

CHAPTER

11

Marketing and Distribution

Why It's Important

Do you think advertisements influence your buying habits? Marketers hope so—they spend billions of dollars every year toward this purpose! This chapter will explain how businesses market and distribute their goods and services.



To learn more about how products are marketed, view the **Economics & You** Chapter 17 video lesson: **Marketing and Distribution**

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Chapter Overview Visit the Economics Today and Tomorrow Web site at ett.glencoe.com and click on **Chapter 11—Chapter Overviews** to preview chapter information.

CONTENTS

The Changing Role of Marketing

COVER STORY

BUSINESS WEEK, JUNE 7, 1999

Too much marketing today focuses on awareness rather than reasons to buy. In the old days, awareness advertising was more effective. There was less competition. All you had to worry about was whether or not people remembered your product. As technology and more kinds of media have come about, it's no longer enough to be remembered. The consumer has too many choices. Your marketing has to send the message that you are relevant. You need to be sending reasons to buy.



READER'S GUIDE

Terms to Know

- marketing
- consumer sovereignty
- utility
- market research
- market survey
- test-marketing

Reading Objectives

1. How has the role of marketing changed in the United States?
2. What elements make up market research?

In addition to financing and producing products, which you learned about in Chapter 10, businesses must promote and eventually sell their products and services. **Marketing** involves all of the activities needed to move goods and services from the producer to the consumer. As you read this section, you'll learn that these activities include market research, advertising and promotion, and distribution.

marketing: *all the activities needed to move goods and services from the producer to the consumer*

The Development of Marketing

Some economists estimate that about 50 percent of the price people pay for an item today is for the cost of marketing. The idea and importance of marketing in the United States have

consumer sovereignty: the role of the consumer as ruler of the market when determining the types of goods and services produced

utility: the amount of satisfaction one gets from a good or service

changed considerably since 1900. The development of marketing can be traced by analyzing what it has focused on: production, sales, advertising, and **consumer sovereignty**—or consumer as ruler. **Figure 11.1** takes you on a historical “tour” of marketing.

Meeting Consumer Utility Today, marketing’s sole purpose is to convince consumers that a certain product will add to their utility. **Utility** is the ability of any good or service to satisfy consumer wants. Utility can be divided into four major types: form utility, place utility, time utility, and ownership utility.

Form utility, created by production, is the conversion of raw materials to finished goods. Examples include transforming cotton cloth into draperies or refining crude oil into gasoline.

Place utility is created by having a good or service available where a consumer wants to buy it. Locating a gas station on a busy corner is an example of this type of utility.

FIGURE 11.1

Stages of Marketing

A The Early 1900s

Producers of consumer goods and services take advantage of new technologies to increase production. Finding that their amount of production exceeds their markets, firms begin using “announcement advertising” to introduce their goods to potential buyers statewide and even nationally. Consumers, no longer having to rely on local producers, become aware of greater choices and respond to the advertising. Less efficient local firms, or those with inferior products, wither and leave the market.

B The 1920s and 1930s

Rising incomes and the increased wealth of the nation lead consumers to redefine their notions of necessities and luxuries. Greater numbers of consumers can choose among goods and services available. Producers begin to advertise in a manner extolling the virtues of their product compared to the competition. Consumers respond by favoring those companies that present themselves as having the product that best fits their needs. Firms that cannot adequately explain the benefits of their products fail.



CONTENTS

Time utility is created by having a good or service available when a consumer wants to buy it. As shown in **Figure 11.2** on page 292, a 24-hour grocery store or all-night restaurant are examples of time utility. Catalog selling is another example of both time and place utility.

Ownership utility is the satisfaction one receives from simply owning the good or service. One might purchase a fine art painting for an exorbitant price to have the satisfaction of owning the object. Luxury cars, expensive jewelry, and lawn ornaments also provide ownership utility.

Market Research

Finding out what consumers want can be difficult. It is crucial that businesses do so, however, because many markets today are national or even global. An increase in sales of a few percentage points can result in millions of dollars in profits. Therefore,

C▶ The 1950s

During the 1950s, firms began the process of creating demand. They did this by changing their advertising to convince consumers that a specific firm's product, not just a similar product, was a necessity if the consumer was to achieve a desired lifestyle. It was hoped that consumers would view the firm's particular product—whether it was laundry detergent, facial tissue, or breakfast cereal—as an important part of the American way of life.



E The 1990s to the Present
The emergence of the Internet allows even the smallest of firms to advertise inexpensively. Large firms producing for the masses face competition from small businesses that can produce goods and services for small groups or even individuals.



D The Late 1950s to the 1980s

Large national firms find stiff competition from businesses that can imitate their products. Firms begin to research consumer tastes before production in order to be able to specifically satisfy their wants. Advertising focuses on an attempt to have the consumer identify with the person in the advertisement, rather than with the specific product being presented. The recognition that the consumer is ruler of the market—consumer sovereignty—returns. Firms ask consumers what they want and, in effect, fill the specific order much as the local blacksmith had done in the late 1800s.



FIGURE 11.2

Time Utility Businesses that are open around the clock satisfy consumers who want to be flexible in their shopping hours—also known as time utility. *What other types of utility does marketing address?*

before a product is produced or a service is offered, businesses research their market. *Market* in this sense means the people who are potential buyers of the good or service.

Through **market research** a company gathers, records, and analyzes data about the types of goods and services that people want. From automakers to producers of frozen foods, most companies producing consumer goods invest heavily in market research. As shown in **Figure 11.3**, this cost is passed on to consumers.

When Should Market Research Be Done? Market research may be done at several stages of product development. It can be done at the very beginning when the first ideas about a new product are being developed. It can be conducted again to test sample products and alternative packaging designs.

FIGURE 11.3

Cost of Marketing As Shoe has found out in the cartoon below, the cost of marketing—or “world tour”—has significantly increased the price of a cup of coffee.

SHOE



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Early market research has several purposes. It helps producers determine whether there is a market for their good or service and what that market is. It can also indicate any changes in quality, features, or design that should be made before a product is offered for sale.

To investigate initial consumer response, market research is often done immediately after a product is released for sale. Some companies even test their advertising to make sure it is attracting the market segment for which the product was designed. Market researchers can also gather information about a product that has been on the market for a while. They then attempt to discover what should be done to maintain or increase sales.

Market Surveys The first step in market research is performing a **market survey**, in which researchers gather information about who might be possible users of the product. Such characteristics as age, gender, income, education, and location—urban, suburban, rural—are important to a producer in deciding which market a product should target.

market survey: information gathered by researchers about possible users of a product based on such characteristics as age, gender, income, education, and location

A market survey typically involves a series of carefully worded questions. The questions may be administered in the form of a written questionnaire, which is mailed to consumers. Manufacturers of such small appliances as hair dryers and microwave ovens often put a questionnaire on the back of the warranty card that purchasers are to return. Another way to survey the market is by conducting individual interviews or querying focus groups. See **Figure 11.4**.

test-marketing: offering a product for sale in a small area for a limited period of time to see how well it sells before offering it nationally

Testing New Products As a final step before offering a product for national distribution, market researchers will often test-market a product such as a detergent or a toothpaste. **Test-marketing** means offering a product for sale in a small area, perhaps several cities, for two months to two years to see how well it sells before offering it nationally.



FIGURE 11.4

Focus Groups Members of a focus group may test and discuss what they like and dislike about similar, and often competing, products. Generally, the people chosen to be part of the focus group do not know which company has hired them to test the products. The focus group is often observed through a one-way mirror by the marketers of one of the products.

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CAREERS

Market Research Analyst

Job Description

- Analyze data on past sales to predict future sales
- Design market surveys
- Analyze competitors' prices and methods of marketing

Qualifications

- Graduate degree in economics, business administration, marketing, or statistics
- Strong background in mathematics and consumer behavior

Median Base Salary: \$51,190

Job Outlook: Very good

—Occupational Outlook Handbook, 2002–03

For example, before attempting to market a new granola cereal, a company might sell it in several selected areas where the product is most likely to attract the market segment that the company is seeking.

Researchers keep track of the units sold and test different prices and ad campaigns within the test markets. If the product is successful, the company will offer it nationally. If sales are disappointing, the company has two choices. It can make changes based on the data collected in the test market. Or, rather than spend more funds redesigning the product, the company can abandon the idea.

Of all the new products introduced every year in the United States, most are not profitable and do not survive in the marketplace. It is the constant lure of owning a high-profit item, however, that motivates companies to continue developing new products.



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SECTION

1

Assessment

Understanding Key Terms

1. **Define** marketing, consumer sovereignty, utility, market research, market survey, test-marketing.

Reviewing Objectives

2. **Graphic Organizer** Use a diagram like the one below to make a time line tracing the changing focus of marketing in the United States.



3. What steps are involved in market research?

Applying Economic Concepts

4. **Market Surveys** Imagine that you have the task of finding the market to buy a new health-food energy bar. What are five questions you would ask consumers in a market survey?

Critical Thinking Activity

5. **Categorizing Information** Select 10 businesses in your community. Categorize each business according to the type of utility it provides.

SPOTLIGHT ON THE ECONOMY

Generation Y

Check It Out! In this chapter, you learned how important it is for advertisers to know their market. In this article, read to learn how advertisers are marketing their products toward *your* generation.

Today's teens may force marketers to toss their old tricks. Born during a baby bulge that demographers locate between 1979 and 1994, they are as young as 5 and as old as 20. And at 60 million strong, they're the biggest thing to hit the American scene since the 72 million baby boomers. They go by a host of taglines: Generation Y, Echo Boomers, or Millennium Generation.

Indeed, though the echo boom rivals its parents' generation in size, in almost every other way it is very different. This generation is more racially diverse: One in three is not Caucasian. One in four lives in a single-parent household. Three in four have working mothers.

"Most marketers perceive them as kids. When you do that, you fail to take in what they are telling you about the consumers they're becoming," said J. Walker Smith, who specializes in generational marketing. "This is not about teenage marketing. It's about the coming of age of a generation."

Smith and others believe that behind the shift in Gen Y labels lies a shift in values on the part of Gen Y consumers. The marketers that capture Gen Y's attention do so by bringing their messages to the places these kids congregate, whether it's the Internet, a snowboarding tournament, or cable TV. The ads may be funny or disarmingly direct. What they don't do is suggest that the advertiser knows Gen Y better than these savvy consumers know themselves.

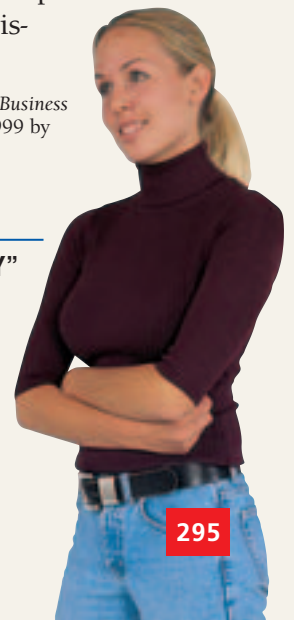
Instead, Gen Yers respond to humor, irony, and the (apparently) unvarnished truth. . . .

Marketers who don't bother to learn the interests and obsessions of Gen Y are apt to run up against a brick wall of distrust and cynicism.

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Think About It

1. What market does "Generation Y" make up?
2. According to the article, how can advertisers reach Gen Yers?



The Marketing Mix

READER'S GUIDE

Terms to Know

- price leadership
- penetration pricing
- promotion
- direct-mail advertising
- product life cycle

Reading Objectives

1. What is the importance of product identification?
2. Which market strategies depend on price?
3. How does a firm decide where to sell its products?
4. What are four types of promotion that a firm may use?

COVER STORY

THE WASHINGTON POST, FEBRUARY 1, 1999

"Tommy Hilfiger has created a marketing phenomenon by speaking the language of teens," says the company's vice president of worldwide marketing. "Tommy Hilfiger's employees comb the streets, campuses, and nightclubs to see what teenagers are wearing. What teens really dislike is having someone older tell them what to wear. There's nothing worse than a bunch of 35- to 40-year-olds trying to figure out what teenagers want."



In today's highly competitive world, simply producing a product and offering it for sale is not enough. Through their marketing departments, companies plan a marketing strategy, which details how the company will sell the product effectively. As you read this section, you'll learn that a marketing strategy, or plan, combines the "four Ps" of marketing: product, price, place, and promotion. Decisions about each are based on the data collected through the company's market research. See **Figure 11.5**.

Product

Market research helps determine *what* good or service to produce. It also helps a company determine what services to offer with the product, how to package it, and what kind of product identification to use.

Additional services that accompany a product often help make a sale. Warranties are customary with many manufactured products, but some manufacturers offer special services free or for a small charge. For example, if you buy a camera, you may be able to purchase from the manufacturer a 2-year extended warranty in addition to the 1-year warranty given by the store in which you bought the camera. Automakers used to offer 1-year or 12,000-mile warranties on new cars. Today a 3-year or 36,000-mile warranty is a common offer.

Packaging is also an important factor in selling a product. The “right” packaging combines size, design, and color to attract potential consumers. Compact discs, books, and food are especially dependent on packaging. Such words as *New and Improved* or *Economy Size* are used to attract customers. For economy-minded shoppers, manufacturers add cents-off coupons and rebate offers to their packages.



FIGURE 11.5

The Four Ps of Marketing

A Product

From the Pillsbury Dough Boy to the familiar Cheerios logo, all of these items are good examples of packaging that achieves product identification.



Promotion

Product promotion includes the use of advertising to inform customers about a new or improved product. It also dictates where and how a product is physically displayed.



Price

Although the laws of supply and demand will ultimately determine the price at which a product sells, a new product often will be priced low to attract customers away from better-known products.



Place

A marketing department must decide where its company's product should be sold—whether in a specialty store, on the Internet, or through a catalog.



Advertising-to-Sales Ratio

Companies measure the effectiveness of their advertising through the advertising-to-sales ratio. This number is calculated by dividing the dollar amount spent on advertising by the dollar amount of sales generated by that advertising. For example, if a \$1 million advertising campaign generated \$4 million in sales, the advertising-to-sales ratio would be 0.25.

Companies also use the ratio to see which type of advertising—direct mail, television,

the Internet, and so on—is most effective. Below are recent advertising-to-sales ratios for the types of advertising most used by businesses. Smaller numbers indicate a greater return on each advertising dollar.

Newspapers	.087
Direct Mail	.096
Magazines	.120
Internet	.143
Radio	.172
Television	.204 ■

Coupons are used to persuade consumers to make a repeat purchase and develop the habit of buying the product.

Once a product is offered for sale, *product identification* becomes important. Product identification is meant to attract consumers to look at, buy, and remember a particular product. It can involve the use of a logo or certain colors on a package. It can also involve a song or jingle, a certain type of packaging, or anything that can be associated with and identify the product.

Price

Supply and demand ultimately determine the price of a good or service. Because of the laws of supply and demand, the price at which a product sells may help determine whether it is successful in attracting buyers while still being profitable to its maker. In setting a price, a company has to consider the costs of producing, advertising, selling, and distributing the product, as well as the amount of profit it hopes to make.

Often companies sell similar goods at similar prices. This practice is known as **price leadership**. For example, one major airline may lower its prices, which causes all of the other major airlines to follow by lowering their fares.

Selling a new product at a low price is another marketing strategy called **penetration pricing**. The low price is meant to attract customers away from an established product.

price leadership: practice of setting prices close to those charged by other companies selling similar products

penetration pricing: selling a new product at a low price to attract customers away from an established product

Place

Where the product should be sold is another decision of the marketing department. Should it be sold through the mail, by telephone, in department stores, in specialty shops, in supermarkets, in discount stores, door-to-door, or on the Internet? Usually the answer is obvious because of past experience with similar products. A cereal company, for example, would most likely market a new cereal in supermarkets. Another company might decide that its goods would appeal to a limited market. Therefore, it may choose to sell its goods only in specialty shops and on the Internet.

Promotion

Promotion is the use of advertising and other methods to inform consumers that a new or improved product or service is available and to convince them to purchase it. See **Figure 11.6**. Businesses spend billions of dollars each year to advertise through direct-mail pieces and in newspapers, magazines, radio, and television. Increasingly, businesses are also advertising on the World Wide Web.

promotion: use of advertising to inform consumers that a new or improved product or service is available and to persuade them to purchase it

direct-mail advertising: type of promotion using a mailer that usually includes a letter describing the product or service and an order blank or application form

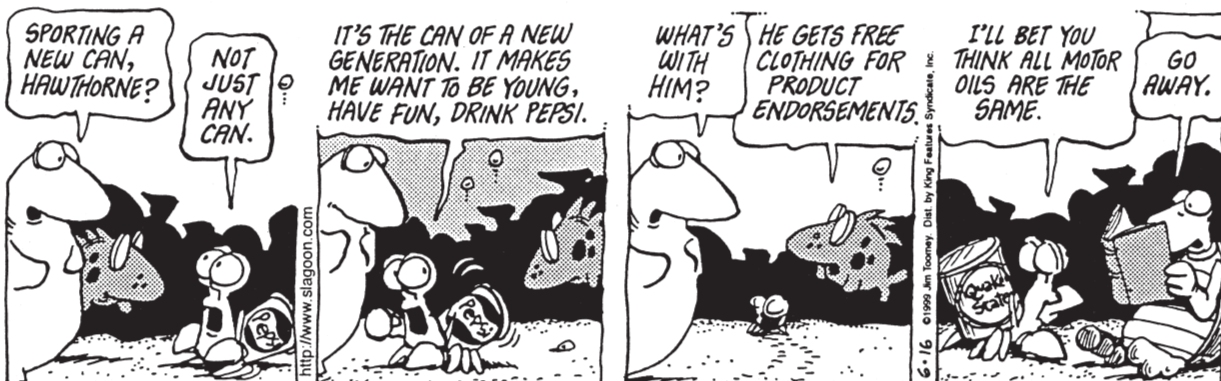
Types of Promotion The particular type of promotion that a producer uses depends on three factors: (1) the product, (2) the type of consumer that the company wants to attract, and (3) the amount of money the company plans to spend. Magazines and catalogs, credit card companies, and insurance companies often use **direct-mail advertising**. The mailer usually includes a letter describing the product or service and an order blank.

Other promotional efforts include free samples, cents-off coupons, gifts, and rebates. Where and how a product is displayed

FIGURE 11.6 . . .

Promotion Product promotion is done in many ways, including having celebrities endorse the product's fine features, as Hawthorne is doing in the cartoon below. **What are other types of promotion?**

SHERMAN'S LAGOON



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Student Web Activity Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 11—Student Web Activities** to see how Web marketing has become serious business.

CLICK HERE

product life cycle: series of stages that a product goes through from first introduction to complete withdrawal from the market

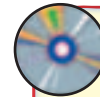
People involved in marketing products need to understand the stages of each product's life cycle because marketing programs are different for each stage. A product in its introductory stage has to be explained and promoted much differently than one in its maturity stage. Also, pricing can vary depending on the stage. Prices of products tend to be relatively high during the growth stage.

Many marketers attempt to extend the life of old products. They may redesign the packaging or find new uses for the product. Advertisements attempt to persuade consumers that they need the product for its new uses.

are important to promotion as well. For example, magazines are often placed next to checkout lines where people wait.

Product Life Cycle

Most products go through what is known as a **product life cycle**. This cycle is a series of stages from first introduction to complete withdrawal from the market. The four stages of a typical product life cycle include introduction, growth, maturity, and decline.



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SECTION

2

Assessment

Understanding Key Terms

1. **Define** price leadership, penetration pricing, promotion, direct-mail advertising, product life cycle.

Reviewing Objectives

2. How does packaging contribute to product identification?
3. What two marketing strategies depend on price?
4. How does a firm decide where to sell its products?
5. **Graphic Organizer** Use a diagram like the one in the next column to explain four ways a firm may promote a product.



Applying Economic Concepts

6. **Marketing Strategy** Design an advertisement for a new cereal box. Keep in mind that packaging and product identification are two of the most important factors in selling a product.

Critical Thinking Activity

7. **Distinguishing Fact From Opinion** Analyze the validity of 10 print advertisements in newspapers or magazines. Identify the facts and bias found in each one.

People & Perspectives



Margaret Whitman

ENTREPRENEUR (1957–)

- **President and chief executive officer of eBay Inc., an Internet auction house**
- **Ranked as the richest woman CEO in the world**
- **Voted one of the top 25 “Women on the Web” by a leading women’s Internet association**

Margaret “Meg” Whitman has served as the chief executive officer of eBay, the Internet auction house, since March 1998. She is one of the new breed of Internet CEOs whose background is in marketing rather than computer technology. Whitman explains eBay’s marketing strategy:

“We started with commerce, and what grew out of that was a community. So we think of ourselves as a sort of community-commerce model. And what we’ve basically done is put in place a venue where people can be successful dealing and communicating with one another. But we also want to expand the kinds of merchandise sold on eBay. . . .

[W]e . . . want to get into the kind of merchandise that is not necessarily shippable because it’s not economic to ship or you want to see it before you buy it—cars, boats, RVs, things like that. We’re

also looking at the kind of merchants who sell on eBay. In the beginning, this was strictly about individuals doing business with one another. What happened is that some of those individuals actually became small dealers. . . . Now, we have a lot of merchants who keep their storefronts but in fact their most profitable distribution channel is eBay.

We are looking at storefronts as something to think about. Now, all our selling on eBay is in an auction format. And the question is: Are there other formats both our buyers and sellers would want? There are people who don’t necessarily like to buy in an auction, and there are sellers who want to sell some of their goods in an auction and some in a storefront . . . ”

Checking for Understanding

1. Whitman refers to a community-commerce model. Why do you think she uses this characterization?
2. What changes in marketing strategy does Whitman foresee for eBay?

Distribution Channels

READER'S GUIDE

Terms to Know

- channels of distribution
- wholesalers
- retailers
- e-commerce

Reading Objectives

1. What is the difference between wholesale and retail distribution?
2. What are two new types of distribution channels?

COVER STORY

BUSINESS WEEK, FEBRUARY 15, 1999

A rose is a rose is a rose, wrote Gertrude Stein. But don't tell that to flower sellers who are trying to differentiate themselves from their fellow petal-pushers.

To stand out in a crowd, U.S.A. Floral Products, the nation's biggest flower distributor, is test-marketing a plan to sell flowers sporting a tag telling consumers the last date the flowers can be sold for maximum freshness—the equivalent of a “sell by” date on a quart of milk.



channels of distribution: routes by which goods are moved from producers to consumers

Decisions about distribution, or moving goods from where they are produced to the people who will buy them, is another function of marketing. As you read this section, you'll learn about **channels of distribution**, or the routes by which goods are moved. **Figure 11.7** shows the various distribution channels for different types of goods.

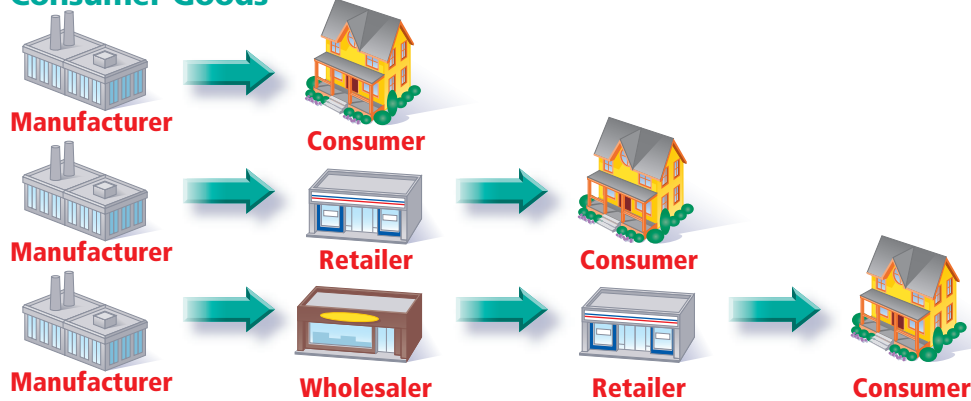
Wholesalers and Retailers

Some consumer goods, such as clothing and farm products, are usually sold by a producer to a wholesaler and then to a retailer, who sells them to consumers. Other consumer goods, such as automobiles, are normally sold by the producer directly to a retailer and then to consumers. With each transaction, or

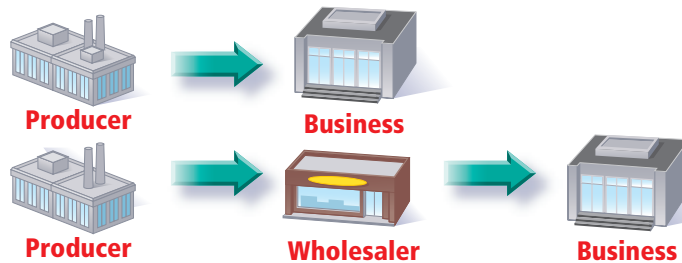
FIGURE 11.7

Channels of Distribution

Consumer Goods



Raw Materials and Producer Goods



business deal, the price increases. Few goods go directly from producer to consumer; an example of this would be vegetables sold at a farmer's roadside stand. See **Figure 11.8** on page 304.

Wholesalers Businesses that purchase large quantities of goods from producers for resale to other businesses (not to consumers) are called **wholesalers**. Various types of wholesalers exist. Some may buy goods from manufacturers and sell them to retail stores that then deal directly with consumers. Others may also buy and sell raw materials or capital goods to manufacturers.

wholesalers: businesses that purchase large quantities of goods from producers for resale to other businesses

Retailers Businesses that sell consumer goods directly to the public are **retailers**. You are probably familiar with many of them: department stores, discount stores, supermarkets, mail-order houses, specialty stores such as bookshops, and so on.

retailers: businesses that sell consumer goods directly to the public

Traditional retailers have also “set up shop” on the World Wide Web. More and more, there are **e-commerce** retailers that have no physical store anywhere. They are “virtual companies.” You’ll read more about e-commerce in Chapter 22.

e-commerce: business transactions conducted over computer networks, in particular the World Wide Web

Storage and Transportation

Part of the distribution process includes storing goods for future sales. The producer, wholesaler, or retailer may perform this function. Most retailers keep some inventory on hand for immediate sales. Many have a two- to three-month supply, depending on the type of merchandise.

Transportation involves the physical movement of goods from producers and/or sellers to buyers. In deciding the method of transportation, businesspeople must consider the type of good, such as perishable food. The size and weight of the good are also important. Airfreighting tons of wheat is impractical, but airfreighting small machine parts is not. Speed may be necessary to fulfill a sale or to get fresh fruit to a food plant. The cost of the different types of transportation helps determine how to ship items.

Distribution Channels

In the last 15 to 20 years, distribution channels have expanded rapidly due to the growth of club warehouse stores and direct marketing.

Club Warehouse Stores A typical club warehouse store requires a membership fee—about \$35 a year for individuals and more for businesses. Individual club members usually have to be part of a larger group such as a teacher's union or a credit union.

FIGURE 11.8

Wholesalers Versus Retailers Wholesalers add value to the product by providing time utility and place utility. The consumer benefits from wholesaler networks, but also ends up paying for these services in the final price of the product. In contrast, a local farmer may act as both “manufacturer” and retailer, and prices may be lower. The trade-off is that consumers usually must go out of their way to purchase the product.



CONTENTS



The club warehouse formula is to buy a limited number of models and brands of each product in such huge quantities that the warehouse gets very favorable prices from the manufacturers. Some of the biggest club warehouses are Costco and Sam's Club (a division of Wal-Mart).

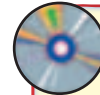
Direct Marketing Direct marketing is done mainly through catalogs and over the Internet. Advertising called "space ads" in newspapers and magazines is also direct marketing. Catalog shopping has become a popular distribution channel to avoid state sales taxes. The purchaser normally does not pay sales tax if the catalog company is located in another state. The same holds true for goods purchased through the Internet, although this may change in the future.

Shopping on the Internet has become increasingly popular because of the ease with which it can be done. Anybody with access to the Internet and a valid credit card can order just about anything on the Web.

Kmart Shoppers

On any given weekend day, 15,000 people come to Guam's hottest spot—Kmart. Reported to be the world's biggest and perhaps busiest Kmart store, its opening drove down prices of everything from shampoo to Cheerios to stereo sets with its famous discounts.

Little shops on this small island always were able to charge high amounts, jacking up prices to cover high shipping costs into the middle of the Pacific Ocean. Shoppers are now grateful for 89-cent cans of Campbell's soup. They must, however, plan their day around getting in and out of the store. It is so big that customers take cell phones so they don't lose their companions in the aisles. ■



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SECTION

3

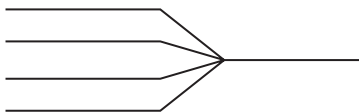
Assessment

Understanding Key Terms

- 1. Define** channels of distribution, wholesalers, retailers, e-commerce.

Reviewing Objectives

- 2.** What is the difference between wholesalers and retailers?
- 3. Graphic Organizer** Create a diagram like the one below to list and describe four distribution channels for merchandise.



Applying Economic Concepts

- 4. The Role of Government** Research the debate of taxing versus not taxing goods purchased through catalog orders and those purchased on the Internet. What issues are involved, and how many sales tax dollars are estimated to be lost?

Critical Thinking Activity

- 5. Summarizing Information** Type *e-commerce* into your search engine. Research and write a paragraph on the advantages or disadvantages of this type of retailing.





Technology Skills

Developing Multimedia Presentations

Your economics teacher has assigned a presentation about the history of commercials and advertising. You want to develop a presentation that really holds your classmates' attention.

- Which forms of media do I want to include? Video? Sound? Animation? Photographs? Graphics?
- Which kinds of media equipment are available at my school or local library?
- What types of media can I create to enhance my presentation?
- Which of the media forms does my computer support?

Learning the Skill

A multimedia presentation involves using several types of media, including photographs, videos, or sound recordings. The equipment can range from simple cassette players, to overhead projectors, to VCRs, to computers, and beyond.

Multimedia, as it relates to computer technology, is the combination of text, video, audio, and animation in an interactive computer program. You need certain tools to create multimedia presentations on a computer, including computer graphics tools and draw programs, animation programs, and authoring systems that tie everything together. Your computer manual will tell you which tools your computer can support.

Practicing the Skill

Plan and create a multimedia presentation on a topic found in the chapter, such as product promotion. List three or four major ideas you would like to cover.

Then think about how multimedia resources could enhance your presentation. Use the questions listed on the left as a guide when planning your presentation.

Application Activity

Choose an economist from the twentieth century and create a multimedia presentation analyzing the importance of his or her theories. Share your presentation with the class.



Various equipment that can be used in multimedia presentations

ECONOMICS
Online

Chapter Overview Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 11—Chapter Overviews** to review chapter information.

CLICK HERE**SECTION 1** **The Changing Role of Marketing**

- **Marketing** involves all of the activities needed to move goods and services from the producer to the consumer.
- In today's economy, marketing's sole purpose is to convince consumers that a certain product or service will add to their **utility**.
- Utility—the ability of any good or service to satisfy consumer wants—can be divided into four major types: form utility, place utility, time utility, and ownership utility.
- Through **market research** a company gathers, records, and analyzes data about the types of goods and services that people want.
- The first step in market research is performing a **market survey**.
- Before offering a product for national distribution, market researchers will often **test-market** a product.

SECTION 2 **The Marketing Mix**

- A marketing plan combines the “four Ps” of marketing: product, price, place, and promotion.

- “Product” means determining what services to offer with the product, how to package it, and what kind of product identification to use.
- In setting a price, a company has to consider the costs of producing, advertising, selling, and distributing, as well as the amount of profit it hopes to make.
- “Place” means determining where a product should be sold.
- **Promotion** is the use of advertising and other methods to inform consumers that a new product is currently available and to convince them to buy it.

SECTION 3 **Distribution Channels**

- Deciding what **channels of distribution** to use is another function of marketing.
- Businesses that purchase large quantities of goods from producers for resale to other businesses are called **wholesalers**.
- Businesses that sell consumer goods directly to the public are **retailers**.
- In the last 10 to 15 years, distribution channels have expanded due to the growth of club warehouse stores and direct marketing, including catalog shopping and **e-commerce**.

CHAPTER 11

Assessment and Activities

ECONOMICS Online



Self-Check Quiz Visit the *Economics Today and Tomorrow* Web site at ett.glencoe.com and click on **Chapter 11—Self-Check Quizzes** to prepare for the Chapter Test.

CLICK HERE

Identifying Key Terms

Write the letter of the definition in Column B that correctly defines each term in Column A.

Column A

1. test-marketing
2. penetration pricing
3. price leadership
4. retailer
5. promotion

Column B

- a. use of advertising to inform consumers about a product and to persuade them to purchase it
- b. business that sells goods directly to the consumer
- c. selling a new product at a low price to attract new customers away from an established product
- d. offering a product in a small area for a limited time to see how well it sells
- e. setting prices close to those of competing companies

Recalling Facts and Ideas

Section 1

1. What is the relationship between marketing and utility?
2. What are the historic stages in the development of marketing in the United States?
3. How is market research conducted?

Section 2

4. List and describe the “four Ps” of planning a marketing strategy.
5. How are goods and services promoted?
6. What does *place* mean, when referring to marketing?
7. What are the last two stages of a typical product life cycle?

Section 3

8. What are distribution channels?
9. How does a club warehouse store differ from a standard retail outlet?
10. Who may perform the storage function of distribution?
11. What are the factors that a business must consider in choosing a method of transporting goods?

Thinking Critically

1. **Sequencing Information** Suppose you must do a market survey for a new type of running shoe. Use a chart like the one in the next column to list the questions you would ask, and whom and where you would ask the questions.

Questions	Whom?	Where?

- 2. Making Generalizations** What are alternative ways to extend the life of an old product that is in its declining stage?

Applying Economic Concepts

The Rising Opportunity Cost of Time When individuals earn higher incomes, by definition the opportunity cost of their time increases. Economic theory says that they will react in a predictable way—reducing the amount of time they spend shopping. Make a list of the various methods that people can use to reduce the time they spend when they shop for (1) presents for various holidays, Mother’s Day, birthdays, etc., (2) food, and (3) photographic and stereo equipment.

Cooperative Learning Project

Organize into six groups, with each group choosing a particular product from the following categories of consumer goods: home electronics, food, clothing, electric humidifiers, automobiles, computers.

After each group has chosen one product or brand within one of the above categories, research the following:

- product packaging
- pricing strategies
- the place where the product is sold
- how the product is promoted
- the product life cycle.

Each group should write a summary of the research results, preferably in graphic form. When the results of each group are completed, compare and contrast the differences in the five categories across the various products.

Reviewing Skills

Developing a Multimedia Presentation

Working with a partner, create an advertisement that you think will successfully market a new product. Use multimedia to develop a video commercial, then show the commercial to the rest of the class. Based on your advertising, would they buy the product? Why or why not? (See page 311 for more information on types of advertising appeals.)

Technology Activity



Using E-Mail The club warehouse phenomenon has been around the United States since the 1970s. E-mail 10 friends and relatives to survey their use of club warehouse stores. What percentage patronizes this type of store? What are their reasons for doing so? Did you receive any negative E-mails about warehouse stores (forcing small retailers out of business, for example)? Assemble your responses and summarize them in a paragraph.



Contact the foreign language teachers in your school to see if they have any advertising materials (print or video) showing commercials from other countries. (Many cable television channels carry foreign stations, too.) Even without translating the language spoken or written, can you understand the purpose of the advertisement? Write several paragraphs describing how marketing in other countries does or does not achieve the same goals as marketing in the United States.

Economics Lab

Analyzing and Creating Advertisements

From the classroom of Stephanie Felix,
Glendora High School, Glendora, California

In Chapter 11 you learned about marketing and distribution. A function of marketing is product promotion—convincing consumers to buy the product. In this lab, you will examine many advertising techniques used by companies. Then you will develop and market your own product by creating a commercial demonstrating various types of advertising techniques.

STEP A Tools Needed

- ✓ paper
- ✓ poster board and markers
- ✓ video camera (optional)
- ✓ props for your commercial

STEP B Procedures to Follow

1. Working in groups of no more than four people, come up with an idea for a product. As a group, submit a one-page typed paper describing your product and answering these questions:
 - What does it do?
 - What is the price?
2. On poster board, design the packaging of your product. Include the product's name and any special logos or phrases for product identification.
3. Next, analyze the chart listing **Advertising Techniques** on page 311. Select at least three techniques to incorporate into a commercial about your product.
4. Create a commercial at least 2 minutes long. All members of your group must be included in the commercial.
5. Perform your commercial for the class, or videotape it and bring it to class for viewing.





STEP C Creating an Economic Model

Analyze all groups' commercials. Identify and count the types of advertising techniques used in each. As a class, draw a series of bar graphs showing the number of times each technique was used.

Advertising Techniques

ADVERTISING TECHNIQUE	DESCRIPTION
Youthful/Fun	"Use our product and you'll feel like a kid again!"
Plain/Humble	"Our product will make you feel natural and simplify your life."
Expert Testimony	"I'm a doctor, and I recommend this product."
Famous Person	[If Michael Jordan uses the product, it must be cool.]
Fear	"If you don't use this, you may regret it."
Statistics	"Nine out of ten dentists use this product."
Everyone Has One	"Molly the doctor drives this car, and Joe the student does, too."
Senses	[Mouth-watering pizza, steaming hot cocoa, sizzling burgers]
Snob	"It may be more expensive, but aren't you worth it?"
Happy Family	"This diaper makes Susie happy, and if she's happy, I'm happy."
Humor	[When you're shopping, you may remember laughing and buy the product.]
New and Improved	"Obviously, we made the product better just for you!"
Symbol	[Majestic bald eagle, solid Rock of Gibraltar, proud American flag]
Overexposure	[News clips, fast speed, quick shots]
Healthy	"This product is <i>good</i> for you."
Attractiveness	"This product will make you attractive."



STEP D Lab Report Analysis

After studying each group's commercial, answer the questions below.

1. Which type of advertising technique was used most often?
2. What technique(s) do you think is the most subtle? The most obvious?
3. Which techniques, if any, carry the most validity? Explain your answer.