an estimate of the return on your investment.

$$\text{Cash on Cash Return} = \frac{\text{NOI} - \text{Annual Mortgage Payments}}{\text{Cash Invested}}$$

Cash on Cash Return is also known as the *cash throw-off rate* and is a useful measure because it is based on effective gross income, expenses, and the necessary finance costs.

However, over time, income and expenses may be expected to change. For example, if there are vacancies in an office building, retail center, or multifamily building, you may want to understand the reasons and whether the vacancy rate should increase or decrease in the coming years. Location will not change, but economic conditions may change, and traffic flows and other factors that affect the property may change. (For a discussion of factors that affect commercial real-estate value, see Fisher.[10])

If you examine the cash throw-off of a property over time, you can then develop estimates of the future *cash flows* expected from the property. By using the cash flows and the investments required and applying discounted cash flow techniques, you can calculate summary return on investment measures such as net present value and the internal rate of return—commonly used measures of return in all areas of business. Cash flow, net present value, and internal rate of return calculations are beyond what we can cover in this book. However, any popular accounting text should cover the topic. (For general discussions, see, for example, Horngren & Harrison[11] and Anthony & Breitner.[12] For discussion of cash flow analysis of real-estate properties, see Keim.[13])

Be comfortable with the financial measures you use.

The real bottom line is that you need to show the potential buyer what his or her bottom line will be if they make the deal.

The financial measures of the property you are showing need to be compared with those of others so that the prospective buyer has a foundation to make a decision. Such comparisons are included in the Competitive Market Analysis (CMA).

Comparable properties include those that have sold recently, that are currently on the market, and that were on the market but did not sell. Many commercial listings are not made public but are kept confidential by the agent so that they have more control over the situation. Therefore, you should use several approaches to find information on comparables and develop your own information base.

You can start with the Multiple Listing Service and also online services (for example, LoopNet, CoStar, Property Line). You can follow up with calls on local experts such as local commercial property appraisers, local zoning board members, and local commercial bankers. Do not neglect talking directly with property owners to learn their views of property values in your geographical area. (For a useful overview of developing CMA information, see Keim.[14])

Your financial analyses will be affected by zoning restrictions because they affect the use of the property. As noted earlier, expect *zoning codes* to vary by municipality and possibly to vary over time. If your client is considering developing a property or modifying an existing property, zoning codes will delineate permitted uses and conditional uses (which may be granted by a zoning board under certain circumstances), as well as govern characteristics of the building such as setbacks, site coverage, "hard coat" coverage (for example, paved parking lots), height, and number of parking spaces required. In short, fitting a building on a lot is a complicated juggling act. Your job is to help your client expedite their plans and advise them as to what might be possible.

Selling

Selling technique was discussed in Chapter 29. If you skipped that chapter, please go back and take a look for a more detailed discussion of selling. (For useful tips on selling commercial real estate, see Bowman.[15])

Selling is the process of facilitating a mutually beneficial transaction between buyer and seller.

The selling process is a dialogue between the salesperson and the buyer that the salesperson manages so that the buyer sees the property in the best light and can make an informed decision with which he or she will be satisfied. To manage that process efficiently and effectively, you, the salesperson, must understand the needs of your buyer and must understand how the property does and does not meet those needs. Remember that later you will hope for referrals from this buyer, so in the long run nothing is to be gained by ignoring negatives or "forgetting" inconvenient facts. After the purchase, the buyer will discover whatever you neglected to tell, and buyers have very long memories.

As mentioned in Chapter 29, effective salespeople are extremely good observers and listeners. Buyers provide a lot of signals—regarding objections, interest, intent to purchase. The salesperson needs to keep track of those signals. For example, whether someone walks through a building quickly or lingers and views a room from different angles would give you an idea of their interest in using the space for their store. If someone asks you precise questions about your financial measures, they are sufficiently interested to expend effort on evaluating the property.

At the right moment—and effective salespeople sense this—you need to try to close the deal. In Chapter 29, several types of closes were described. There is no single right way to close. It depends on your relationship with the buyer, the situation, and your own personality. You might use an assumptive close for a buyer who has very nearly persuaded himself or herself to purchase the property and an advisor close with someone who is very interested but does not feel completely confident in evaluating the financials.

Following Up

Before the contract is finalized, there is usually due diligence. During this period, typically 15 to 45 days, the buyer has the right to check the various aspects of the offer, for example, verify the financials, inspect the building and grounds, and check the zoning situation. Discovery of unknown negatives can torpedo the deal. (For specific suggestions for due diligence, see Fisher.[16])

When the deal is done, your work, of course, is still not finished. You need to stay in touch with the seller and buyer to make sure the transfer of property happened satisfactorily.

Obtaining Referrals

You will want to stay in contact with the parties to the deal for a while. They may provide you with referrals. They may provide you with testimonials for your listing presentation kit. They may themselves have other transactions they will bring to you.

Ask for referrals.

Ask for referrals. However, do not expect referrals to happen automatically. People like attention and like to be asked. Simply stay in touch with them through e-mail messages or cards. I stay in touch with my current and former clients throughout the year by sending them personal messages with articles on marketing and branding, and other materials that I believe will interest them. If your contacts with former sellers or buyers include information of value chosen for their needs, then that makes the contacts more effective and seem less impersonal. For example, if your specialty is retailing, you might send information on trends in retailing. If your specialty is hospitality, you might send information on trends in hotels or resorts.

Conclusions

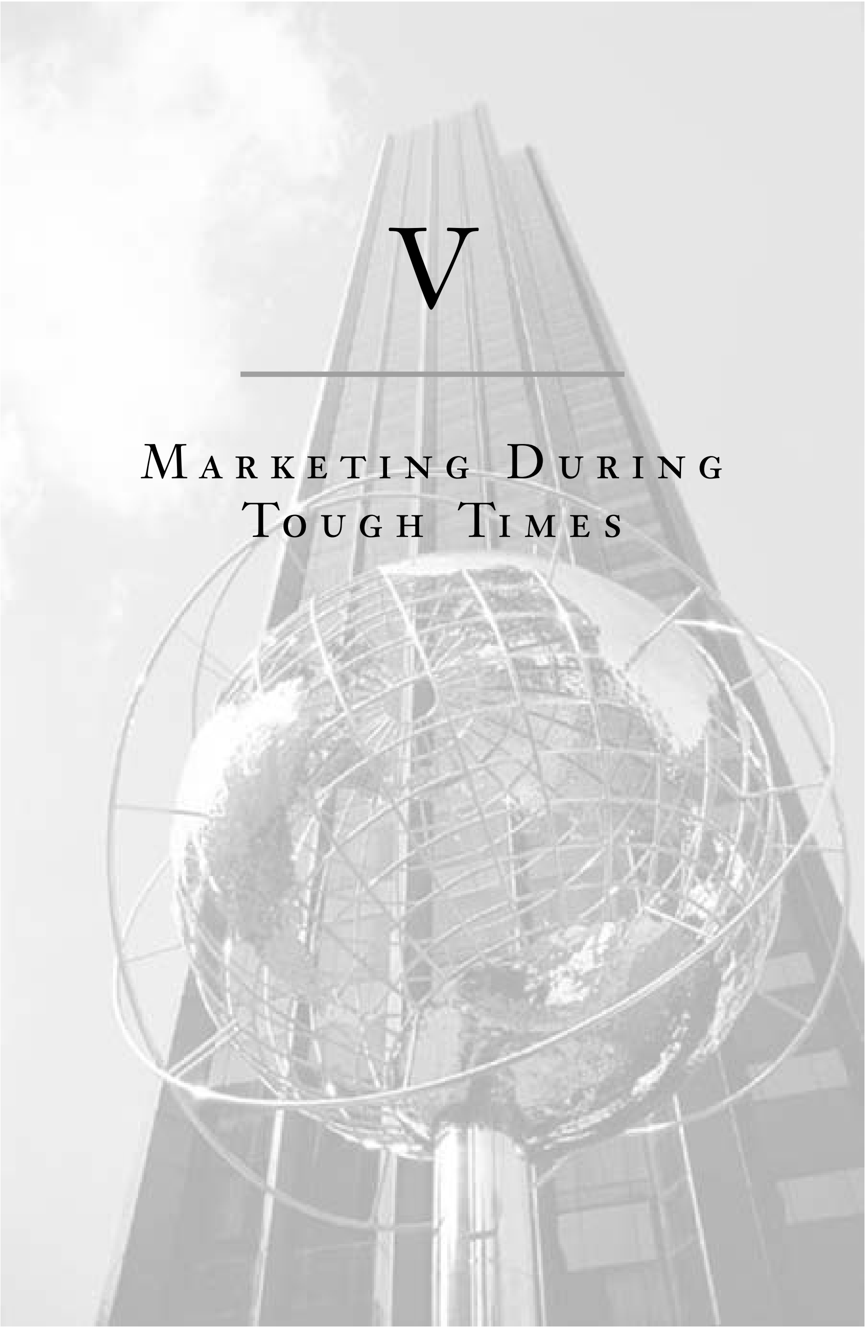
You need to both plan your work and work your plan. "Planning your work" consists of targeting markets and determining positioning. "Working your plan" consists of the programs you put into action. Keep in mind that the programs result in sales, but the programs will be much less effective if there is no overall marketing strategy to guide them.

For more on commercial real estate, see Lindahl.[17] For suggestions for managing real-estate brands, see Sexton.[18]

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

V

Marketing During Tough Times



32

Marketing During Tough Times

Dos and Don'ts

Does marketing work when the economy is down? Most emphatically yes.

In tough economic times when customers are not buying, many managers react by cutting costs. Often, cutting costs just digs their organization more deeply into a financial pit from which it is difficult to escape. In tough economic times, you certainly cannot act as if money is unlimited. What you do need to do is make sure that your marketing decisions are on target and you are spending your money where it will have the greatest positive effect on your financial performance.[1,2] This chapter shows you how to do that.

Impact of Tough Economic Times

When the economy is down, overall demand is down.[3] However, even though the economy is down, keep in mind that all parts of the economy may not be in trouble. There may be products and services that are needed regardless of the condition of the economy. There may even be products and services that are more needed when the economy is down. *Advertising Age* suggested that soup, Spam®, thrift stores, laxatives, cable television, and cheap beer were examples of products and services that were recession-proof.[4]

Tough economic times do not affect all products and services or all customers to the same degree.

During tough economic times, credit is scare and product purchases that usually require credit such as automobiles and major appliances will likely be postponed. More generally, one survey of consumers found that approximately twice as many consumers were planning to cut by 20 percent their expenditures on clothing, personal care, home furnishings, and travel than were planning to cut by 20 percent expenditures on food, education, housing, and health.[5] Whatever your line of business, tough economic times will have an effect on your financial results. However, if you run a furniture store or travel agency, you can expect tough economic times to have a more negative effect on your business than if you run a food store or work for a university. If you provide several products or services, you may be able to find some that have a more stable financial performance during an economic recession than do others.

Perhaps your business is not one of those that is recession-proof. If not, then perhaps some of your customers, if not recession-proof themselves, are not being hit as hard by economic trends as are other customers. To weather

Real Estate in a Down Economy: Trump Properties

"During recessionary periods, Buyers are few and far between. Brand recognition, superior locations and five star amenities are the keys to why Trump properties continue to trade and increase in value during difficult economic times."

Michael Cohen, Executive Vice President and Special Counsel to Donald J. Trump, and investor in several Trump properties.

the recession, you would want to identify who those customers are and be sure you have efforts focused on them.[6]

How to Manage During Tough Economic Times

Tough economic times represent crises. Frequently, people respond to crises without pausing to think and consider what they should do. They react to the crisis rather than plan how to manage the crisis. Such reactions may often lead to actions that make the situation worse.

Costs

When the economy is in a downturn, often the first response of managers is to cut costs. Cutting costs may be necessary, but it all depends on what costs are cut. For example, an across-the-board budget cut is almost always a mistake because important costs are being cut more than they should, whereas less important costs are being cut less than they should.

An important cost is any cost that cuts the value you are providing your customers more than it saves you money. Important costs need not be large and often may be small. For example, during tough times, some airlines cut out small things such as pillows and snacks that make flights bearable. The pennies saved by removing such services almost always will be far less than the dollars lost when customers stop booking reservations on the airline.

Generally, managers of services need be wary of the temptation to cut costs that support benefits their customers consider important. The same is true of managers of products. They need be wary of cutting costs that change how their customers will experience their product. If they produce a piano that is known for its tone, then the operations and tests that produce that tone performance must be continued. If they produce buildings known for their elegant fixtures, then those fixtures should be maintained.

Cutting costs that affect a product or service is what I describe as "hollowing out" a brand.[7] A brand represents inertia in your customer's mind. As long as you continue to keep your brand promise, your brand should do well. However, once you break your brand promise with poor service or poor product performance, the customer will know and will change their perception of your brand.

Managers are tempted to hollow out their brands because it usually takes some time for their customers to notice the decline in value. During that time, the managers can receive attractive financial results. The problem comes later—when the customers have figured out what is going on and they change their perception of the brand and remove their allegiance from the brand. Often their allegiance cannot be won back, and in the long run, the financial results of the organization will decline, perhaps not to recover.

Prices

During downturns, there is substantial pressure to cut your prices. Your customers are asking for price decreases, and some of your competitors are lowering their prices. You may need to lower prices too. But if you do lower prices, do so carefully.

When contemplating lowering prices in a downturn, keep in mind this phrase: “Be selective.”

Select those customers for which you might want to cut price. It may be worthwhile to lower prices for important customers who are having short-term financial difficulties to help them weather the economic storm. It may be worthwhile to lower prices for important customers about to go to a competitor. If you do help these customers, make it clear to them that you are helping them—often people do not recognize special treatment they are receiving. If you can, try to put any understanding you may have with your customer in writing—for example, that in return for granting lower prices today, you expect a certain amount of business in the future.

Select those products or services for which you might want to cut price. You may want to consider cutting prices on products and services where additional volume will allow you to decrease your costs. You may want to consider cutting prices on products and services where you can unbundle some of the benefits that your most important customers may not care about. For example, if you own a hotel, you may charge separately for various services such as valet parking service. If appropriate, you might explain how any changes you may make in the product or service allow you to help your customers save money.

One risk in lowering prices is that you might ignite a price war. If you see a price war coming, try to not be drawn into it. As explained in Chapter 6, there are several ways to avoid a price war, including:

- Add value.
- Unbundle your price.
- Segment the market.
- Deploy a “fighting” brand.

Price wars typically consist of unselective price decreases that, if unchecked, can destroy your business.

Training

During an economic downturn, it is tempting to cut out training for your people. That may be a short-sighted policy. In the long run, it will be your people who keep your business running and, hopefully, growing. If you postpone or cancel their training, that will have a negative impact—maybe not right away, but sooner than you might think. For example, if your salespeople need training on how to sell, not to provide them such training means that they will be much less effective in finding and keeping customers for your business.

Continue to invest in the people who you expect to carry your organization through the tough times.

People

During an economic crisis, you may need to let some people go. That is unfortunate, but you may have no choice. However, an economic downturn may also represent an opportunity for you to recruit skilled people who themselves were let go. That means you may now need to be more aggressive in hiring people than you would like but, again, in the long run, your organization will benefit.

Marketing and Advertising

Often, marketing and advertising efforts are cut back during an economic downturn. That is actually the time when it may be most important to maintain your level of marketing activity. Especially if your competitors are reducing their marketing efforts, your own marketing efforts will become much more effective. If you decrease your marketing budget, you are playing into your competitors' hands. Studies of past recessions have shown that cuts in the marketing budget today have negative effects on sales and profits tomorrow.[8,9,10] Unfortunately, many organizations are short-sighted (perhaps out of necessity) and cut their marketing budgets during downturns.[11]

Reactionary cuts in the marketing budget may have long-term negative impact on your organization's ability to perform.

Clearly you should evaluate all your marketing spending and lower expenditures where you think you must, but keep in mind that there may be areas where you might consider increasing your efforts.[12]

Receivables

During an economic decline, you will likely be short of cash and will turn to your customers to receive payment sooner. That may result in tougher credit policies and tougher accounts receivables policies. Most likely you will be able to twist the arms of your customers to get payments sooner—at least the ones who are able to pay. However, you may put out of business the ones who are not able to pay with your take-no-prisoners credit and receivables policies, and you will not have them in the future as a source of cash. In addition, customers have long memories and will remember how you treated them if and when they are working for another organization with which you would like to do business. You need to work with your customers as much as possible to schedule their payments.[13]

You cannot run your business as a charity, but consider ways you can partner with your customers.

You cannot run your business as a charity, but you should make efforts to work with your customers as partners when you consider how to manage your receivables.

Payables

Your payables are the other side of the receivables issue. You may be tempted to "slow pay" your suppliers to free up cash. However, if you do that often and without discussing your actions with your suppliers, you will find it may be difficult for you to find suppliers in the future. Not only will the suppliers you treated unfairly remember, they will talk to other suppliers, and your reputation will be tarnished and may not be repairable.

If you have payment problems, you need to be honest with your suppliers and try to work out arrangements that will be satisfactory to both sides. Simply ignoring the dilemma and hoping your suppliers will not notice your slow-paying tactics will not work.

New Projects

Projects such as the development of new products or new services may seem a luxury during tough economic times. In fact, they are a necessity. If you are going to not only get through the tough economic times, but to position your organization for future growth, you need to continue to develop new ideas and continue to innovate.

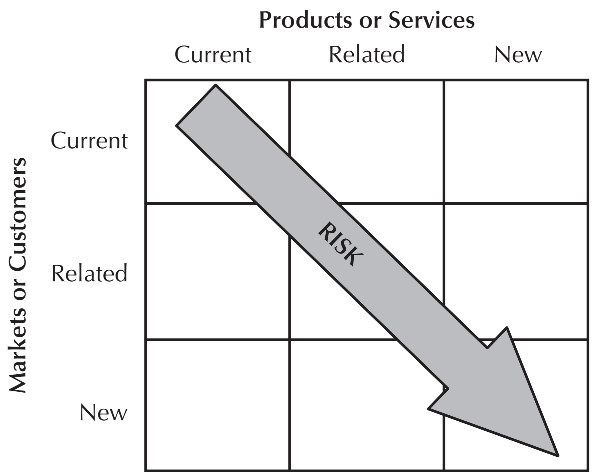
Continue to innovate both processes and products and services.

Small businesses, in particular, have a tendency to stay with what they know—they often have inertia. In tough economic times, you need to see beyond the current situation and find the long-run opportunities.

Survive and Thrive

Chapter 13 reviewed how a manager can evaluate strategies for growth by employing the Growth Matrix (Exhibit 32.1). The same matrix can be used to evaluate strategies for survival and beyond during tough times.

Exhibit 32.1 Growth Matrix



Source: "Arrow Guide—Growth Strategies," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Recall that the matrix has two dimensions—markets or customers and products or services. The upper left cell represents where the organization is at the moment—strategies for current markets or customers and current products or services. The upper right cell consists of strategies for moving the organization to new products or to new services. The lower left cell concerns strategies for moving the organization to new markets or to new customers. The lower right cell refers to strategies where the organization is moving simultaneously to new products or services and new markets or customers.

For example, a beauty salon may focus efforts on the services provided their current customers, ensuring that they are satisfied and return, and perhaps persuading them to return even more often and utilize more of the salon's services. That would be a strategy in the upper left cell. If the beauty salon added tanning services for their current customers, that would be a strategy in the upper right cell. Taking their current services to residents of retirement homes would be a strategy in the lower left cell. Finally, opening a new salon with new services for men would be a strategy in the lower right cell.

As discussed in Chapter 13, as you move to the southeast on the matrix, risk increases because it is necessary to acquire knowledge about the new markets or customers and the new products or services. At first, efforts into new categories may not succeed. In general, you would likely not pursue a strategy that calls for changing both markets and products—lower right cell—during difficult economic times as it would probably be too risky. However, each of the other three cells suggests marketing strategies that may succeed during a tough economic period. And it may even be possible to find a new market/new product strategy that might succeed regardless of the economic climate.

Conclusions

Economic downturns make resources scarce for both marketers and customers. Scare resources create pressures to make changes that may improve the situation for a short time but will have negative consequences in the long run. Although your first responsibility in a downturn is likely to help your organization survive, you also need to make sure that you do not make decisions and take actions for the short run that will leave you unable to compete effectively in the long run.

The key to succeeding during a difficult economic time is to focus your marketing efforts more precisely. The next two chapters explain how to use strategies suggested by the growth matrix to develop precisely focused marketing strategies that will help you survive and thrive during an economic downturn.

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

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Tough Time Marketing

Managing Current Customers

During an economic downturn, your first priority should be managing your current customers. You want to be sure to retain those customers that are most attractive to you. If possible, you would like to receive more revenue and profits from them. If you lose customers now, it may be difficult to recruit new customers to replace those that have departed. In this chapter you will learn how to systematically develop revenue and profit-producing strategies that are focused on your current customers.

Current Customer Strategies

Strategies focused on current customers and current products are in the upper left cell of Exhibit 32.1. To maintain current customers, you need to think of them as individuals, and you need especially to understand how and why they behave. If you feel you do not know your customers as well as you would like, then you need to do some marketing research. (See Chapter 36 for suggestions on designing such a study.)

Retaining Customers with Personalized Service

Suite at Trump International Hotel & Tower, New York.

Photo courtesy of The Trump Organization.

The Attache Department was first introduced in 1997 at the Trump International Hotel & Tower New York, and has been expanded throughout the properties comprising the Trump Hotel Collection. Its purpose is to ensure high-level service for every guest and resident well beyond the usual concierge service. Members of the department are prepared to handle virtually any guest request such as:

- Arranging for a personal trainer.
- Shopping for gifts and souvenirs.
- Providing secretarial services.
- Accommodating pets.
- Stocking kitchens with favorite groceries.
- Recruiting a chef to provide a private dining experience.
- Securing private access to salon services.

According to Jim Petrus, chief operating officer of Trump International Hotel Management LLC, they wish ". . . to personalize the guest experience . . . [and] create the sense that every guest and owner is a VIP, and each stay a return 'home,' where desires are intuited and requests anticipated." Guest preferences are carefully recorded in a detailed guest history which is referenced and updated on each visit.

Source: "Trump Attache," The Trump Organization press release, October 10, 2007.

The questions you need to answer include:

- Why do your customers buy from you?
- What persuades them to be loyal to you?

- What determines the price they will pay? How might you persuade them to buy more often or to buy more, or both?
- What else might they buy from you?

You can think of each customer as a source of profits to you. The following expression shows the main components of expected contribution from a customer:

Expected customer contribution =
[Total unit usage × Your share × (Price – Cost per unit)] × Loyalty

You can affect any of these components and increase your profit from your customer.

How can you increase profit from current customers?

How can you increase profit from current customers? The following sections detail several possibilities.

Total Unit Usage

Total usage consists of all the purchases the customer makes over a given period. For example, all the clothes they dry-clean during a year or all the pizzas they buy. *If* you can expect to receive most of their business, then you can increase your revenue and profits by increasing the total usage of the customer. If a dentist can persuade some patients to come for a check-up three times a year instead of twice a year, then revenue for those patients would increase by 50 percent! If a car dealer can persuade a customer to change cars more often, then profit per customer increases—as long as they purchase from that dealer.

Share

Share is the proportion of your customers' total unit usage that you get. You influence share with better products and services. For example, McDonald's same-store sales increased nearly 8 percent globally (and 4.5 percent in the United States) despite the dismal economic news. According to McDonald's CEO Jim Skinner, the "continued strong performance reflects the benefits of our multidimensional approach. . . . Convenient locations, extended hours,

Increasing Sales to Current Customers: Cufflinks

Donald J. Trump Signature Collection® Cufflinks.
Photo courtesy of The Trump Organization.

The Trump Organization partners with Swank to manufacture and distribute men's accessories such as cufflinks and the Phillips-Van Heusen Corporation for a variety of men's clothing products such as neckwear and dress shirts. They all rest on the foundation of the Trump brand, "power boardroom dressing for the aspiring executive."

Allan Sirkin, Vice Chairman, Phillips-Van Heusen, commented, "We are very aware of the powerful brand equity of the Trump name. It is a great marketing platform, one which has instant consumer recognition. The Donald J. Trump Signature Collection® . . . [has] enormous appeal to the rapidly expanding market of young professionals who know and understand the importance of dressing for corporate success."

Source: Press release, The Trump Organization, 2005.

and quality food at an outstanding value are all reasons why people are choosing McDonald's."[1]

If you own a Chinese restaurant that provides customers with take-out meals, you want to get *all* their Chinese take-out business or as much as you can. How? With accurate order taking, prompt delivery, and tasty food.

Price

As discussed in Chapter 25, price depends on the benefits you provide your customer *and* whether they know those benefits and consider them important.

Although it is difficult to increase price during an economic downturn, it is possible if the product or service has benefits that the customer needs and cannot obtain elsewhere.

Whatever your business, you can charge more by providing special services such as quick turnaround, 24/7 service, producing small quantities, and customizing an order. If you receive push-back for the charges from an important customer, you can provide them with a special discount.

You can also lower prices for reasons associated with economies. As mentioned in Chapter 6, Dow Corning developed their Xiameter® brand for large quantities of chemicals ordered online, passing on savings to their customers.[2] Always be careful that you do not lower prices and begin a price war if your costs are not sufficiently low to expect you will emerge a winner.[3]

Customers will ask you for price cuts during economic downturns. You need to be *selective* in your response to such requests.

You can effectively lower prices by unbundling your product and services. If there are customers who do not want a service, you can charge separately for that service and lower the price of the basic service. That is essentially the approach used by restaurants when they have both a fixed price menu and menu items that are priced à la carte. Note that this is a different policy than simply adding extra charges without decreasing the basic price. That is the policy followed by several airlines—charging in addition for food and for checking bags—and it can cause dissatisfaction with customers.

Whenever you do cut price, try to get something else in return from the customer. A large company once asked me to cut my price on training programs. I said I would do so *if* they gave me a contract for twice as many programs over the coming year. They did so, I lowered my price, and we achieved a win-win solution.

You may be willing to work with some customers on price because of your long-term relationship. If you do give them a price discount, make clear that it is part of your partnership with them so they will appreciate your actions.

Costs

You can and should cut costs, but they should be costs that do not appreciably affect the value to the customer. For example, you should reassess your media expenditures. Possibly you might make more use of digital media and social networking in particular, considering the quality of contacts not just the reach and frequency.[4–6] If you can, commit to longer-term media contracts in return for discounts.[7] (See also Neff[8] and Lafayette.[9]) You may also try to increase your efforts on public relations and events that often yield lower cost communications impact.[10]

Consider cutting costs that are unrelated to customer value.

You can work with some of your customers to lower costs. For example, if you sell large amounts, you can work with them to determine what might be the most efficient order quantities.[11]

Where possible, convert fixed costs to variable costs by outsourcing and subcontracting.[12] For example, if you run a services business such as a design firm or a marketing research consultancy, try to use freelance help rather than taking on more salaries.

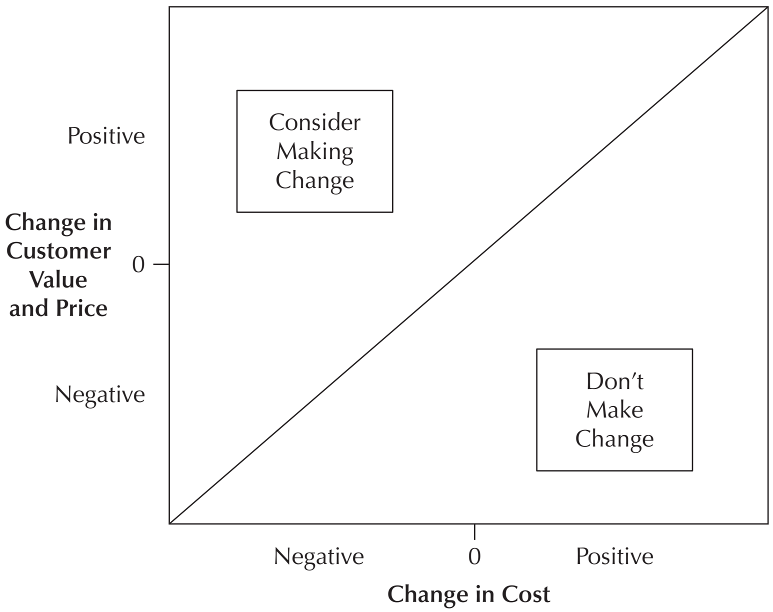
Price Less Cost per Unit

The difference between price and variable cost per unit is known as the *variable margin per unit* or the *contribution per unit*. During tough times, you want to be sure you know your contribution per unit for each customer and are managing it.

The overall approach to managing contribution per unit is called *value engineering*. Generally, you want to consider adding benefits to your product or service if they raise your price more than they raise your costs *or* you want to consider removing benefits from your product or service if they lower your costs more than they lower your price. (Besides the impact on price and margin per unit, you should also consider any possible impact on unit sales.) Value engineering can be done precisely with various quantitative tools such as *conjoint analysis* (described in Chapter 5), a statistical technique that helps estimate how much specific benefits are worth to a customer. However, you do not need to know advanced statistical methods to apply value engineering thinking. If you have an idea of what benefits your customers want and what it might cost to give them those benefits, you can do value engineering.

Exhibit 33.1 can help you sort out changes you are considering in your product or service. The vertical axis represents what you think might be the impact of those changes on the price the customer would be willing to pay.

Exhibit 33.1 Evaluating Changes in Products or Services



Source: "Arrow Guide—Marketing in a Difficult Economy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

The horizontal axis represents what you think will be the impact of those changes on your costs per unit sold. Changes that increase price more than costs are in the upper left portion of the box; changes that decrease price more than costs are in the lower right portion of the box. If a change will increase your price more than your unit costs, you should probably do it. However, if a change will decrease your price more than your costs, you should probably not do it.

For example, suppose you run a contracting business that makes decks for suburban homeowners. You have a choice regarding the surface you might put on the deck—a standard surface and a surface that lasts longer. The longer-lasting surface costs more. If the customer is willing to pay more for the longer-lasting surface so that your increased costs are covered, then that change would be in the upper left part of the box and you would likely do it. However, if the customer is unwilling to pay more to cover your increased costs, then that change would be in the lower right part of the box and you should likely not do it.

A wireless telecommunications company applied value engineering to their services. They found that if the waiting time for a customer call to be answered was less than a certain number of seconds, the customer would be delighted, and if the waiting time was longer than a certain number of seconds, the customer would be quite annoyed. They decided to manage their call responses so that waiting time was just below the annoyance threshold rather than just below the delight threshold. That decision did not much change the value the customer felt they received, but it did save the company $7 million annually, much of which they used to improve their customer problem-solving process. Similarly, a bank was planning to add enhancements to their ATMs when they learned that the main drivers of customer satisfaction with ATMs were not the enhancements under consideration (such as screening barriers for privacy) but whether there were enough ATMs and enough money in the ATMs. By not proceeding with the enhancement program and, instead, adding ATMs and cash to the ATMs, they increased value to their customers.[13]

To do value engineering, you need to know what your customers are willing (and unwilling) to pay for and you need to know the true costs of adding (or removing) benefits from what you offer your customers. You might want to review Chapter 25 on Pricing and Chapter 35 on Financial Analysis if you would like more information on those topics.

Cross Selling

You can obtain more contribution and profit from your customers by selling them more products and services. An airline can offer hotel and car rental services. Wal-Mart exploits their relationship with their customers to cover a wide diversity of products.[14] Successful cross selling, as do all marketing actions, requires knowledge of customers. What other products might they be willing to purchase from you? The customer of a restaurant may be willing to buy take-out meals from the restaurant but probably not motor oil for their car. The member of a health club may be willing to take courses in Pilates but perhaps not courses in the martial arts. The customer of a dive shop may be willing to book diving tours through the shop but may not be willing to book hiking tours. You should check any extension of your product or service lines by talking with your customers.

Often a natural extension to your portfolio of products and services are maintenance and repair services. For example, during the economic dark times in 1930, General Motors ran ads with the tagline "Care will save your car," and contacted car owners to remind them to service their cars.[15]

Loyalty

One of the most important drivers of the expected contribution you obtain from your customers is their loyalty to your products and services. Loyalty refers to the probability that every time they want to buy the kind of product or service you offer, they will purchase it from you.

Loyalty is the key to improving contribution from current customers.

Suppose you run a pizza restaurant. If a family purchases 20 pizzas a year, if they are relatively loyal to you, then your revenues (and profits) from them will be larger and more stable than if they are not loyal to you—that is, if they do not consider you to be their main source of pizzas.

It would be unreasonable to expect to get 100 percent of their purchases all the time. However, it makes a huge difference in the profitability you receive from a customer whether their loyalty is 90 or 60 percent. The profit for a customer with a 90 percent loyalty rate is *not* 50 percent more than the profit of a customer with a 60 percent loyalty rate—it is typically over 80 percent more! The reason is that loyalty rates are *multiplied* when you calculate the profits from a customer. Therefore, you get *higher* increases on per customer profits for any changes you can make in their loyalty rates.

A quick way to understand this is to consider the following simple example. Suppose you are starting up a tax advisory service and have 100 customers. You expect them to come to you once a year for income tax advice. If your loyalty rate is 90 percent, the second year, 90 of your original customers will return, the third year, 81 (90 percent × 90) will return, the fourth year, 73 (90 percent × 81), and so forth. If your loyalty rate is only 60 percent, then the second year, 60 return, the third year, 36 return, and the fourth year, only 22 return! Now hopefully you have found new customers during this period and maybe some of the customers that did not return the second year do eventually return. However, if your loyalty rate is relatively low, you need to run faster just to stay in the same place.

There is a saying in marketing, "Acquiring new customers costs six times what it costs to keep a current customer." Whether it costs six times more or four times more or ten times more, most marketing managers agree that it costs more to acquire a new customer. For sure you need new customers, but you should be certain you do not neglect your current customers, and that you take actions that maintain and increase their loyalty rates.

One of the large New York City banks apparently fails to understand the importance of maintaining their customer base, which may be one of the reasons they have been in financial difficulties. In one incident, without any warning to the customer, they canceled a credit card that had not been used recently. When the customer was informed of the reason for the lack of use and asked to reinstate the card, the bank said they could not do so but would consider a new application. If a customer found their service unresponsive, why would anyone want to reapply to them?! Such actions multiplied by thousands add up to many lost customers and many lost contribution streams.

You can influence share with promotions. For example, airlines use frequent flyer programs to increase their share. The same idea can be used for most small businesses. A camera store can provide coupons for free prints to their customers each time they use one of their services, and a laundromat can give tokens for additional loads of wash for frequent customers.

In the long run, you increase loyalty rates with customer-caring service, and with products and services that perform well—and with innovations that keep your organization at the top of the customer's list of suppliers. Rupert Hart calls this a V*alue* M*anaged* R*elationship* or VMR. VMR's focus on ways where you can work with your customers to lower their costs or to help them solve their problem. Anixter, a distributor of electrical wire and cable, advises their customers to take delivery of just the right lengths of wire when they need it. Their slogan is, "Use our inventory: It's better than your cash." Jaguar worked with their suppliers to increase the reliability of components. The independent grocery wholesaler, Supervalu, provides technical expertise and training to grocery retailers.[16] GE Aircraft Engines provides maintenance services all around the world to provide peace of mind to their customers. Charles Schwab provides ongoing, personalized advice to their clients—a Value Managed Relationship.

Managing your brand effectively helps you manage loyalty. If your brand is not strong in your customers' minds, the way is open for private labels. Studies show that the sales of private labels do tend to increase during economic downtimes.[17] A well-managed brand maintains or increases customer loyalty. For example, Domino Printing Sciences provides machines that print dates and batch codes on containers for pharmaceutical and food products such as milk cartons. Reliability is key because if one of their machines breaks down, it can hold up the production line. Reliability is crucial to their brand and to their sales success.[18] (See also Hart.[19])

Switching Costs

You can increase loyalty by managing *switching costs*. A switching cost is the effort and expenditure a customer must make to leave you and go to one of your competitors. Contracts represent switching costs. However, switching costs can also be based on attributes such as spare part availability, embedded software, technical expertise, maintenance service, and proprietary consumables. Someone who switches from one hair cutter to another faces the switching cost of explaining to the new person how they want their hair cut. That is a minor switching cost. A major switching cost would be changing the security system in a factory. New equipment would need to be installed and new personnel trained. Anything that would make the customer averse to finding a new vendor is a switching cost.

Sometimes you can build switching costs into your relationship with your customer. For example, if you are selling printers, you might stipulate that there will be no warranty service if parts or consumables other than yours are used in the printer. American Hospital Supply locates in the hospitals of their customers terminals that are linked directly to their warehouses.[20]

Targeting

Targeting customers is always important, but precise targeting is crucial during difficult economic periods. In particular, you need to identify those customers who provide relatively high contributions for the efforts required and can be expected to grow even during the downturn.[21] These customers may simply buy in large volume or they may be relatively price insensitive, or both. Their ability to pay is also important during a recession period. Fingerhut, the consumer mail order house, analyzed their customer information to determine who might be more likely to be good credit risks and targeted efforts especially to them.[22] A beverage company was able to find differences in customer profitability across zip codes and change their customer targeting accordingly.[23]

In Exhibit 33.2, customers have been organized by their revenue and the costs of serving them. You may not know the exact positions of all your customers, but most business owners or managers have an idea of the revenues expected from each of their customers and the approximate costs of keeping them satisfied, including any time needed to keep them happy.

The customers in the upper left quadrant of Exhibit 33.2 are "keepers." They provide relatively more revenue to you than the costs they require. You can expect these customers to be attacked by your competitors. Be sure you are able to defend them.

In contrast with the keepers, the customers in the lower right quadrant provide relatively less revenue than costs. You may want to consider walking away from some or all of these customers and using the freed-up time to develop new customers, or new products or services. Better, you may try to give these high-maintenance/low-profit customers to your competitors.

Exhibit 33.2 Evaluating Customers by Contribution

Revenue from Customer	Low (Costs of Serving Customer)	High (Costs of Serving Customer)
High	Keep!	Decrease Costs
Low	Increase Revenue	Consider Dropping

Costs of Serving Customer

Source: "Arrow Guide—Marketing in a Difficult Economy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Be prepared to walk away from some customers.

Customers in the upper right quadrant have profit potential, but you need to find ways to lower your costs of serving them. For example, if you sell building supplies and most large contractors are purchasing in-person, perhaps you can lower your selling costs by persuading these customers to purchase online. If you are running an employee training business and have been developing different sets of materials for each client, perhaps you might be able to persuade these customers to use generic materials instead.

Customers in the lower left quadrant do not cost you a lot but do not provide you with much revenue, so they are marginal customers. You should consider ways to increase revenue from them—for example, by increasing your share of their purchases or by selling them more products or services. A dry cleaner might provide volume discounts or might promote their tailoring services. A grocer might add product lines, including prepared meals. If you are unable to increase the revenue from these customers to an acceptable level, you may want to consider dropping them or, at least, not making any special effort to keep them.

Conclusions

During difficult economic conditions, be sure you protect your power base—your base of current customers. Evaluate all your customers in terms of short-term and long-term profitability, then decide where you will place your efforts. Be careful that across-the-board policies such as cuts in costs and services do not sweep away your attractive customers together with the less attractive customers. You need to partner with your best customers so you both get through the difficult times.

For review questions for this chapter, log on to: www.trumpuniversity.com/marketing101.

34

Tough Time Marketing

Getting New Customers

During an economic downturn, it is possible to grow your business by getting new customers or introducing new products and services. However, as explained in Chapter 13, such strategies are more risky than strategies focused on current customers even in good times. In not-so-good economic times, you must approach growth strategies with even more deliberation, which may be difficult given the stress of a downturn and the pressure to find new sources of revenue. This chapter shows how to systematically develop growth strategies even during tough times.

Strategies for New Customers

Strategies focused on new customers and current products and services are in the lower left cell of Exhibit 32.1.

Difficult economic times are not the best of times to add new customers. In difficult economic times, some customers may not want to switch suppliers because they do not want to take the risk. On the other hand, some customers will be looking to switch suppliers because they hope to find a better deal—a

Moving to New Markets: Trump Towers, Sisli, Istanbul

Trump Towers, Sisli, Istanbul.
Photo courtesy of The Trump Organization.

The Trump Towers, Sisli, Istanbul project includes two towers—one luxury residential tower and one "A+ type" office tower—with a premier luxury shopping complex joining the towers at their base.

Floor plans, interior designs and finishes, and materials used in the residences are being designed according to Trump's standards, which are recognized as being among the highest in the real-estate industry. All Trump properties use state-of-the art design and employ materials that are always top-of-the-line in luxury and elegance.

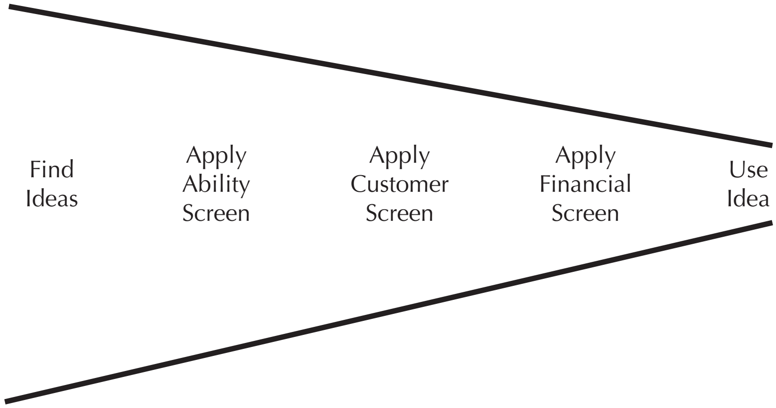
The shopping complex will mirror the residential and office towers in excellence and sophistication. Turkish shoppers will be treated to an extraordinary retail experience, unlike any other in Istanbul. The shopping complex will be home to well-known lifestyle and retail brands as well as necessities and will add to Istanbul's fame as one of the world's great shopping cities.

This landmark project is the The Trump Organization's first venture into Turkey and Europe. Ivanka Trump, Executive Vice President of Development & Acquisitions for The Trump Organization, stated, "We think that this is a great time for investments in the region and we know that Trump Towers, Sisli, will be a great success and a spectacular project."

Source: Press release, The Trump Organization, February, 2009.

lower price, superior performance, or both. Your task is to find the customers who are interested in switching *and* who will provide you an attractive contribution.

Exhibit 34.1 Idea Generation Funnel



Source: "Arrow Guide—New Product Strategies," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

You can use Exhibit 33.2 to help structure your thinking regarding which customers to target. Ideally, you would like to find customers in the upper left quadrant—high revenue and low costs. Of course, everyone else would like to find and win those customers as well, so expect competition.

To win the high-revenue/low-cost customers, you will need to know their needs well so that you can develop products or services that will meet their needs at a level superior to what your competitors can do. For example, if you are an accountant and wish to increase your practice among companies that manage large commercial buildings, then you will need to know the key accounting issues facing their managers and the current regulations.

Do not automatically accept any order—be selective.

If you are trying to increase your customer base, it is important that you have a strategy that describes where you focus your efforts. Not only should you make clear which customers you want, you should also designate those customers you do *not* want; otherwise, you will find that the return of your efforts to acquire new customers will be diluted. There will be voices in your company arguing to accept business from *any* customer. Be very careful of those "never turn down an order" arguments because you may be using your own scarce resources to support customers that may provide you with minimal profit or even no profit! In addition, then you may be left without resources to accommodate an attractive customer when they approach you.

Strategies for New Products or Services

The upper right cell in Exhibit 32.1 represents strategies for new products or services offered to your current customers.

A tough economy may not seem like the time for innovation, but in fact, often tough times are the incubator for new ideas and new products and services. Brad Johnson, an editor of *Advertising Age*, examined several recessions in the United States and found numerous innovations in products and services, and even in how companies marketed.[1]

Increasing Sales with New Products: Trump Ice®

Photo courtesy of The Trump Organiztion.

Originally developed for the Trump casinos, Trump Ice® was featured in one of the tasks during the first season of *The Apprentice*. The response to the show suggested there was a large demand for the product.

The Trump Organization found natural springs consistent with the Trump standards of high quality. Donald Trump notes that, "We use only the purest natural spring water."

Their distributors target upscale convenience and grocery stores where one might expect to find the Trump brand.

Source: Web site, Trump Ice®, January, 2009.

Finding Ideas

To find one idea that will work usually requires starting with many, perhaps hundreds. Then you need to screen and modify the ideas until you are able to identify an idea that you believe will be successful, what is known as the *idea generation funnel* (see Exhibit 34.1). (For discussion of idea generation and sources of ideas, see Kuratko[2] and Lamb, Hair, Jr., & McDaniel.[3])

Ideas for new products or services can come from many places, for example:

- Employees
- Customer suggestions
- Customer complaints
- Competitors
- Dealers and distributors
- Suppliers
- Publications

Employees, especially those close to customers, may come up with ideas that allow you to develop product or service improvements. Customers, of course, you should carefully listen to—especially your most experienced and most difficult customers. You may use surveys or focus groups to learn their opinions, but simply talking to them may provide you with promising ideas. Customer complaints should be thought of as gold. If you know why a customer is having a problem, hopefully you can develop a way to solve his or her problem. For example, if you run a health club and your clients are complaining that they are not losing weight quickly enough, perhaps you can offer a service that provides them with nutrition advice.

Watch your competitors—they may have some good ideas that you can improve on. If a competing real-estate agent is helping companies find temporary rentals for new employees, perhaps you can do that, too, and better. Dealers, distributors, and suppliers have good vantage points from where they can see new developments in your business. Talk to them about new ideas. They also can probably give you feedback concerning the feasibility of such ideas.

Publications can bring to your attention product or service ideas in other parts of the world or in other industries that you might be able to adapt for your customers. Keep your eyes and ears open—you never know where you will find a new idea.

When collecting ideas, keep in mind that you do not need to discard ideas while you are trying to collect them. In the initial stage of finding an idea for a new product or service, you want to *maximize* the number of ideas you obtain. During the screening process, you evaluate these ideas, but during the collection stage, you want to acquire as many ideas as possible.

Finding one successful new product or service idea may require collecting a hundred or more initial ideas.

Screening usually consists of more than one stage. The overall screening process is similar to the approach described in Chapter 10 for selecting market segments. As you may recall, the two major dimensions for choosing among alternatives are the *relative ability* of our organization to succeed with the opportunity ("Can we win?") and the *attractiveness* of the opportunity ("Is it worth it?"). Each stage in the screening process provides information for each of those two dimensions.

In the idea generation funnel (see Exhibit 34.1), the initial screen concerns the capabilities of your organization: "Could this product or service idea possibly make sense for us?" At this point, you discard ideas that are too far away from what your company does or can do. Often you make this judgment simply with common sense. If your business is selling children's clothing, it is unlikely you would have the abilities to distribute vending machines. However, if your business is selling children's clothing, you might be willing to consider selling toys.

You can also use the Competitive Advantage Analysis (see Chapter 11) to evaluate your capabilities to pursue a new venture. For any product or service idea that you may want to consider seriously, the Competitive Advantage Analysis provides you with a spotlight for identifying your strengths and weaknesses should you go forward.

The second screen in the idea generation funnel is usually focused on customers: "Is this product or service idea of potential interest to and value for our customers?" You certainly need to adopt the view of the customer now. You should probably talk to some customers to learn their reactions and use other forms of marketing research (see Chapter 36).

If the idea seems like something you can do and might have customer appeal, then you need to begin to consider in detail the financial implications of trying the new product or service idea. This is the financial analysis screen and involves forecasting sales (see Chapter 37) and evaluating the financial consequences (see Chapter 35).

For you to use an idea, it should pass all the screens. To increase the success of your new idea, keep in mind that a new product or service idea requires effort and, most of all, time. If you are fortunate to find two or three ideas that you like out of hundreds you have collected, you may want to choose just one of them to pursue to maximize the chances that it will succeed.

When implementing new ideas, you may also need to ensure a cash flow while you are moving to a new product or service—a “bridging” strategy. In the 1980s, Harley-Davidson was in grave financial difficulties. They were developing new motorcycles and implementing new production processes, but all of those changes took time. To buy them time, Willie G. Davidson designed new motorcycles that could be built from existing parts without huge capital investments. The sales of those bikes kept the company in operation until the long-run changes could be made.[4]

As an example of this idea generation process, suppose you run a business that provides maintenance services for factories. You start by asking your customers what types of problems they are currently experiencing. Perhaps they have a problem removing waste from the area of their production lines. You next would brainstorm how you might be able to help solve that problem. Perhaps you have ideas for a new material that would be easier to dispose. You are able to identify a source for that material. Your financial analysis indicates you might profitably offer these materials to your customers. Finally, you would propose the new material to your customers as an addition to your product line.

Strategies for New Businesses

A new business consists of new markets and new products or services—the strategies in the lower right cell of Exhibit 32.1.

The primary concern here is risk. Risk arises whenever you are moving to a new market because you must know what your new customers are like and what they like. Risk also arises whenever you introduce a new product or service because you must know how to deliver that new product or service.

When you consider a new business, consider how much risk you can take on.

Suppose a restaurant has focused primarily on providing lunches to local office workers. The owner has decided to promote dinners to families. He or she will need to know what modifications to make to the menu to appeal to families and must have the kitchen staff who can implement that menu. In addition, they must know how to manage the waitstaff for these new customers and must know how to promote the restaurant to families.

Beyond the risks involved with new markets and new products or services, there are also risks related to extending your brand. If you try to stretch your brand too far, customers can be confused and your brand can break. For example, if your restaurant is known for quick business lunches without the distractions of children, then moving to the family market may dilute your brand. You can extend your brand, as long as you do not try to move it too far from its current associations (see Chapter 12 for more on branding). (For more on extending brands, see Sexton.[5])

If you feel you can handle the risk of a new business, then you can apply the suggestions in both the prior sections on strategies for new customers, and for new products and services. In particular, you need to:

- Focus on the most attractive customers.
- Generate many new business ideas.
- Screen the ideas especially with respect to the target market.
- Implement the new business ideas carefully.

There are no guarantees, but you can increase your chances of success with a new business by following the systematic approaches suggested here.

Conclusions

Tough economic times call for even more attention to marketing. You must be precise in your targeting and clear in the positioning of your products and services. If you are not focused, a competitor more focused than you will try to steal your customers.

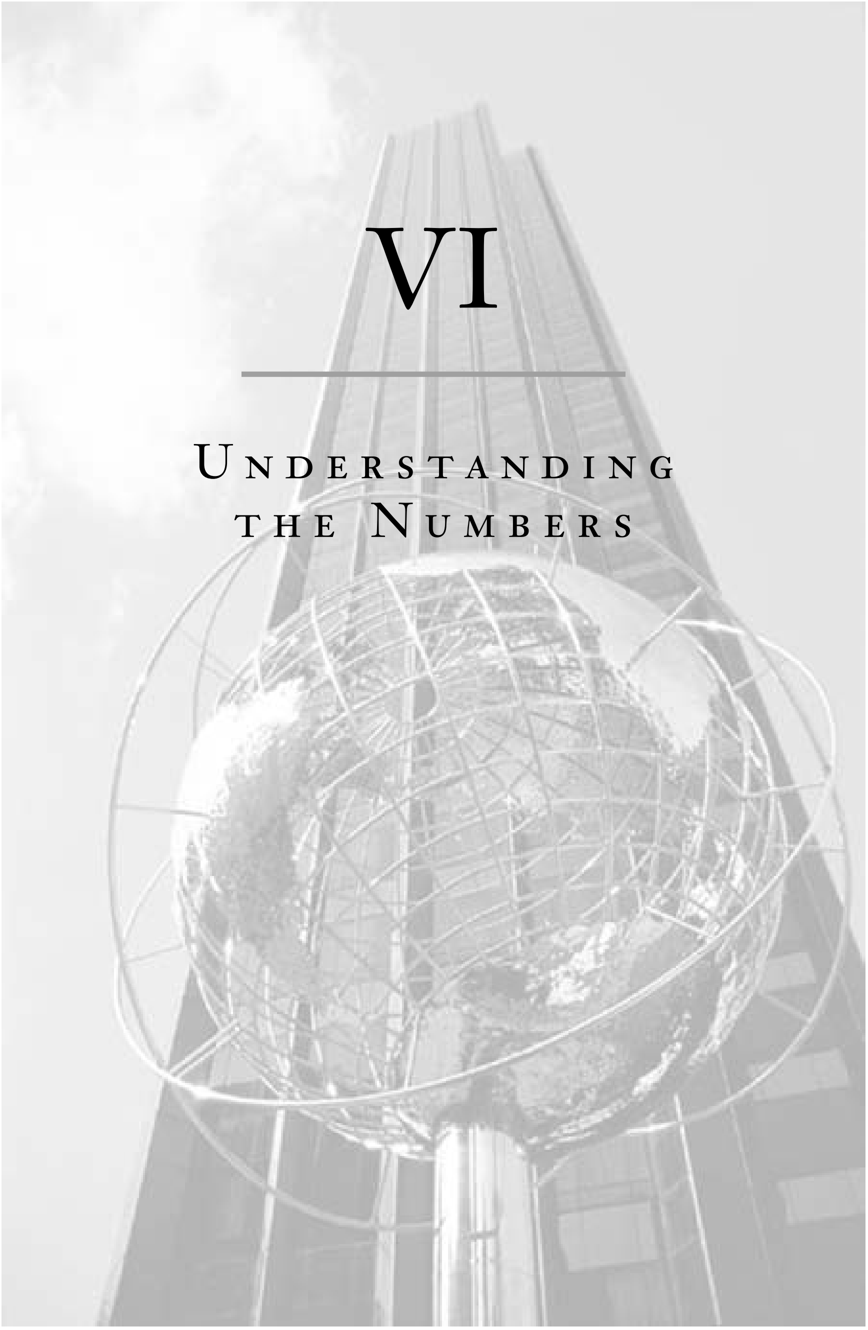
You need to explore ways to generate more revenue and more contribution. Across-the-board cost cutting will usually not accomplish that. You need to be selective where you cut your costs and where you place your efforts. You must pay special attention to retaining your best customers and increasing their contributions. However, do not neglect growth opportunities because there will be a time when the economy improves.

Finally, try to develop measures of accountability so you can manage more accurately.[6] In good times, your decisions can be a little off and often you will still survive—not so in tough times.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

VI

Understanding the Numbers



35

Financial Analysis for Smart Marketing Decisions

To make the right marketing decisions, you need to know their financial consequences.

Understanding the financial impact of your marketing decisions is not difficult if your cost and revenue information is organized properly. Unfortunately, the revenue and cost information you need as a marketer is not always available in the financial records kept by most organizations.

There is one piece of financial information in particular that you need to evaluate most marketing decisions. That is the *variable margin rate*—the incremental profit rate. If you know it, you can evaluate pricing decisions, product or service decisions, advertising decisions, selling decisions, and customer decisions. If you do not know your variable margin rate, you may be guessing at the profit you think you might make. In this chapter you learn what financial information you need to find your variable margin rate and how to use it to make marketing decisions that are sound financially. Of course, you can never predict for sure the financial impact of any action, but you can analyze the likely financial consequences and improve your marketing decisions.

Types of Accounting Systems

Most accounting documents, such as the income statement in Exhibit 35.1, are designed to tell you your financial results *after* you have made your marketing decisions and seen their consequences. For example, Exhibit 35.1 shows you what happened to a small business last year as regards revenue, costs, and profits (before taxes).

The income statement in Exhibit 35.1 is in *custodial* format. The upper part of the typical custodial income statement describes the costs of goods sold (or the costs of services provided). These are all the costs involved with producing your product or service, such as materials, compensation for your production employees, and manufacturing overhead including rent and utilities for your production facility. The lower part of the custodial income statement describes expenses. These include advertising, compensation for managers, and general and administrative expenses such as payments for legal and tax advice.

The typical custodial income statement shows only what happened in the past because it is constructed for people—outsiders—who are interested primarily in your past performance—tax authorities and lenders, for example.

Custodial income statements are not constructed for the marketing manager. They do not make it easy for you to evaluate the financial effects of marketing decisions. For example, suppose the sales in Exhibit 35.1 increased by 10 percent, can you tell from the numbers presented what would be the impact on your operating profit? The answer is no because the numbers are not provided in a form that allows you to answer any type of what-if question about your sales.

Exhibit 35.1 Custodial Income Statement

Net Sales		$200,000
Less: Material	$80,000	
Direct labor	35,000	
Manufacturing overhead	20,000	
Cost of Goods Sold		135,000
Gross Margin		65,000
Less: Advertising	$5,000	
Management	30,000	
General and administrative	10,000	
Expenses		45,000
Operating Profit		$20,000

Custodial income statements are not constructed for the marketing manager.

The information you need to make marketing decisions requires you to reorganize the information in the custodial income statement and make a new income statement, the *contribution* income statement. With your income statement in contribution format, you can answer what-if questions such as what would be the impact of a 10 percent increase in sales on profits? In turn, you can then make marketing decisions *a priori* rather than *ex post.* That is, you can perform a financial evaluation of your marketing decisions *before* you make them.

Reorganizing the Income Statement Into Contribution Format

You can classify costs broadly into fixed costs and variable costs. Fixed costs do not change over a given range of output for your product or service (Exhibit 35.2). Typical fixed costs include salaries, rent, and depreciation. For a restaurant, for example, fixed costs would include wages, advertising on a local radio station, depreciation on the equipment and fixtures, and property taxes. Total variable costs change as output or volume changes. Although total variable costs are often assumed to increase linearly, in fact, any cost that changes with volume in any way is a variable cost. Typical variable costs include materials, electric power, and commissions. For the restaurant illustration, a major variable cost would be the meat, vegetables, beverages, and other supplies needed to make a meal. Labor costs may be a variable cost but also may be a fixed cost, depending on how easy it is to change the number of employees.

In Exhibit 35.1, the costs are organized into "Costs of Goods Sold" and "Expenses." Both those categories include fixed and variable costs. If you reorganize the costs in Exhibit 35.1 as "Variable Costs" or "Fixed Costs," you have an income statement in contribution format, Exhibit 35.3.

Contribution Format—Frame Store Example

Assume that you own a small framing store. You have a store manager and a few part-time employees who do the actual framing. As shown in Exhibit 35.1, last year your sales were $200,000.

Exhibit 35.2 Types of Costs

Fixed Costs: Remain approximately fixed over a given range of output.

Variable Costs: Increase as output increases.

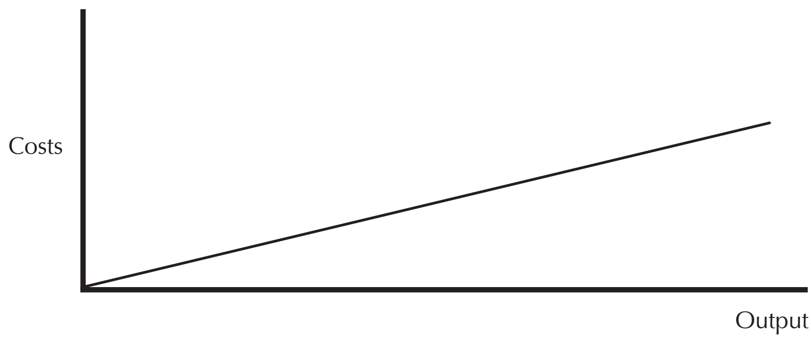


Exhibit 35.3 Contribution Income Statement

Net Sales		$200,000
Less: Material	$80,000	
Direct labor	35,000	
Manager bonus (2.5%)	5,000	
Variable Costs		120,000
Contribution or Variable Margin		80,000
Less: Advertising	$5,000	
Management	25,000	
Manufacturing overhead	20,000	
General and Administrative	10,000	
Fixed Costs		60,000
Operating Profit		$20,000

You share a small sales area in a mall. The actual framing is done in another location, where the rent is cheaper. Overall, last year your costs of producing the frames included $80,000 for materials such as wood and metal frames, glass, mats, and backing. Your part-time employees received $35,000. Your manufacturing overhead included the rent and utilities on the space where the framing is done, as well as depreciation for equipment you use for framing. Total costs of goods sold were $135,000.

Your largest single expense was compensation to your store manager—$25,000 in salary plus a bonus, which is 2.5 percent of the total revenue generated by the store—last year the bonus was $5,000. General and administrative includes the rent on the selling space and other expenses such as legal and tax advice. You spent $5,000 on advertising last year, mainly on advertisements in the local newspaper.

Looking at the information in Exhibit 35.1, you need to consider which costs are variable and which are fixed. Material and direct labor will be assumed to be variable costs. The part-time employees who do the framing are paid based on the value of the frames they produce. The manager's bonus is also a variable cost. All the other costs and expenses are assumed to be fixed costs. In general, some of the manufacturing overhead might be a variable cost—for example, utilities. However, in this example, such costs would likely not be variable because the framing space is kept lighted and heated (or cooled) most of the time regardless of whether framing is being done. Note that, in general, some costs or expenses such as telephone may have both a variable and a fixed component. The fixed component would be your telephone usage with no sales; the variable component would consist of the calls you make related to your sales. In the frame store example, all costs are assumed to be either variable or fixed. Given these assumptions, the contribution format income statement is shown in Exhibit 35.3.

Contribution or Variable Margin

From a marketer's viewpoint, the most important number in Exhibit 35.3 is the contribution or variable margin. That is the amount of money you have before you pay for your fixed costs.

After you pay your fixed costs, what is left over is your operating profit.

The contribution is important because most of the decisions you make in marketing directly affect the amount of contribution you achieve. Usually it is easiest to employ the contribution or variable margin as a rate—as a percentage of your sales dollar. To calculate the variable margin rate, you

Exhibit 35.4 Variable Cost Rate and Variable Margin Rate

$$\text{Variable cost rate} = \frac{\text{Variable costs}}{\text{Sales}}$$

$$\text{Variable margin rate} = \frac{\text{Variable margin}}{\text{Sales}}$$

Note: Variable cost rate + Variable margin rate = 100%

simply divide the contribution or variable margin by the sales (Exhibit 35.4). If you know your variable margin rate, you can evaluate the likely financial impact of many marketing decisions.

Calculating the Variable Margin Rate—Frame Store Example

In the frame store example, the contribution or variable margin was $80,000 on sales of $200,000. Then you can calculate:

$$\text{Variable margin rate} = \frac{\$80{,}000}{\$200{,}000} = 40\% \text{ or } 0.40$$

The variable margin rate is the percentage of each additional sales dollar that represents incremental profit to you. For example, if you sell $1,000 worth of frames to a customer, then 40 percent of that, or $400, is contribution or incremental profit that will show on your bottom line. Now you can answer the question asked earlier. If sales for the frame shop increase by 10 percent, what will be the impact on profit?

A 10 percent increase in sales of $200,000 would be $20,000. Because you know the variable margin rate is 40 percent, then 40 percent of that $20,000 would be your increase in operating profit. If sales go up $20,000, then your profits would go up $8,000—from $20,000 to $28,000.

Notice that a sales increase of 10 percent leads to a profit increase of 40 percent! If your income statement was in custodial form, you would not know that. Only by having your income statement in contribution form are you able to figure out correctly the profit increase related to your sales increase.

Exhibit 35.5 Useful Formulas

$$\text{Breakeven sales level} = \frac{\text{Fixed costs}}{\text{Variable margin rate}}$$

$$\text{Target profit sales level} = \frac{\text{Fixed costs} + \text{Target profit}}{\text{Variable margin rate}}$$

$$\text{Target ROS sales level} = \frac{\text{Fixed costs}}{\text{Variable margin rate} - \text{Target ROS}}$$

$$\text{Shutdown sales level} = \frac{\text{Direct fixed costs}}{\text{Variable margin rate}}$$

Important Sales Levels

Once you know your variable margin rate, you can easily calculate some benchmark sales levels (Exhibit 35.5):

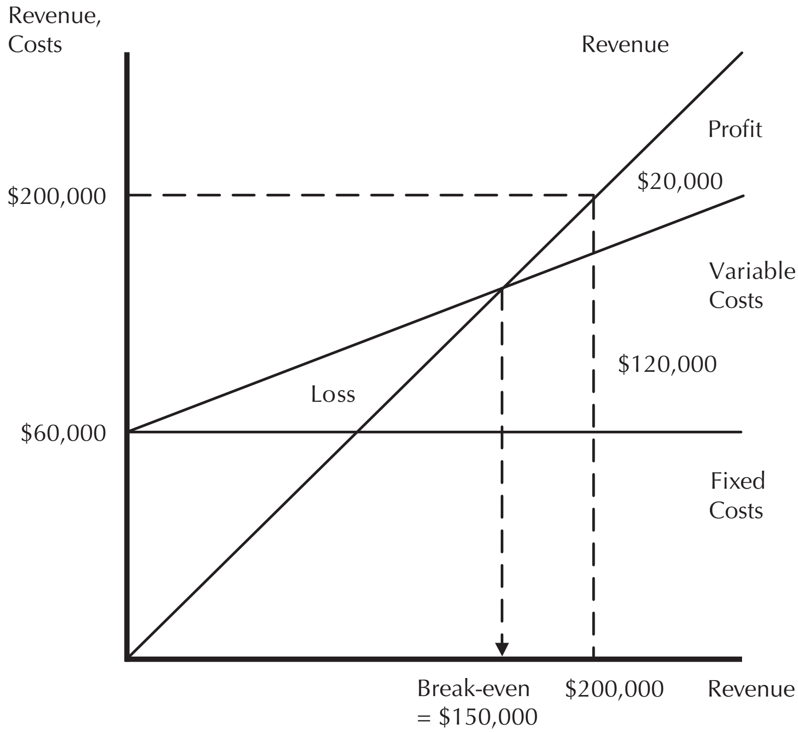
- *Break-even sales level:* The sales level such that sales exactly cover your fixed costs but nothing is left over for profit (Exhibit 35.6)
- *Target profit sales level:* The sales level that covers your fixed costs and provides the profit you want
- *Target return on sales (ROS) level:* The sales level that covers your fixed costs and provides profit such that profit divided by sales gives you the return on sales percentage you wish to obtain
- *Shutdown sales level:* The sales level such that sales exactly cover your direct fixed costs but nothing is left over for overhead or for profit (Exhibit 35.7)

Direct and Indirect Fixed Costs and Shutdown Level

It can be very useful to classify your fixed costs into what are known as *direct fixed costs* and *indirect fixed costs.* Direct fixed costs are all the costs that are required for a business—if the business disappears, then so do the direct fixed costs. Indirect fixed costs are all the other fixed costs.

For example, suppose you do other things besides framing services. If you close down your framing operation, then you will no longer advertise ($5,000), pay a salary to your frame store manager ($25,000), or pay your

Exhibit 35.6 Break-even Level

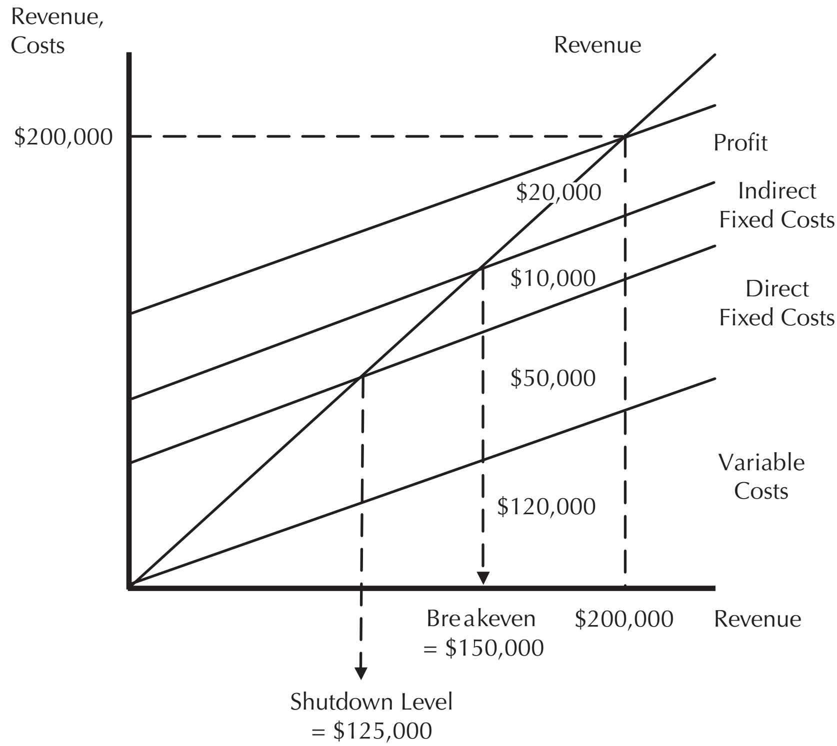


manufacturing overhead ($20,000). You will continue to keep your mall store and pay the other general and administrative expenses such as attorney and accountant fees and store rent. That means if you close your framing operation, your fixed costs will decrease by $50,000—those are the direct fixed costs of your framing services.

Why you want to know your direct fixed costs is that they determine your shutdown level. Even if you are not making a profit, you may want to keep an operation going if you have no better use of the resources you are using (including your time). As long as you are more than covering your direct fixed costs, you are at least helping pay for your overhead, and that may be worthwhile.

The level of sales when you are just covering your direct fixed costs is known as the shutdown level. If your sales are above the shutdown level, you may or may not be making a profit, but at least you are contributing to covering your overhead (see Exhibit 35.7). Below the shutdown level, your business is a cash drain.

Exhibit 35.7 Shutdown Level



The level of sales when you are just covering your direct fixed costs is known as the shutdown level.

Important Sales Levels—Frame Store Example

The calculations for key sales levels for the frame store are shown in Exhibit 35.8. The break-even sales level is $150,000. Below that sales level, the frame store does not make a profit (see Exhibit 35.8). If you want a target profit of $40,000, then your sales level must be $250,000. In other words, to double your current profit, you need to increase your current sales level by 25 percent, or $50,000. If you set your objectives in terms of return on sales (profit as a percentage of sales) and you want to achieve a return on sales of 20 percent, then you must have sales of $300,000. Your shutdown sales

Exhibit 35.8 Important Sales Levels—Frame Shop Example

$$\text{Variable Magin Rate} = \frac{\$80{,}000}{\$200{,}000} = 0.40$$

$$\text{Breakeven Sales Level} = \frac{\$60{,}000}{0.40} = \$150{,}000$$

$$\text{Check: } (\$150{,}000)\times(0.40) = \$60{,}000 = \text{Fixed Costs}$$

$$\$40{,}000 \text{ Target Profit Sales Level} = \frac{\$60{,}000 + \$40{,}000}{0.40} = \$250{,}000$$

$$\text{Check: } (\$250{,}000)\times(0.40) = \$100{,}000 \rightarrow \text{FC of } \$60{,}000 \text{ and profit of } \$40{,}000$$

$$20\% \text{ Target R.O.S. Sales Level} = \frac{\$60{,}000}{(0.40-0.20)} = \$300{,}000$$

$$\text{Check: } (\$300{,}000)\times(0.40) = \$120{,}000 \rightarrow \text{FC of } \$60{,}000 \text{ and profit of } \$60{,}000 \text{ equal to } 20\% \text{ sales}$$

$$\text{Shutdown Sales Level} = \frac{\$50{,}000}{0.40} = \$125{,}000$$

$$\text{Check: } (\$125{,}000)\times(0.40) = \$50{,}000 = \text{Direct fixed costs}$$

level is $125,000. If your sales fall below $125,000, then you are not even covering the costs directly associated with the framing operation. You are losing money and should consider closing down the operation unless you can figure out how to turn it around.

Evaluating the Financial Impact of Marketing Decisions

The variable margin rate allows you to convert changes in sales into changes in profit so you can evaluate many types of marketing decisions. The calculation is straightforward:

Change in profit = Change in sales × Variable margin rate

So, for example, if you think a promotion will increase sales of your product or service by $100,000 and your variable margin rate is 32 percent, then you would expect your contribution to increase by $32,000. If the fixed cost of the proposed promotion is $10,000, then you may want to go ahead as your net profit will increase $22,000.

You can use this approach to evaluate many marketing decisions such as advertising, sales promotion, and personal selling.

Evaluating the Financial Impact of Marketing Decisions—Frame Store Example

Suppose that you are considering the following options:

- Increase newspaper advertising by $7,000.
- Remodel the interior of your mall shop at a cost of $9,000.
- Add an assistant store manager at a cost of $10,000. (*Note:* The store manager and assistant manager would each get the 2.5 percent bonus on sales made while they were at the store. Only one would be at the store at any time.)

To evaluate each of these alternatives, you would need to estimate what you think might be the resulting change in your sales. For example, perhaps you feel that the increased newspaper advertising might generate another $40,000 in sales, whereas remodeling your shop will lead to a sales increase of only $20,000. Hiring an assistant store manager would allow you to keep the store open longer, and suppose you believe that will increase your sales by $50,000.

Applying the variable margin rate (Exhibit 35.9), you find that remodeling the shop will have a net negative effect on your profit in the short run. However, both the newspaper advertising and assistant store manager options would increase your contribution and operating profit.

Minimum Sales Change Needed

Knowing your variable margin rate also allows you to determine the *minimum* level of sales change you would need to justify a marketing decision. To make that kind of calculation, you simply divide the cost change associated with your proposed marketing decision by the variable margin rate.

$$\text{Minimum sales change needed: } \frac{\text{Change in cost}}{\text{Variable margin rate}}$$

Exhibit 35.9 Marketing Decisions—Frame Store Example

Increase in Newspaper Advertising		
	Estimated change in sales	= $40,000
	Estimated change in contribution	= ($40,000) × (0.40)
		= $16,000
	Estimated net change in contribution	= $16,000 – $7,000
		= $9,000
Remodel Interior of Shop		
	Estimated change in sales	= $20,000
	Estimated change in contribution	= ($20,000) × (0.40)
		= $8,000
	Estimated net change in contribution	= $8,000 – $9,000
		= –$1,000
Add an Assistant Store Manager		
	Estimated change in sales	= $50,000
	Estimated change in contribution	= ($50,000) × (0.40)
		= $20,000
	Estimated net change in contribution	= $20,000 – $10,000
		= $10,000

In the frame shop example, suppose you were thinking of spending $4,000 on local radio advertising. By how much would your sales need to increase to justify that expenditure?

$$\text{Minimum sales change needed: } \frac{\$4{,}000}{0.40} = \$10{,}000$$

If you think that the radio advertising will increase your sales by $10,000 or more, then you may want to purchase the advertising, because your net contribution will increase as a result. For example, if sales were to increase $12,000 as a result of your radio advertising, then your contribution would increase by $12,000 × 0.40, or $4,800, less the $4,000 cost of the advertising, for a net change of $800.

This simple approach can be used for any change of a fixed marketing expenditure that you think will lead to a change in sales.

Calculating the minimum sales change can be especially useful for evaluating decisions involving activities where making an exact estimate of sales change is difficult. For example, you may be considering sending a newsletter to potential clients, hosting an open house, or setting up an exhibit at a show.

You can evaluate whether you want to spend money on those activities by determining the minimum amount of sales they would need to generate to justify their expense. However, to do this, you do need to know your variable margin rate.

Conclusions

You can evaluate the financial impact of marketing actions if you have the appropriate information. Unfortunately, often traditional accounting documents do not provide the information that marketing managers require. However, you can reorganize traditional accounting information into a contribution format that permits you to determine the variable margin rate. You can then apply the variable margin rate to evaluate the financial consequences of many marketing decisions.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

36

Conducting Marketing Research

Marketing research is the eyes and ears of marketing. Many marketing failures can be traced to not understanding customers, not understanding competitors, or not understanding trends in the competitive environment. Marketing research can be highly sophisticated and expensive. However, you can also learn a lot from much more modest techniques. Simply talking to your customers can provide a very high payoff in terms of knowledge about their needs, about what competitors might be doing, and about what trends in the environment might cause the customers to change their behavior.

When you are conducting marketing research or even just looking at the results of a study, you need to understand the strengths and weaknesses of how the information is collected and how it is analyzed and presented. Those strengths and weaknesses may affect your interpretation of the results and how useful they may be to you. This chapter is a short course in understanding different kinds of marketing research and the possible reservations to any study.

Focus of Marketing Research

The purpose of marketing research is to help you make better marketing decisions. (For an overview, see Malhotra and Birks.[1]) Marketing research can be focused on all the players and drivers that affect the marketing performance of the organization (see Exhibit 8.1.) These include end-users, resellers, competitors, suppliers, and trends.

Much of marketing research focuses on customers—their needs, their attitudes, and their behavior. End-user studies include:

- *Segmentation:* Characteristics that can be used to identify and distinguish segments
- *Buying behavior:* How they learn about products and services and make their choices
- *Needs:* Benefits sought by customers; priorities
- *Perceived value:* Maximum a customer is willing to pay, and why
- *Product:* Evaluations of all competing products or services
- *Brand:* Attributes associated with a brand
- *Advertising copy:* Comparison of ads
- *Media habits:* Where customers get information
- *Sales calls:* Content and effects of calls
- *Pricing:* Likely reactions to prices
- *Buying behavior:* How and where customers make purchases

Other studies may focus on:

- *Resellers:* For many organizations, resellers may represent the main group of customers, so many of the studies listed under end-users may also be conducted for them as well. In addition, there may be other necessary studies specific to resellers such as how they use sales promotion or what their stocking policies are.
- *Suppliers:* Research may focus on comparative costs of various suppliers and the performance of their products and services.
- *Competitors:* Research on competitors needs to determine who they are (often learned from end-users or resellers), their objectives, the strength of their capabilities, and what actions they are likely to take.
- *Trends:* Demographic, social, technological, political/regulatory, and economic trends can all affect the organization. Monitoring and forecasting such trends is also part of marketing research.

Types of Data

Data consists of either primary or secondary data. Primary data is what marketing managers or their colleagues collect. Secondary data is what someone else, such as an information service, collects.

Secondary data is often purchased from a research firm and therefore is usually cheaper collecting the data yourself. The main disadvantage of secondary data is that it may not be exactly what you want. Also you may not know how it was collected, so you may not know how reliable it is. Primary data is tailored to your needs because you define the study and the data to be collected. Usually you will be more aware of any weaknesses of these primary data since you were involved in designing the research.

Secondary Data

It is very easy to search for sources of secondary data by using the Internet. Sources include: governments, industry associations, companies and other organizations, banks, publications news media, marketing research companies, and financial research companies.

The best advice for finding secondary data sources is simply to conduct a search on the Internet for the subject in which you are interested. When you locate what you think might be secondary information that is useful for you, you should try to find a description as to how that information was collected. Then you should evaluate its accuracy using the suggestions followed for collecting your own data.

KEEPING CUSTOMERS SATISFIED: MARKETING RESEARCH

Casino Guests.
Photo courtesy of The Trump Organization.

Management of resorts in Atlantic City surveyed their patrons regularly. They asked the customers to rank several attributes of service—first by importance and then again based on their delivery (in a manner very similar to the Perceived Value Analysis described in Chapter 4). The difference, or gap, between the importance rating and the satisfaction rating provides them with a blueprint for how to improve their operations.

Many customer needs relate to operations, and do not require a tremendous amount of capital. An example would be security—something as simple as increasing the visibility of security patrols in the parking garage by putting a flashing light on top of the security vehicles can positively impact the perception of security, and help close a gap. Another would be the buffet—displaying food in smaller decorative bowls and containers (instead of institutional sheet pans) not only makes the display of the food more attractive, it also increases the perception of freshness.

The higher the ranking, the more important the attribute; the larger gaps tell what they need to work on. Large gaps for more important attributes are particularly troubling as they indicate that there may be a significant problem with an issue that is very important to their guests. They pay particular attention to addressing these issues. By focusing on closing the gaps, particularly at the high end of the scale, they increase customer satisfaction. The surveys are an iterative process; as improvements are made, the customers expect more. The resort managers constantly measure themselves against this raised bar.

Primary Data

You may collect data with *random* or *nonrandom sampling*. When you use random sampling, typically the data you obtain can be analyzed with various statistical tests and can be extrapolated to all customers, resellers, suppliers, or competitors.

If you do not use random sampling, then usually you cannot generalize from the data you collected.

Data obtained without random sampling are used primarily to uncover ideas and hypotheses that you can later check with data from randomly selected samples. A common and very useful marketing research tool that often does not utilize random sampling is the *focus group*. A focus group consists of a group of customers or potential customers who are asked questions about a product or service. Their responses can provide insights into how a product or service is used and what its key attributes are. It is often valuable to conduct focus groups before conducting a survey of a large number of respondents to obtain ideas that you can pursue in your larger survey.

Random and Nonrandom Sampling

There are many activities in marketing research that do not involve sampling, but to understand marketing research, it is necessary to understand sampling and the differences in data collected with random versus nonrandom sampling.

In statistics, a *population* is a group of people—such as a target market—or objects—such as a collection of competing products—about which you want to know something. For example, perhaps you want to know the average annual income of the members of a target market or the average rating for some performance dimension of your competitors' products.

You could take a *census* of all the members of the group. Unfortunately, often that is very expensive and may not even be possible. Fortunately, in many cases you can obtain almost as much information as a census provides by observing only some of the members of the group—what is called a *sample.* A sample is a group of people or objects selected from the population. The *sample size* is the number of people or objects in the sample.

Generally, there are two possible types of errors in sample information: systematic error (or *bias*) and random error.

Bias

Bias means your sample does not represent the population about which you want to know something. Possible bias is the main reason it is difficult to generalize from a sample that was not selected randomly.

If your sample is not drawn from the population in which you are interested, the bias is known as *non-selection bias.* For example, if you choose a sample only from Internet users, you will not have information on people who do not use the Internet. When a sample is selected judgmentally, then the researcher decides which population member will be in the sample, and you may have *selection bias.* Generally, people like to talk with people whom they feel are like themselves, which means a judgmental sample is likely biased against inclusion of people unlike the researcher.

When people do not cooperate in a survey, there may be bias called *non-response bias.* People may not agree to be questioned in a mall, perhaps because they are too busy. *Response bias* happens when questions may be too difficult ("How many shirts did you buy in the past five years?"), too sensitive ("What is your annual income?"), or too embarrassing ("How many hours a day do you watch game show reruns?") The best way to handle bias is simply to think through your research plan very carefully and hope that you have identified all the possible sources of bias.

The best way to handle bias is simply to think through your research plan very carefully and hope that you have identified all the possible sources of bias.

Random Errors

Whenever you use a sample, there are *random errors*. Random error occurs because the composition of each sample will likely be somewhat different, leading to somewhat different results. The variation in the results from different samples is measured by random error. The smaller the random error, the more accurate the information from your sample.

You make random error smaller by increasing the size of your sample. However, you should keep in mind that random error does not decrease with the sample size; it decreases with the *square root* of the sample size. That means that to decrease a random error from, say, 0.50 cans of soft drink to 0.25 cans of soft drink—a decrease of 50 percent, you need to quadruple the size of the sample, from, say, 100 to 400 respondents.

Sample Size

Determining the optimal sample size for a study can be very complicated. However, you can use some rules-of-thumb to help you decide on your sample size.

The *minimum* sample size for any population such as a target market segment should be *30*. The reason that 30 is somewhat of a "magic number" is that with sample sizes of 30, most statisticians would allow the use of the well-known *normal distribution* as an approximation when doing analysis even if your target population is not "normal." With data from sample sizes below 30, unless your target population is itself normally distributed, you may need to use approaches other than the normal distribution to make estimates from your data.

If you can afford it, you would like a sample size larger than 30. Generally, you want a larger sample size:

- *When the target population is heterogeneous.* The more varied your customers, the larger sample size you need. If all your customers are the same or similar, then a smaller sample is sufficient. For example, if you are cooking soup and you stir it well, how many spoonfuls do you need to see how it tastes? Likely just one.

- *When the members of a population are very important.* It is more important for you to survey more large customers than small customers because a large customer's actions will have more of an impact on your sales.

Method of Contact

You may conduct a survey in a variety of ways; for example: mail, Internet, telephone, in-person, and observation. Mail is the slowest method with respect to receiving a response and also likely has the highest nonresponse rate. Internet can provide rapid feedback and is especially useful for questions regarding choices. Telemarketing has lowered the response rates in telephone surveys, but telephone can still be used for targeted research. In-person surveys provide the interviewer the opportunity to build a rapport with the respondent, which may allow the asking of sensitive or complex questions. Observation, if unobtrusive, removes nonresponse and response bias.

Design of Questionnaire

Questionnaire design is part science and part art. An effective questionnaire flows like an interesting conversation. Just as you would start a conversation with an "ice-breaker" question, you start a questionnaire with a question you think the respondent might like to answer. You should never start a questionnaire with demographic questions—how interested would you be in talking with someone who began the conversation with questions about your age and income? Just like a conversation, the questionnaire should move into the topics on which you really want to focus. You finish up with demographics or other information that you might need for your market analyses.

An effective questionnaire flows like an interesting conversation.

Open-ended questions require the respondent to write down their answers. They can provide a lot of information but may cut into the response rate for the survey. *Closed-ended questions* offer the respondent specific responses from which to select and are much easier for the respondent to complete, but do not allow the respondent much freedom in their replies. You can use open-ended questions in a trial questionnaire, and then use responses to those questions to prepare closed-ended questions for the final version of the questionnaire.

Analyzing Your Data

After you have collected your data, you will want to "run the numbers"—do some analysis. While there are many sophisticated ways to analyze data, often you can obtain much insight into your market with simple tables.

The first type of table you want to look at consists of just the averages for the questions you have asked in your survey. For example, if you have asked clients of your real estate agency to use a 10-point scale to evaluate how important are the dimensions of the service you provide them, such as financial expertise, school expertise, and accessibility (convenient hours and location), then you would want to see the averages for each of those service benefits.

The second type of table you might want to consider is what is called a *cross-tabulation* or cross-tab. That would be a table in which you look at two pieces of information at the same time. For example, you might want to see if there are differences between women and men in regard to how important they consider the various benefits your real estate agency provides. If their opinions differ, you would say that perceptions of your services are *associated* with gender, which might be useful for you to know when you are considering market segments.

For example, Exhibit 9.1 is a two-way cross-tabulation of the answers to the survey question "How important are each of the following benefits to you?" versus different family status situations such as singles, young couples, and young families. Exhibit 9.2 is a three-way cross-tabulation since it includes both family status and gender.

Surveying Your Customers— Art Association Example

Suppose you are the chairperson of the marketing committee of a small not-for-profit arts association and you would like to know more about your members. Your budget for your entire study is just a few hundred dollars.

You decide to do a mail survey because it is relatively cheap and you already have a mailing list of your members. You take a random sample of 200 members to whom you will send your questionnaire with a stamped, addressed return envelope.

You develop the questionnaire by first speaking with a few members so you can make as many of the questions as possible closed-ended to increase the response rate.

The first question concerns the types of visual arts in which the respondent is interested (Exhibit 36.1). This is the "grabber"—question of relatively

Exhibit 36.1 Sample Questionnaire—Arts Organization

Dear Member,

We would like to know your views as to what we can do for you. We would be very grateful if you might spend just a few moments to let us know what interests you and how you view us. We have designed the questionnaire to be easy, quick (about 4 minutes), and hopefully fun to fill out. Thank you!

1. Please describe your level of interest in the following arts (please circle):

	Not very interested						Very interested
Painting	1	2	3	4	5	6	7
Graphic arts	1	2	3	4	5	6	7
Photography	1	2	3	4	5	6	7
Sculpture	1	2	3	4	5	6	7
Other ____________	1	2	3	4	5	6	7

2. a) Are you personally involved in one or more of the arts? yes____ no_____

b) If yes, for each art in which you're involved, how would you describe your level of involvement?

	Create art but have not exhibited or performed		Have exhibited or performed		Have been paid as artist		Make living as artist
Painting	1	2	3	4	5	6	7
Graphic arts	1	2	3	4	5	6	7
Photography	1	2	3	4	5	6	7
Sculpture	1	2	3	4	5	6	7
Other (please describe) ________________	1	2	3	4	5	6	7

3. About how many years have you been a member? _____ years

4. How did you first hear about us? (Please check all that apply.)
Storefront sign ____ Storefront window ___ Mailing ____ Flyer___ Letter ___ Newspaper ___
Radio ___ Television ___ E-mail ___ Web site ___ Friend/acquaintance ___ Don't recall ___

Exhibit 36.1 Sample Questionnaire—Arts Organization (continued)

5. When you joined, how important were each of the following (please circle)?

	Not very important						Very important
Exhibiting art	1	2	3	4	5	6	7
Developing art career	1	2	3	4	5	6	7
Attending openings	1	2	3	4	5	6	7
Networking with artists	1	2	3	4	5	6	7
Taking classes/workshops	1	2	3	4	5	6	7
Children's programs	1	2	3	4	5	6	7
Supporting visual arts	1	2	3	4	5	6	7
Supporting our town	1	2	3	4	5	6	7
Receiving discounts	1	2	3	4	5	6	7
Other (please describe) ________________	1	2	3	4	5	6	7

6. a) Over the past twelve months, about how often did you do each of the following and, for those events or activities in which you participated, overall how would you rate your experience (please circle)?

	Number of times	Did not enjoy						Enjoyed
Attended show opening	___	1	2	3	4	5	6	7
Took class/workshop	___	1	2	3	4	5	6	7
Used children's program	___	1	2	3	4	5	6	7
Attended member meeting	___	1	2	3	4	5	6	7
Exhibited art	___	1	2	3	4	5	6	7
Other (please describe) ________________	___	1	2	3	4	5	6	7

b) Which event did you most enjoy? ____
Why? ____

7. How do you usually hear about our events? (please check all that apply.)
Storefront sign ____ Storefront window ___ Mailing _____ Flyer___ Letter ___ Newspaper ___
Radio ___ Television ___ E-mail ___ Web site ___ Friend/acquaintance ___ Don't recall ___

(continued)

Exhibit 36.1 Sample Questionnaire—Arts Organization (continued)

8. How would you describe us (please circle)?

Informal	1	2	3	4	5	6	7	Formal
Boring	1	2	3	4	5	6	7	Stimulating
Friendly	1	2	3	4	5	6	7	Unfriendly
Intimidating	1	2	3	4	5	6	7	Supportive
Cliquish	1	2	3	4	5	6	7	Open
Traditional	1	2	3	4	5	6	7	Experimental
Creative	1	2	3	4	5	6	7	Bland
Playful	1	2	3	4	5	6	7	Serious
Dull	1	2	3	4	5	6	7	Inspiring

9. How interested are you in each of the following (please circle)?

	Not very interested						Very interested
More member shows	1	2	3	4	5	6	7
More juried shows	1	2	3	4	5	6	7
More classes/workshops	1	2	3	4	5	6	7
More classes for children	1	2	3	4	5	6	7
Artists' resource center	1	2	3	4	5	6	7
Professional critiques	1	2	3	4	5	6	7
Artist mentor	1	2	3	4	5	6	7
Artist business advice	1	2	3	4	5	6	7
Other (please describe) ____________	1	2	3	4	5	6	7
____________	1	2	3	4	5	6	7

10. Please describe yourself:

Gender: Male___ Female___ Age: Under 16___ 16–18___ 19–22___ 23–35___ 36–50___ Over 50___

Family status: Single___ Living as couple___ Number of children living with you___ (Ages____________)

Member: Northwest Artists Guild___ Central Art Association___ Other arts associations______________

Thank you very much for your help!

high personal interest to the respondent. Then the questionnaire moves into the important areas of reasons for joining, satisfaction with current activities, and interest in future activities. The questionnaire ends with the classification questions such as age, family status, and other associations of which they are members.

Conclusions

Without marketing research, you are guessing when you develop your marketing strategy. You can certainly be successful without marketing research because you can be lucky with a product or a service. However, in the long run, you do need consistent and accurate information about your markets if you are going to have continued success. Effective marketing research does not require a large budget or complicated statistical techniques, but it does require thought as to what information is needed and it does require contact with customers.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

37

Forecasting

You have developed your marketing strategy—congratulations. Now you need to forecast what you think will happen when you implement your strategy. You need to make a forecast so you can decide whether this strategy is sound and acceptable, or whether you need to change it in some way. There are many ways to make forecasts. This chapter gives you an overview of how you might forecast the results of your marketing strategy.

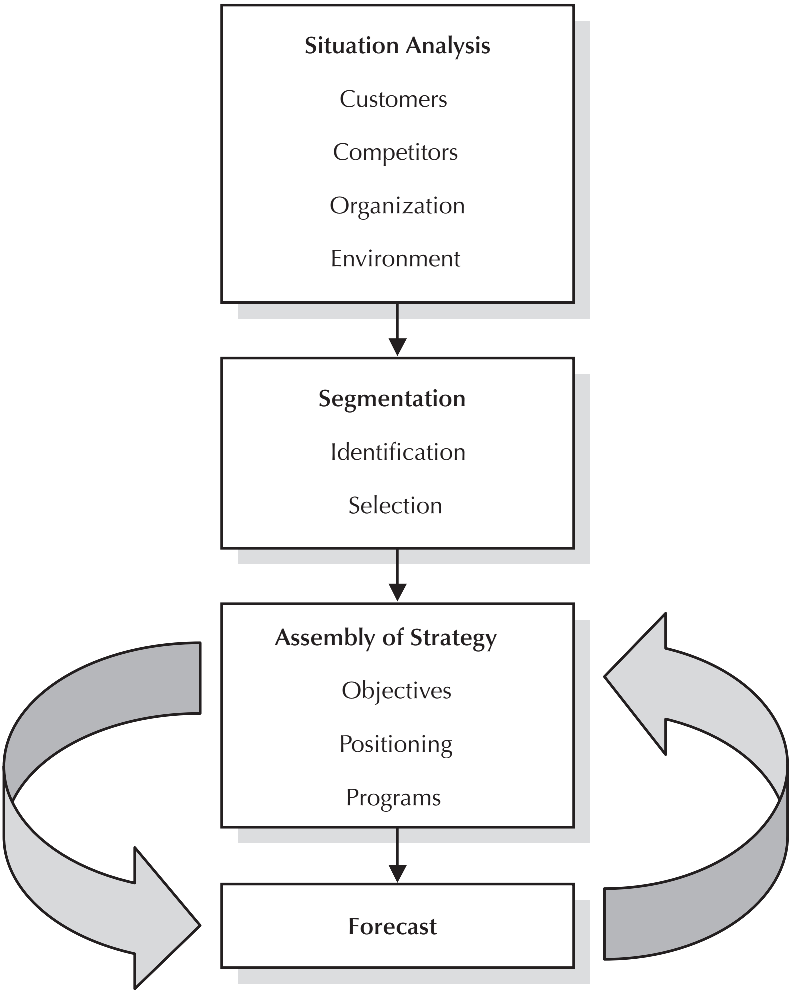
Forecasts and Strategy

You compare your forecast with your objectives (Exhibit 37.1). If your forecasts equal or exceed your objectives, then the plan is acceptable. If they do not meet the objectives, then either the objectives need to be decreased or the marketing strategy and tactics need to be revised.

Even if the forecasts do fulfill the objectives, you may be wise—time permitting—to develop one or more other marketing strategies to determine whether one of them might lead to even more favorable results.

You not only need a forecast for your own decision making, you may also need a forecast for any one you may approach for financial support. Typically they will ask, as they should, what you expect your product or service to achieve in sales revenue and in profits.

Exhibit 37.1 Developing a Product/Market Strategy



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Potential, Results, and Objectives

Market potential is the maximum sales or profits that you think you might obtain from your target market (Exhibit 37.2). Your sales potential will usually be lower than the market potential because some customers may already be under contract or otherwise loyal to competitors.

Exhibit 37.2 Forecasts and Objectives

Quantity	Your organization	All competitors
Potential	Sales potential forecast	Market potential forecast
Result	Results forecast	Not applicable
Objective	Desired results	Not applicable

Source: "Arrow Guide—Formulating the Sales Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Results are what you expect to achieve with a given strategy. All forecasts of results must assume a specific marketing strategy—target market, positioning, and marketing programs.

Objectives are what you hope to achieve with a given strategy. If your marketing strategy cannot be expected to achieve the necessary results, then you may not want to go ahead with it.

Determining Current Market and Sales Potential

You can evaluate the potential of a market with either a direct approach or an indirect approach.

With the *direct approach*, you focus on the sales of existing products or services. If your product or service is new, then you would examine sales for similar products or services, or sales of the products or services that would be displaced by your new product or service. For example, if you are introducing a new caffeinated drink, you might look at the sales of coffees and teas that are currently on the market.

With the *indirect approach*, you look at characteristics that would be associated with the sale of your product or service. A company that makes cartons to ship apples might estimate the number of cartons needed by a farm by counting the number of apple trees on the farm. The owner of a sporting goods store might estimate the potential in a geographical area by first finding out the number of people who live there, by age and by gender.

You develop the estimate for your *potential sales* by estimating how much sales in the market represent sales to customers who can be expected to remain loyal to competitors. Then you reduce the market potential by those amounts.

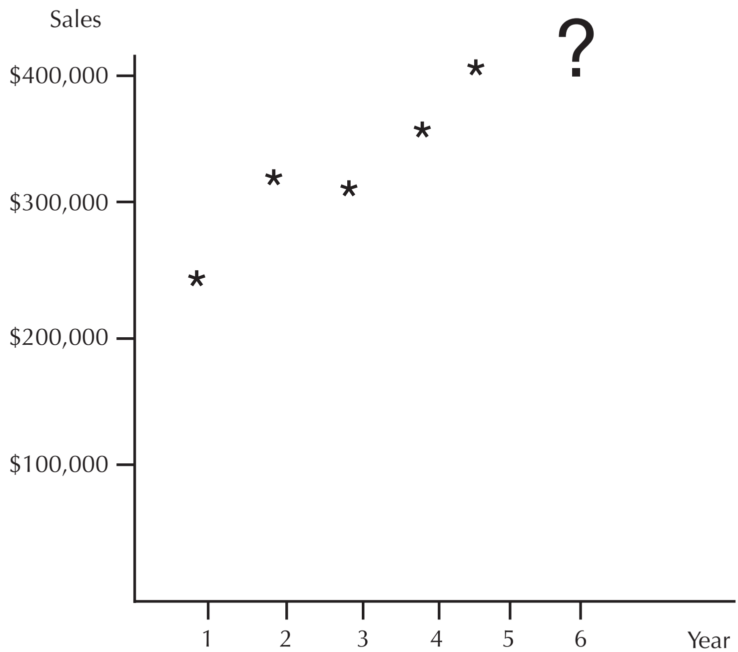
For example, if you estimate that there is $5 million of dry-cleaning business in an area, but that 40 percent of that is from customers loyal to existing dry cleaners, your sales potential for that area would be the remaining 60 percent, or $3 million.

Forecasting Future Market and Sales Potential

When making a forecast, if possible, you would like to start with sales potential data over a few years (Exhibit 37.3). Forecasts can be made a variety of ways. Here are some of the most common ways to make predictions. (For explanations of these techniques, see McClave, Benson, & Sincich.[1])

- *Moving average:* using the average sales for the past few periods (for example, the past 3 years) as an estimate of the sales for the next period

Exhibit 37.3 Sales over Time



Year	1	2	3	4	5	6
Sales	$248,000	$312,000	$306,000	$357,000	$402,000	?

Exhibit 37.4 Alternative Sales Forecasts

Year	1	2	3	4	5	6
Actual sales	$248,000	$312,000	$306,000	$357,000	$402,000	?
Moving average (3 years) forecast	Not available	Not available	Not available	$288,667	$325,000	$355,000
Exponential smoothing (80% damping) forecast	Not available	$248,000	$260,800	$269,840	$287,272	$390,900
Linear regression forecast	$254,400	$289,700	$325,000	$360,300	$395,600	$430,900
Average forecast						$392,300

- *Exponential smoothing:* utilizing a weighting scheme for past sales
- *Regression analysis using time:* examining the sales trend over time to predict sales for the next period

All of these statistical tools are available with Microsoft Excel. Exhibit 37.4 compares their estimates for year 6 in the example.

You may have reason to prefer one method over another. In this case, the forecast from the linear regression is highest because there is an upward trend that is the main determinant of the regression forecast. The moving average and exponential smoothing methods tend to dampen out trends. If you do not have reason to prefer one method, then you may use as your forecast the average of the forecasts from the methods you have used.

You may also override these statistically based estimates with your own subjective estimates if you feel strongly that your subjective forecast is based on sound assumptions.

Forecasting the Results of Your Strategy

Marketing mix modeling refers to using techniques such as multiple regression analysis to estimate the impact of changes in the marketing mix involving decisions such as pricing and communications. Although promising, marketing mix modeling is not easy to do and is most likely beyond the budget of most smaller organizations.

You can make subjective estimates of the sales you think your strategy will produce. The most straightforward way to approach making such estimates is to estimate what you think your reasonable share of the market will be, then apply that share estimate to your estimate of sales potential. (To do that, you really need to assume that your likely share is not correlated with your sales potential estimate, but that is often a plausible assumption.)

To make a subjective estimate of your share, follow these six steps:

1. Describe your marketing strategy, including positioning and branding, design, pricing, communications, and distribution.
2. Evaluate your competitors' likely marketing strategies.
3. Identify the highest share you think you will get, the lowest share, and the middle share.
4. Based on your evaluation of your marketing strategy versus those of your competitors, assign probabilities to each of the share alternatives in step 3.
5. Average your share alternatives by weighting them with the probabilities from step 4. This average is called your *expected share*.
6. Multiply the expected share times your sales potential estimate to get an estimate of your sales from this particular marketing strategy.

Forecasting the Results of Your Strategy—Dry-Cleaning Example

Suppose you estimate that the sales potential for your dry-cleaning services is $3 million. You have checked your competitors in the area and believe that the lowest share you will achieve is 10 percent, or 0.1, the highest share is 40 percent, or 0.4, and the middle share is 20 percent, or 0.2.

Based on your assessment of your abilities and strategy versus those of your competitor, you believe that there is a large probability, 0.6, that you will obtain only the 10 percent share, a moderate probability, 0.3, that you will obtain the 20 percent share, and a small probability, 0.1, that you will obtain a 40 percent share. Note that your probability estimates must total 1.00, or 100 percent.

Exhibit 37.5 Estimating Your Market Share

Possible Market Share	Estimated Probability
0.1	0.6
0.2	0.3
0.4	0.1
	Sum = 1.0

Expected share $= (0.1) \times (0.6) + (0.2) \times (0.3) + (0.4) \times (0.1) = 0.16$

According to the calculations in Exhibit 37.5, your expected share is 16 percent, or 0.16. Given that your estimated sales potential is \$3 million, your sales estimate for this strategy is:

$$\text{Sales estimate} = \text{Sales potential} \times \text{Expected share} = \$3{,}000{,}000 \times 0.16 = \$480{,}000$$

Finally, to convert this sales estimate into contribution, you would multiply it by your variable margin rate (discussed in Chapter 35). For example, if your variable margin rate was 0.90, your contribution would be \$432,000. From that you would need to subtract your fixed costs. If your fixed costs were \$240,000, your net profit (before taxes) would be \$192,000.

You now need to compare that forecast with your objectives and decide whether you want to proceed with this marketing strategy.

You may want to consider strengthening your marketing strategy. If so, you would change your strategy, then estimate again your likely share, sales, and profits—being sure to include any changes in costs because of your new strategy.

You repeat this process until you find an acceptable marketing strategy or decide that this particular market will not provide you an acceptable return for your efforts.

Short-Term and Long-Term Forecasts

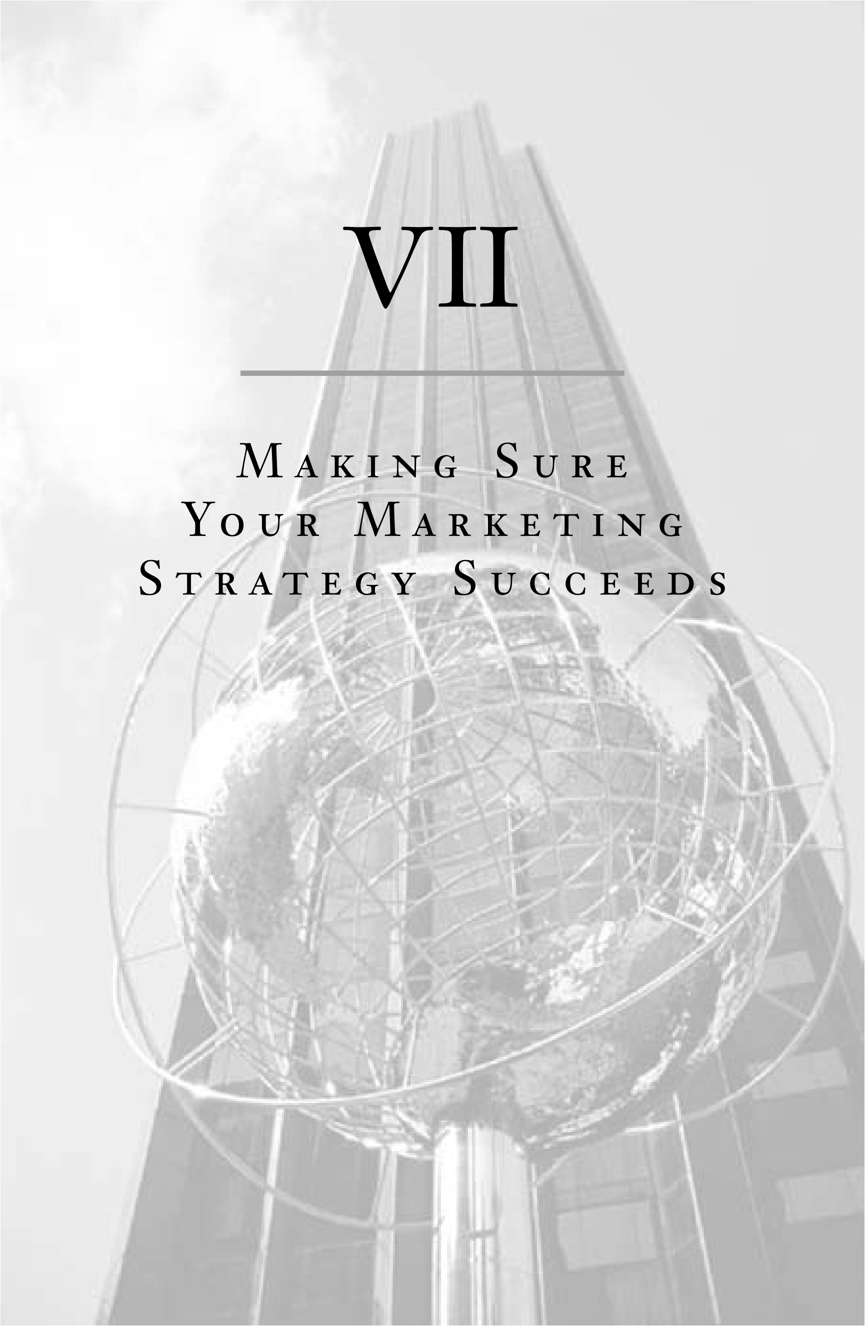
You can use the entire process mentioned earlier for forecasting your sales and profits beyond the short term (next year). To do that, you will need to estimate both your sales potential and your market share for each of the coming years.

It is common sense and also sound statistical analysis that forecasts become less accurate the further out you try to predict. Many finance people say that they look ahead at most 5 years. You need to decide how far ahead you feel you should try to predict.

Conclusions

Going forward with a marketing strategy without trying to make a forecast is risky business. You may win, but you may also squander your resources when a somewhat stronger strategy may have succeeded. If forecasting the future were easy, I would not be writing this book—instead I would be forecasting the spins of roulette wheels in Atlantic City and sleeping late on my yacht. However, you can be systematic in your forecasting—estimate the sales available to you and estimate what portion of those sales you think you can win with your marketing strategy. Then convert your sales estimates into profit estimates.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.



VII

Making Sure Your Marketing Strategy Succeeds

38

The Marketing Plan

Your *marketing plan* summarizes the strategy and all the programs that are designed to achieve your objectives. It describes the outcomes of all the analyses you have done and all the decisions you have made as you have gone through the process of developing your marketing strategy. If you have done all the analyses described in this book—or just the ones you believed were most important—and if you have considered all your alternatives, you will find that your marketing plan basically writes itself. Your marketing plan provides direction for all your marketing actions. You may need to change your plan somewhat as your plan encounters the market, but your plan should provide you with guidance.

Planning Ahead

How far ahead should you plan? Determining your planning horizon is a lot like driving your car. You need to look ahead on the road at least far enough so that you will have time to brake or turn if you see a problem ahead of you. The same is true of marketing. You need to plan ahead far enough so that you will have time to change your strategy if you need to do so.

You should develop your marketing plan for a period *longer* than the time it will take you to implement any major changes in your strategy. For example,

Meeting Member's Needs: Trump National Golf Club, Bedminster

Trump National Golf Club, Bedminster Clubhouse.
Photo courtesy of Trump National Golf Club.

Situated in the beautiful rolling hills of New Jersey's horse country in northwestern Somerset County, the Trump National Golf Club opened in 2004. A 1930s Georgian mansion became the clubhouse, with a dining room seating more than 300. The guest cottages include tennis courts, a pool, a trapshooting range, and a bistro. The Club is a family-centric, full-service country club with two championship-caliber golf courses. The Club is versatile enough to also suit the needs of CEO's.

Donald J. Trump, a single-digit handicap player, has observed that "CEO's particularly like us because they can entertain business associates in a private and serene country setting just 40 minutes outside of Manhattan and 20 minutes from Newark International Airport—and we're one of the few clubs with a heliport."

The golfing, of course, is superb. When it opened, the course was rated among the top five new private clubs by *Golf Digest* and it now ranks among the top 100 courses in the world according to *Golf Magazine*.

The Club has received all the attention to exceptional quality that characterizes Trump properties and courses designed by Tom Fazio and his nephew, and features elegant landscaping, and world-class service. According to General Manager David Schutzenhofer, it is "an ultimate business entertainment venue."

Source: Susan Brierly, "Par Excellence,"*NJ CEO* (Q2, 2008), pp. 40–43.

if it will take you two years to find and train more staff, then your plan should look ahead at least two years. If it will take you four years to change your brand name and brand position, then your plan should look ahead at least four years.

Your marketing plan should reflect what you feel will be changes in your competitive environment during the time bounded by your planning horizon. Because you expect new competitors to enter your market, you may need to change your target competitor and your benefit advantage and competitive advantage. For example, if you operate a restaurant and a new chain restaurant opens in your area, you may need to rethink your strategy—in particular, your target market and your positioning, which, in turn, would be reflected in your marketing programs.

Marketing Plan

Your marketing plan (see the worksheet in Exhibit 38.1) consists of the four main components of your marketing strategy (target market, objectives,

Exhibit 38.1 Marketing Plan

		Year		
		1	**2**	**3**
Objectives	Share			
	Profitability			
	Cash flow			
Positioning	Target DMU member			
	Target competitor			
	Benefit advantage			
	Competitive advantage			
Programs	Design			
	Advertising			
	Identifiers			
	Promotion			
	Selling			
	Public relations			
	Pricing			
	Distribution			
Forecasts	Share			
	Profitability			
	Cash flow			
Key Planning Assumptions				

Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

positioning, and programs), your forecasts for your main objectives, and a list of your key planning assumptions. You need to determine what objectives are important to you and what marketing programs you will be using, and tailor Exhibit 38.1 to your situation.

Planning Process

In many chapters, this book provides planning analyses that make your marketing planning easier. They cover important issues such as finding market segments, determining positioning, and developing communications messages. Typically, there are one or more planning analyses available for each step in the planning process. Exhibit 38.2 shows you where each Planning Analysis fits in the process of formulating a marketing strategy.

Exhibit 38.2 Marketing Areas and Planning Analyses

Marketing Area	Planning Analyses
Customers	Actual value, perceived value, positioning, communications
Competitors	Capability, competitive advantage, strategic theme
Organization	Marketing orientation, capability, competitive advantage, strategic theme
Environment	Situation
Identification	Segment identification
Selection	Segment selection, growth strategy
Positioning	Competitive advantage, positioning, strategic theme, brand attribute
Design	Design, positioning, product space
Advertising	Integrated communications, communications
Identifiers	Integrated communications, communications
Promotion	Integrated communications, communications
Selling	Integrated communications, communications
Public relations	Integrated communications, communications
Pricing	Pricing
Strategy	Market strategy, growth strategy, competitive advantage
Forecasts	Situation

Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

If you are stuck in any phase of your planning process, you will find it helpful to use one of the planning analyses for that phase. They often unblock planning logjams and help generate ideas.

Using the Planning Analyses

You can use these analyses yourself. You can also use them as frameworks for leading discussions with your colleagues. Generally, these analyses work most effectively with groups of from five to seven individuals, although they can be used successfully with groups of any size. Often, the groups include a few people from functions other than marketing, such as finance and operations. That allows the group to have a broader view and builds ownership of your marketing plan across the organization.

If possible, you will find it helpful if two or three of the group members are not responsible for the marketing strategy under consideration but are knowledgeable about the situation. They play the role of "reality-checkers." They often ask questions that ensure the analysis is grounded in reality and not wishful thinking.

If you use the planning analyses with your colleagues, you will find that they:

- Facilitate discussion, making it easier for people to comment on your marketing strategy, both positively and negatively
- Help communication among your managers, especially across functions
- Utilize current information by providing the opportunity for people to share what they know
- Spotlight issues that may affect your marketing strategy
- Identify information gaps that you need to fill
- Provide the opportunity to evaluate new approaches
- Lead to your marketing strategy
- Build ownership of your marketing strategy

Building ownership is especially important. Without the support of your people, the most brilliant marketing strategy will likely fail. Allowing people to take part in the development of your strategy brings them into the process. You may not use all their ideas or even any of their ideas, but they will feel that they have participated in crafting the strategy, and that usually results in a sense of ownership.

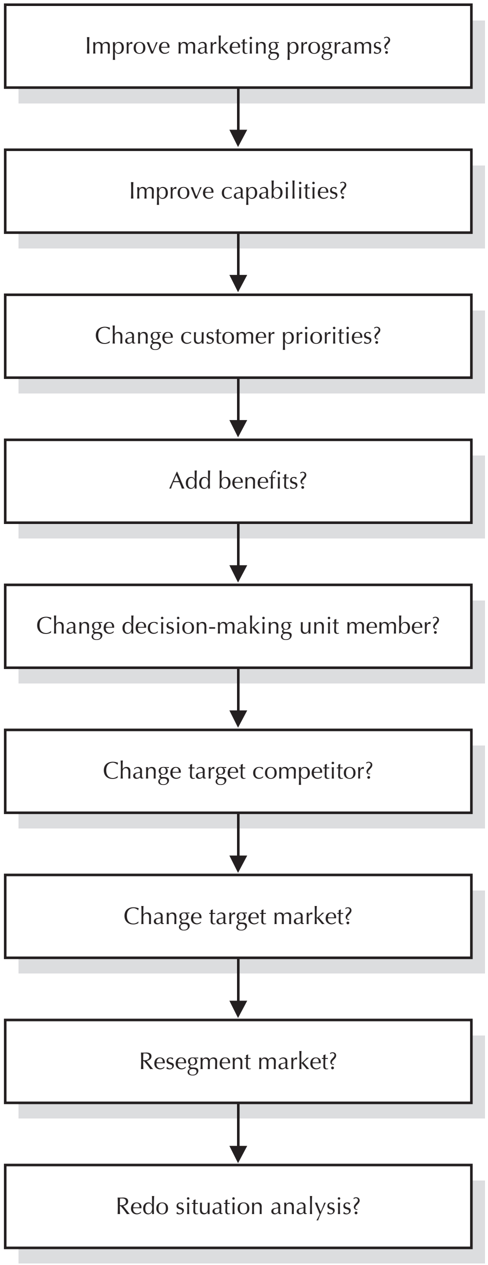
Finding a Powerful Position

Suppose you assemble your marketing strategy and your forecasts fall short of your objectives. What can you do?

There are several ways to improve your positioning and strengthen your product/market strategy (Exhibit 38.3). You should consider them in the following order:

- *Improve your marketing programs:* Make sure that your customers perceive the value you are giving them—especially in terms of your performance of the benefits they most care about. For example, you may have an excellent product or service, but your communications are not persuading your customers.
- *Improve your capabilities:* Find the benefits of highest priority to your target customer. Make sure your capabilities are sufficient to provide those benefits at a superior level.
- *Persuade your target customer to value those benefits you already do well and where you have your strongest competitive advantages:* This approach is not as easy as it might sound. Customers usually do not change their priorities unless given very compelling reasons.
- *Add benefits that you think will be of high priority to your customers:* Before you try this approach, be sure you have sound information on what your customers want. Then you must communicate to them that you have these new benefits.
- *Select a different member of the decision-making unit:* You are hoping to find a target member of the decision-making unit who wants the benefits you already provide at a superior level and that are supported by your competitive advantages.
- *Select a different target competitor:* The competitor you select is one you know you are superior to with respect to the benefits your customers want.
- *Select a different target market:* If your superior benefits are not of interest to your current target market, perhaps you can find another target market that will appreciate them.
- *Resegment the entire market:* If you cannot find a target market you can win within your current segmentation scheme, then perhaps you should try another way to segment the market.
- *Redo your situation analysis:* If you are unable to find a target market, target member of decision-making unit, or target competitor that provides you with the opportunity to win, then maybe this market is not for you. Before you depart, however, you may want to reexamine your situation analysis one more time.

Exhibit 38.3 Improving Your Marketing Plan



Source: "Arrow Guide—Formulating the Product/Market Strategy," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Every one of these actions has the potential to strengthen your product/market strategy and improve the forecasts of return such as sales, profit, and cash flow. All these actions involve targeting, positioning, or marketing programs. All focus on managing perceived value to your customers. (For further discussion of strategies, see Sexton.[1,2])

Finding a Powerful Position—Restaurant

Assume you own a small restaurant in the downtown area of a small city. You have a broad menu. You are now faced with new competitors who are specializing in different cuisines. What might you do?

- *Improve marketing programs.* Examine your advertisements to determine whether they are on strategy—communicating your benefit advantages to your target customers. Perhaps you might want to consider some promotions to attract new customers.
- *Improve capabilities.* You might first evaluate your chef, waitstaff, décor, and food supplies. You may need to improve them in some way.
- *Communicate importance of benefits.* You might find that your menu has many healthy items on it. You may need to communicate that to your customers and raise their health consciousness. You may advertise and spotlight the healthy items on your menu.
- *Add benefits.* You may find that your customers would like to have easier parking. You might arrange with a neighboring business to use their parking facilities, then communicate that to your customers.
- *Target new decision-making unit member.* Perhaps you have not been focused in your advertising. You may want to develop communications that might appeal to either the husband or wife of a family. For example, if you believe that the wives are especially concerned with healthful entrees, you might target them.
- *Target new competitor.* You may want to reevaluate your target competitors. Rather than taking on other local restaurants, you might consider focusing on fast-food or other chain restaurants and emphasize your local presence and support of the community.
- *Target new segment:* If you have been targeting all families, you might want to concentrate your efforts on families with young children. You might provide special meals or drinks for the children, as well as premiums or contests.

- *Resegment market:* If you cannot find a target segment you think you can win, you might try to resegment the market—perhaps by income or by age.
- *Rethink situation:* Finally, if you cannot find a target segment even after you have reexamined your market segmentation, you might want to rethink your situation and decide whether there is room for your restaurant in this market.

Conclusions

Your marketing plan is your blueprint for your future actions. It should pull together all your thoughts for your marketing strategy. The target markets and positioning are the heart of the plan. They should coordinate all your marketing programs. Your forecast should validate your plan.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

39

Motivating Your People

You can have the most brilliant marketing strategy ever devised, but it needs to be implemented by your people. If they do not properly implement the strategy, it will not achieve the desired results.

How can you help your people attain and maintain high levels of performance?

Some people feel that "you get what you pay for." Some people feel that people are born with the attitude to perform well. Some people feel it is the work environment.

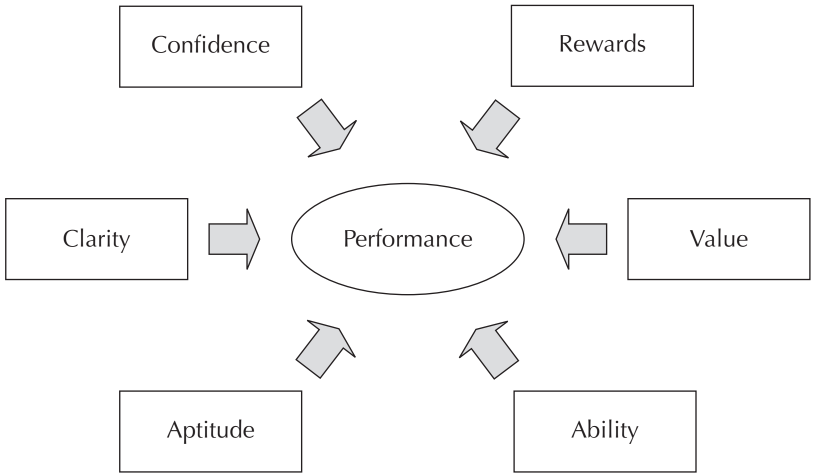
The answer is that there are many drivers affecting how people perform. You need to know these drivers and how to use them to motivate your people to perform at high levels so that your marketing strategy will succeed.[1]

Managing Individuals

You can consider six major drivers of individual performance (Exhibit 39.1):

1. *Clarity:* whether the task is clear to the individual
2. *Confidence:* how sure the individual is that he or she can accomplish the task

Exhibit 39.1 Factors Affecting Individual Performance



Source: "Arrow Guide—Managing for Performance," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

3. *Rewards:* what the individual will receive if they do accomplish the task
4. *Value:* to what extent the individual wants the rewards
5. *Ability:* the needed skills the individual has already acquired
6. *Aptitude:* the potential of the individual to acquire the needed skills

Individuals are different. They have different needs, different aptitudes, and different abilities. To motivate people, you must know how these drivers can influence their behavior.

How often have you seen a person not doing well in one work environment do well when you place them in a different environment? It is the manager's responsibility to create the environment so that an individual can perform to his or her maximum.

Clarity

If you want someone to do something, you need to tell them what to do. That sounds like the commonest of common sense. However, some managers apparently think they are telepathic managers. They ignore or forget to tell their people what they should do and then are surprised when their employees do not do what they wanted them to do.

Clarity is knowing what you are supposed to do. One of the major purposes of a marketing strategy (Chapter 3) is to communicate exactly to your

Informing Employees: Trump Hotel Collection

Trump International Hotel & Tower New York.
Photo credit: Ali Goldstein. Photo courtesy of The Trump Organization.

The orientation program for new employees consists of two days with follow-up sessions 30 days and 90 days afterwards. These meetings are designed to ensure that all employees understand what the Trump Hotel Collection brand stands for and their role in building the brand. Associates do not start work until they have attended the New Employee Orientation.

During the orientation sessions, employees learn the Trump Hotel Collection policies and procedures, as well as:

- Overview of Trump Hotel Collection
- What Makes a Great Brand
- Culture including Values and Mission
- Guest Service Philosophy
- Organization's Expectations and Role of Employee
- Measurements Used to Determine Performance

Source: Trump Hotel Collection internal document, April 23, 2007.

people who are your target customers and what is your target position so they will know what they need to do.

Confidence

Confidence is the relationship between effort and performance.

If you set objectives too high, the objectives can be de-motivating. Objectives should stretch people, not make them feel defeated.

If each week you ask your salespeople for more sales than they can reasonably expect to obtain, at some point they will walk away. You need to set objectives to bring the best out of your good people. You don't want them to walk away. They should become motivated, not discouraged.

Rewards

Rewards are what your people can expect to receive if they achieve the objectives you assign them. Rewards should be publicized so that your people know what to expect. Once I asked a group of bank managers in the United Kingdom if their bank offered a bonus. After a long silence, one manager answered, "We think so and we think you must threaten to quit to get it." If that was a common perception, then the bonus was actually leading to behavior—threatening to quit—that was destructive to that bank.

Rewards have more impact if they concern objectives over which people have control.

It is not motivating to reward people on profit if the profit is determined in large part by the amount of overhead assigned and the overhead is assigned arbitrarily.

Rewards are more effective if they are timely. Quarterly bonuses are more effective than annual bonuses in raising performance, and monthly bonuses are more effective than quarterly bonuses—even when the same amount of money is paid out in total.

Rewards need not be monetary. Recognition works. Perquisites work. Feedback works. In particular, feedback—positive or negative—can be very effective in helping people change their behavior as long as it is related to behaviors people can control and it is *timely.*

Value

Some of your people are motivated by money, some by fame, some by power, some by other concerns. You need to discover what your people want.

The same reward may have a positive value to one person and a negative value to others.

For example, some salespeople want to become sales managers, but some salespeople prefer to remain as sales representatives. If the reward for a salesperson who achieves objectives is to be promoted, and if that salesperson does not want the promotion, then that individual may leave the organization.

Aptitude and Ability

When recruiting people, you want to find people with current ability. Aptitude may be even more important as it cannot be taught. Taco Bell believes they can teach people how to make tacos, but they cannot teach them how to serve customers courteously, so they look for people who can serve people courteously when they hire.

How do you find the people you want?

You need to go through their backgrounds carefully. Find events in their backgrounds that show their passion, their competitiveness, their empathy, their ability to plan—whatever character traits you feel are needed for your business.

As a member of a professional school admissions committee, I looked for any evidence of excellence in an applicant's life. Whether they were terrific at playing the cello, solving mathematics problems, playing baseball, or working with charities, I wanted to see that they had passion and they had the ability to follow through with their goals. You may be looking for other characteristics, but whatever you are looking for, you should look for evidence of that trait in the lives of your potential employees.

Motivating Individuals: Putting It Together

To attain and maintain high levels of performance, you need people with high aptitude and ability—who can answer each of the following questions positively:

Do I know what I am supposed to do?
If I make the effort, can I perform well?
If I perform well, will I receive a reward?
If I receive a reward, is it something I value?

A negative answer to just one of those four questions means the work environment is not motivating your people. To motivate your people, you must create a work environment where the answer to each of the four questions is yes.

Managing Teams

A team is not just a group of individuals. It has its own dynamics. Motivating a team is not the same as motivating individuals.[2]

Be clear that a group of people does not necessarily make a team. Many groups of people are just that, a work group. Work groups are useful. People working in a group may be more efficient than if they are working alone. They can share information more easily. They can enjoy each other's company.

Teams, however, are special.

Have you ever been on a successful team? In business? In sports? There is a spirit with a successful team—a feeling that the task can be completed or the game be won.

What Is a Team?

- A team is usually a small group of people, often fewer than 10.
- They have complementary skills.
- They share common goals and objectives, and are *committed* to achieving them.
- They use a common, disciplined approach to achieve those goals and objectives.
- They communicate freely within the team.
- They hold themselves mutually accountable for their success or failure in achieving their goals and objectives.

Why Create a Team?

A high-performing team increases the chance of a successful implementation of your marketing strategy. A team can bring to bear more skills on difficulties and can use problem solving to overcome obstacles. Individual team members learn from each other and from the team process. Teams build ownership of strategies and programs that improves the chances of a successful implementation.

What Are the Barriers to Creating a Team?

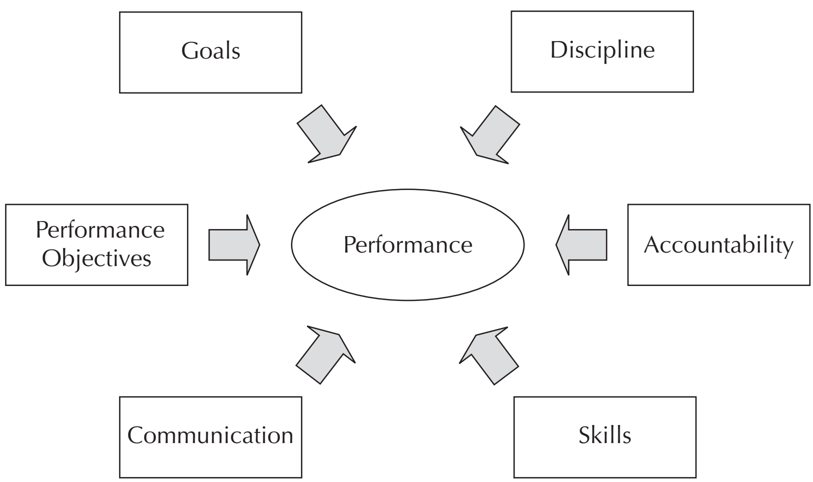
Some people just prefer to work alone. In particular, they want to be evaluated for what they have done as an individual and do not want to be evaluated for what others do (or do not do). They think of a team as yet another bureaucracy with which they have to deal. They feel that they will be lost in the team process.

How Do You Build a Team?

Several factors affect the performance of a team (Exhibit 39.2).

You begin to build a team by giving them a clear goal. For example, you might challenge a sales team to win a specific account. Goals should be both demanding and realistic. All team members should consider the goals important.

Exhibit 39.2 Factors Affecting Team Performance



Source: "Arrow Guide—Managing Teams," The Arrow Group, Ltd., New York, NY, 2008. Used here with permission.

Performance objectives provide specific direction for the team. Your sales team needs to identify all the tasks that must be completed to win the specific account. The performance objectives describe specific outcomes that the team must achieve to attain the overall goal. Being invited to make a sales presentation by the customer or preparing a draft proposal would be examples of performance objectives.

A team needs to be balanced in skills so that they can view a problem from all its different angles. Some of the roles that should be present on a team include:

- *Idea generator:* Produces ideas.
- *Evaluator:* Examines team performance.
- *Internal manager:* Organizes the team and keeps it running.
- *External manager:* Coordinates the team's contacts with the rest of the world.
- *Implementer:* People who actually make things happen.
- *Completer:* Finishes the task and decides when it is finished.
- *Driver:* Provides the energy and passion—rewards and punishes team members.[3]

Some people may play more than one role. For example, the implementer may also be a completer. A sales representative who is meeting regularly with the potential client may also be the one who closes the deal.

The key to an effective team is balance among the roles. For example, if everyone on the team is an idea generator, they will have very enjoyable meetings, but nothing will get done. Team members will enjoy sharing ideas, but no one will do the actual work. On the other hand, if everyone on the team is an internal manager or a driver, the meetings may be very unpleasant as each one jockeys to control the team.

Team members should agree on a disciplined approach to solve their problem. For example, the sales team may agree on an overall strategy to sell the potential client, and on the schedule for how the contacts will be made and how the proposals to the client will be shaped.

The team is responsible for achieving the goal. If the goal is not achieved, the team has failed; if the goal is achieved, the team has succeeded. This also means that all team members participate in the work of the team. Each member of the sales team should contribute something to the selling process.

Finally, team members must be able to communicate easily with each other. They must all be physically nearby or have seamless ways to communicate with each other.

A Team's Progress

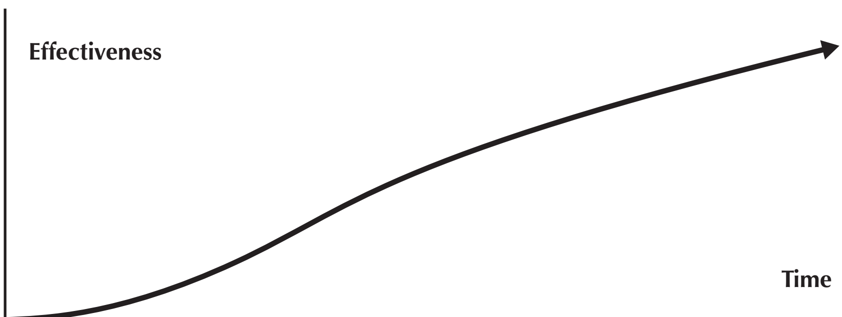
Over time the effectiveness of a team should increase (Exhibit 39.3).

Teams begin as work groups. Initially, goals are assigned to the team. Often what may happen next is bickering and testing of each other as the team members try to organize themselves into an effective team and try to develop a level of confidence with each other. Some groups fail at this point to become a team.

Those groups who do become a team have a level of trust in each other and in the team overall. They also develop a spirit that they will succeed.

You need to watch the team for signs such as enthusiasm, commitment, self-identity (for example, a team name), and of course, results to judge if it is becoming more effective. For example, if the group of salespeople tasked with selling to a potentially large client is becoming a team, they will show their enthusiasm and might refer to themselves with a nickname. If they are not becoming a team, then members will skip meetings and their individual responsibilities will take precedence over those of the team.

Exhibit 39.3 Motivating a Team



Forming	Storming/Norming	Performing
Work Group	Becoming Team	Working Team
Happy to be chosen for group	Working out Relationships	Committed to team Energized

Source: Adapted from Peter R. Scholtes et al., *The Team Handbook,* GOAL/QPS and Oriel, 2003.

Motivating a Team

If you want to motivate your team, try the following:

- Make it clear that the team will be rewarded, not individuals. Perhaps you might give *all* the members of your sales team a trip to a Hawaii.
- Focus on a few short-term performance objectives—"small wins." Celebrate when the sales team receives an invitation to present a proposal to the potential client.
- Be sure you are giving your team enough support. Provide the sales team with information to support their contacts with the client.
- Make it easy for the team members to spend time with each other. Give the team a special office for their work and their meetings.
- Make it easy for the team members to communicate with each other. Provide whatever technology that might enhance communication among the sales representatives on the sales team.
- Help the team function as a team. Use team-building exercises and teach them idea generation techniques.
- Most important, make sure that the goals are clear and that the team members remain committed to their achievement.

CONCLUSIONS

Marketing strategies are implemented by your people. To do that, individuals must have a clear idea of what they are supposed to do and the rewards they will receive for succeeding. If you are using teams, similar ideas apply—the team must have clear goals, and the rewards they will receive for succeeding must go to the team. In all cases, you need to communicate your target markets, positioning, and what is expected of your marketing programs.

For review questions for this chapter, log on to www.trumpuniversity.com/marketing101.

The concepts and approaches in this book form the basis of the marketing and sales courses at Trump University. If you wish information about those courses and how to enroll, please visit www.trumpuniversity.com.

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Donald E. Sexton is professor of business at Columbia University. Don received his PhD and MBA from the University of Chicago in the fields of economics and mathematics. He has been teaching for more than 40 years at Columbia in the areas of marketing, international business, and operations management, and is a recipient of the Business School's Distinguished Teaching Award. He is Trump University's subject matter expert and faculty member in the areas of marketing and sales.

Don has served as a visiting professor at the China Europe International Business School and at INSEAD. He has also taught at the University of California-Berkeley, the Indian School of Business, Skolkovo, the Hong Kong University of Science and Technology, the Australian Graduate School of Management, and the U.S. Business School in Prague. His articles have appeared in numerous journals such as the *Harvard Business Review*, the *Journal of Marketing*, the *Advertiser*, and *Management Science*, and he is the author of *Trump University Branding 101* (John Wiley & Sons, Inc. 2007) and *Value Above Cost* (FT Press 2009). He is a sought-after conference speaker on issues concerning marketing, branding, and marketing ROI. He is often quoted in media such as the *New York Times*, *Business Week*, *Advertising Age*, and Bejing's *China Economic Daily*.

Don is the founder and president of The Arrow Group, Ltd.® (www.thearrowgroup.com), a firm that provides consulting and training services in the areas of marketing, sales, and brand management. His clients have included companies such as GE, Pfizer, IBM, Kodak, Verizon, Boeing, Citigroup, Shell, MetLife, Motorola, Kellogg, AT&T, Wendy's, and DuPont.

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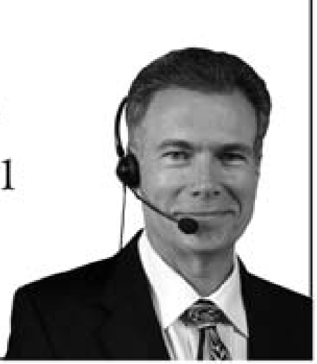

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