March 2024

Newsletter for Instructors

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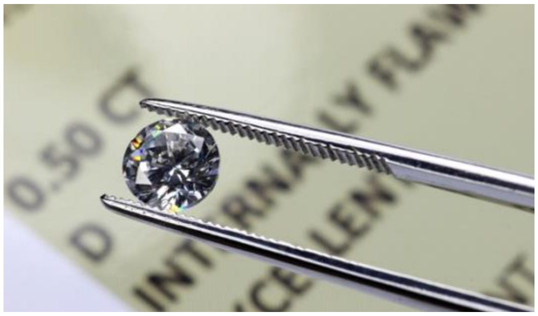
Seeking Clarity in Determining the Value of Diamonds

Use with Chapter 1, “Overview of Marketing”, and Chapter 6, “Consumer Behavior”



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Luxury gemologists and retailers often refer to the 4Cs as criteria for assessing the quality of a diamond (i.e., color, cut, clarity, and carat). But for today’s consumers, are those four features sufficient to define the value of such a major purchase? Diamonds offer an especially compelling example for understanding how value can be created, seemingly out of nothing, by good marketing. In the late nineteenth century, the discovery of huge diamond mine reserves threatened to undermine (sorry) the market and drive prices rapidly downward. Because it held a near monopoly on the market, such that it could create a global conglomerate, De Beers worked quickly to avoid this development. It launched a remarkable, well-known, and highly successful campaign (“Diamonds Are Forever”) to convince consumers that the hard, clear, pressurized carbon stones represented the epitome of luxury, as well as the only real way to express love. Soon, diamonds came to be expected as a signifier of affection for any couple deciding to get married.

But as is true of so many traditional forms of consumption, today’s consumers are questioning some of expectations surrounding diamonds. Informed by ethical concerns about blood diamonds and exploitation, some people refuse to consume them whatsoever. In turn, some innovators have proposed lab-grown diamonds as an alternative. Although they occur naturally in only select areas, the gemstones can be created in any setting that imposes enough pressure on carbon, and in just a few weeks. There is thus no concern that miners will be subject to hazardous conditions or that mining operations will pollute the surrounding area in this process. Instead, there are other concerns, based in the amount of energy required for labs to grow diamonds. Because of the energy demands associated with their production, it may be hard to make the argument that lab-grown diamonds are really the sustainable alternative.

However, they are the less expensive option. Mined diamonds remain extremely expensive, such that a recent survey indicated that the average cost of an engagement ring was around $6000. Among Millennial and Gen Z consumers, such a substantial outlay of money seems unnecessary; for many of them, the idea of spending their budgets on a fantastic honeymoon vacation seems much more appealing. Rather than being impressed by the traditional lore surrounding mined diamonds, they find little value difference and deeply appreciate the lower price point for the lab-grown diamonds. The price gap also continues to grow, as production of lab-grown diamonds increases, such that for the same size and clarity, buyers will pay approximately 80 percent for a lab-grown versus mined diamond.

Diamond retailers have responded to these trends in various ways. Some of them have fully embraced the shift, offering both mined and lab-grown diamonds in the same space. But others—especially older, more luxury-oriented retailers—have rejected the lab-grown option out of hand. They cite concerns about the legacy of the manufactured diamonds, which appear unlikely to hold their resale value as well as conventional stones. But they also probably are worried about their own value—that is, the profits they can earn from selling beautiful diamonds at very high prices.

Discussion Questions

1. Of course we’re going to ask: If you were to begin shopping for engagement rings, would you look for a mined or a lab-grown diamond? Why?
2. How should diamond sellers price their offerings of mined and lab-grown diamonds strategically?

Sources: Katie Mather, “Are Lab-Grown Diamonds ‘Worthless’? Experts Weigh In as Engagement Ring Priorities Shift for Millennials, Gen Z,” Yahoo!Finance, January 26, 2024; Thomas Biesheuvel, “Diamond Demand Is Falling so Fast–Courtesy Lab-Grown Stones—and De Beers Is Cutting Some Prices by More than 40%,” *Fortune*, September 3, 2023; Uri Friedman, “How an Ad Campaign Invented the Diamond Engagement Ring,” *The Atlantic,* February 13, 2015

Back to Top

A Fight Worthy of the NHL: The Stanley Cup as the Latest Consumer Craze

Use with Chapter 3, "Digital Marketing", Chapter 6, "Consumer Behavior", and Chapter 18, "Integrated Marketing Communications"


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Why do trends start? For example, why were thousands of momfluencers and watertok creators waiting in line for hours, and then literally fighting over limited edition releases of Stanley cups in recent months? The complex answer covers multiple considerations, reflecting the nuanced and confusing ways that consumers develop and display their sometimes surprising preferences and behaviors. The craze seemingly started in a healthy place. That is, a universal recommendation holds that people should drink sufficient water each day. In turn, a dedicated stream of social media content, popularly referred to as "watertok," offers a wide range of videos that show clever, creative, appealing ways to consume enough water. The influencers posting such videos want a pleasing aesthetic, as well as functional tools, to present their content in the best light. The Stanley Quencher cups meet both those requirements. Not only do they promise to keep icy beverages frozen for up to two days, but they come in a vast range of pretty, uncommon colors, like Cosmo Pink, Forest Gloss Deco, and Balsam Glow.

Once these influencers had embraced Stanley cups, the products became a must-have for trendy consumers, of many ages. Exercise influencers propped the cups in the background, emphasizing their trendy status and making their dedication to hydration clear to their followers, who then purchased their own tumblers for their trips to the gym. Momfluencers are commonly seen with Stanley cups in the cupholders of their minivans. Middle-school students insist on showing up to school or practice with their own, individualized version of the tumbler.

Another key influence was a stroke of good luck—or bad luck, depending on your perspective. A TikTok video, posted by a regular user and viewed by more than 2 million people, revealed what happened after her car caught fire. At the junkyard, she found, among the wreckage, her Stanley cup, completely unharmed. Reaching past the charred steering wheel to retrieve the tumbler, she shakes it, creating the unmistakable sound of ice still remaining in her cold drink. It was incredible free marketing, verifying the functionality of the cups, which Stanley responded to immediately by reaching out to the car fire victim and providing her with a new cup, as well as with new car—gestures that she immediately shared with her followers.

Stanley has leveraged and encouraged the larger trends surrounding its products as well. The company has been making drinking vessels and thermoses for more than a century, but in the past, its nearly indestructible, stainless steel products were popular primarily among blue-collar workers and campers, mostly men, who toted the heavy thermoses to work filled with hot coffee or soup for lunch. By shifting their focus to a predominantly female audience, interested in health trends and aesthetics, Stanley has effectively repositioned itself and its appeal. In turn, and in less than five years, its revenues have increased tenfold, from $73 million to $750 million as of 2023. In accordance with this repositioning, it also has revised its strategy. Although some basic versions of its cups can be had for around $40, the limited edition models, such as those that are available only on holidays (e.g., Christmas, Valentine's/Galentine's) or in collaboration with other brands (e.g., Starbucks), sell for upward of $100 each.

Discussion Questions

1. Do you have a Stanley Quencher? Why or why not?
2. Offer a prediction: How long with the popular demand for Stanley cups last?

Sources: Alex Abad-Santos, "The Stanley Water Bottle Craze, Explained," *Vox*, January 9, 2024; Joseph Lamour, "Starbucks' Pink Stanley Cup Causes Mayhem at Target, Won't Be Restocked," Today.com, January 9, 2024; https://www.tiktok.com/@danimarielettering/video/7312882104428219678

Back to Top

Using AI to Navigate the Rock and Hard Place of Retail Returns

Use with Chapter 3, “Digital Marketing”, and Chapter 17, “Retailing and Multichannel Marketing”

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Talk about being stuck between the Scylla and Charybdis. Retailers love it when shoppers buy more; it’s a central goal of many of their marketing efforts! But consistent data also show that the shoppers who buy the most are also the ones who return the most items, and the costs of returns represent one of the most central negative measures that retailers seek to avoid in their marketing efforts. So what’s a seller to do, stop selling more, or accept more returns? With effective AI, they might have another option that will allow them to set sail into a profitable future.

By carefully tracking what happens when people click on search ads, including what they buy, how many, and what they return, machine-learning–based AI can establish which customers tend to be most likely to return products they buy. Then those algorithms combine those data with insights about the return rates for specific types of products (which different retailers can define however they want). With these combined data, the AI system offers real-time predictions about returns and the profits on each sale.

Once it has enough of these combined data points, it integrates all of them together, which then provides meaningful insights into where to target search ads, namely, to whom and for which products, in a way that encourages sales without increasing the risk of return behaviors. One Dutch fashion retailer that adopted such a system ultimately rethought its overall strategy: Rather than trying to increase sales, it would aim to increase customer lifetime value. Thus, it stopped targeting its advertising to consumers that it knew would buy, but that it also predicted were likely to return. As a result, its returns have decreased, even if just by 5 percent, but its profits have risen by 16 percent.

This direct application thus seems effective, but other retailers appreciate more indirect uses of AI to ensure they can keep appealing to all their customers. Consider Perry Ellis for example: “After identifying items with the highest return rates, they used AI sentiment-analysis tools to determine which phrases in those products’ descriptions might create confusion over key elements, such as size or fit, that most often lead to returns.” If consumers were returning clothing because they were confused about its specific attributes when they placed the order, then clarifying the information could eliminate this risk, at little cost. For example, buyers assumed that the simple phrase “Machine Washable,” that appeared on digital product pages for some of shirts meant they could throw the tops in with their regular laundry. But the fine cotton or linen actually requires more gentle care, so the product pages now specify, “Machine wash according to instructions on care label.” Simply by alerting consumers to the need to take more care in washing the items, the brand lowers the risk that people demand returns after just one wash, when their delicate shirt has unraveled after being washed with jeans and towels.

Such efforts are in line with the relatively longer-standing applications of AI by fast fashion brands that rely on machine learning to provide more accurate recommendations to online shoppers. If they buy the right size or know precisely which accessory goes with an item already in their cart, the reasoning goes, they will have less reason to initiate a return. But nearly every retailer continues to look for effective, efficient ways to build on and extend such insights to reduce returns. Today’s consumers believe that easy, free returns are their right. As a result, following the most recent holiday season, they returned an estimated 16.5 percent of the items that were purchased, accounting for approximately $817 billion in returns. That’s a level that demands dedicated AI attention.

Discussion Questions

1. How often do you return items to retailers, and why? Could better information make you return less?

Sources: Patrick Coffee, “Retailers Enlist AI in Fight Against Returns,” *The Wall Street Journal*, December 18, 2023; Liz Young, “Retailers Are Bracing for Their Postholiday Returns Hangover,” *The Wall Street Journal*, December 26, 2023

Back to Top

From Greenwashing to Green Hushing: Strategic Approaches to Communicating About Sustainability Efforts

Use with Chapter 4, "Conscious Marketing, Corporate Social Responsibility, and Ethics", and Chapter 5, "Analyzing the Marketing Environment"

istockphoto / Viorel Kurnosov

When it comes to communicating about their environmental initiatives, societal trends appear to be following a pendulum, and the constant motion makes it difficult to establish any clear standards.

The metaphorical pendulum first started moving many decades ago, when consumers and regulators began insisting that companies take responsibility for their effects on the environment and adopt more sustainable practices. In parallel with engaging in such activities, companies were expected to report on them. More firms added dedicated "responsibility" sections to their annual reports, and many consumer packaged goods sellers highlighted their efforts (e.g., citing the amount of recycled content on the packaging), for consumers to find easily and clearly.

The benefits of such efforts, for consumers, society, and the environment, but also for the firms, which could use their environmentally friendly efforts as a distinctive selling proposition, moved the pendulum along. Unethical firms could make claims that were not supported by their actions, or simply exaggerate the care they were taking. Such practices became labeled greenwashing—that is, covering unsustainable activities with a misleading cloak of green claims.

In response, various regulatory bodies have cracked down on what companies can and should say about their green efforts. For example, regulators in France clarified the criteria that were required before a company could assert that its operations were carbon-neutral. In Australia, more strict rules define what "net-zero" emissions really means. Other mandates specify exactly what companies can include in their annual reports and set standards for claims of environmental stewardship.

Faced with such strict rules, some companies have begun to follow the pendulum in the other direction. Rather than touting their environmental efforts, they are avoiding any such claims, to avoid backlash against them if they fail to meet ambitious goals. Fewer companies include specific environmental goals in their annual reports. In this shift, the new trend is green hushing—that is, avoiding discussion of environmental goals whatsoever, regardless of whether the company is pursuing them or not.

Such trends have different implications for ethical versus unethical companies. For the former, assuming their sincere pursuit of ambitious sustainability goals, green hushing represents an unfortunate and potentially detrimental trend. Imagine for example if a firm announces that it wants to be 99 percent carbon neutral by the end of the year, but despite its best efforts, it only achieves 92 percent. That firm could be subject to sanctions if rules limit the claims that companies can make about their environmental efforts. But if it never announces its ambitious goals, customers have no way of knowing which companies are at least trying.

For unethical firms, which seek only to exploit the benefits of environmentally friendly claims without engaging in efforts to achieve those outcomes, green hushing may imply more positive outcomes. It offers a form of consumer

Back to Top

protection, because these companies lose the opportunity to make unsubstantiated claims when regulators insist that they prove the benefits they promise. If they are silent, it might not be benefiting the environment, but at least they are not misleading consumers anymore.

Discussion Questions

1. Where should the pendulum rest, ideally, to ensure ethical green claims that appropriately inform consumers?
2. What ethical considerations does a company need to take into account when deciding how much of its own sustainability efforts to disclose?

Sources: Alice Uribe, "More Companies Decide Silence Is Golden When Going Green," *The Wall Street Journal*, January 16, 2024; Ephrat Livni, "Go Green, Then Go 'Dark'?" *The New York Times*, nd; Maxine Joselow, " 'Greenhushing': Why Some Companies Quietly Hide Their Climate Pledges," *Washington Post*, July 13, 2023

Back to Top

Continued, Global Price Inflation and the Implications for Branded and Private-Label Retailing

Use with Chapter 5, "Analyzing the Marketing Environment", and Chapter 15, "Strategic Pricing Concepts"

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Global-level shocks, including not just the pandemic but also extreme planetary weather conditions and international wars and conflicts, continue to disrupt and challenge manufacturers' ability to get products into stores, retailers' ability to ensure sufficient stock, and consumers' ability to find the items they need at a reasonable cost. Even if the most intense inflation of recent years has eased somewhat (remember when eggs were $12 per dozen?), prices on many consumer goods remain troublingly high, with implications for every actor and every price in this supply chain.

In particular, consumers are frustrated and unwilling to keep spending more to get the same amount, or even less, on their regular shopping trips. As a result, their preferences have clearly shifted, toward less expensive and private-label offerings. Although this market has been growing steadily in recent decades, the tumult of the past few years has increase the pace of the transition. According to Nielsen reports, shares of private-label food items increased by 16 percent in a recent two-year period, for example.

Such expansion in private-label success is being egged on by retailers that are determined to keep their customers satisfied and prevent them switching to another, potentially lower priced store. In noting the vulnerability of national brands to price challenges, a vast number of retailers have initiated or expanded their private-label offerings. According to Target's assessments, its store brands, like Good & Gather, have achieved growth rates nearly twice those of branded competitors.

But retailers' responses are not limited to expanded store brand strategies. They also are actively pushing back against product manufacturers that continue to charge high wholesale costs. In France, Spain, Belgium, and Italy, the Carrefour grocery chain simply removed all PepsiCo. products from its shelves, until the beverage and snack provider agreed to lower the prices it was charging. In store aisles, consumers looking for Doritos or Pepsi instead will find signs, placing the blame on PepsiCo. for continuing to raise its prices at a pace even higher than the countries' inflation rates. Notably, Carrefour also has been adding display signs to highlight the manufacturer practice of "shrinkflation"—that is, when companies subtly redesign their products so that the packages contain less volume but continue to charge the same price—so that consumers are not fooled by a hard-to-detect change in container size or shape.

For manufacturing brands, these trends have culminated in intense pressures. PepsiCo confronts the possibility of extended unavailability in Europe; Unilever (which owns brands like Dove soap and Ben & Jerry's ice cream) has been forced to lower its revenue predictions and admit to substantial losses in many of its market segments. Procter & Gamble similarly lowered its profit forecasts for the coming year.

It may be hard to feel particularly sorry for these brands though. The past several years have seen them enjoy tremendous and increasing profits, due to some of the very same macroeconomic factors that are now creating the challenges. For example, noting that people suffering from post-pandemic stress were happy to pay more to access

Back to Top

little daily luxuries, like really good snacks or fancy hair care products, many national brands flexed their pricing power to obtain the highest profits they could. Now that consumers are tired of paying those higher prices though, the manufacturers appear largely unwilling to lower the costs back down. They also claim that their own costs have risen, such that simply maintaining their margins requires these high price levels.

Discussion Questions

1. If you were advising a grocery retailer, how would you recommend it deal with continued high prices on consumer goods? If you were instead advising a manufacturer facing blowback for high prices, what would you recommend?
2. In your opinion, are prices for consumer goods ever likely to come down?

Sources: Richa Naidu, "Unilever's US, European Market Share Slips as Private Label Booms," *Reuters*, January 24, 2024; Mauro Orru, "Supermarket Giant Drops Pepsi and Lay's over Price Increases," *The Wall Street Journal*, January 4, 2024; Jesse Newman, "The Supermarket Aisle Where Prices Are Still Rising," *The Wall Street Journal*, July 8, 2023

Back to Top

Has Price Inflation Reached Consumers' Breaking Point?

Use with Chapter 5, "Analyzing the Marketing Environment", and Chapter 15, "Strategic Pricing Concepts"

istockphoto / Elena Perova

When is enough enough? When it comes to price increases in the current economy, it might be today, as consumers increasingly demonstrate their unwillingness to keep supporting price increases on their favorite products. Across a range of product domains—from quick service meals to home improvement items to pet food to ketchup—companies are realizing that people are switching away from their more and more expensive offerings, in their attempts to survive the seemingly endless increases in the cost of living. In the past few years, inflation has been notably high, reaching nearly 10 percent in 2022. Although it has slowed somewhat, reflecting intense efforts by federal regulators, it continues to sit at around 3.1 percent. That is, prices might not be jumping quite so intensely, but they're still rising. Such trends also affect companies, which must pay more to procure the raw materials they use to create their offerings. But whether and the extent to which they should pass those costs on to consumers represents a strategic and critical choice.

A quick survey of companies that have taken distinct approaches to their pricing offers pretty clear evidence that the ones that insist on the highest price increases are losing out to those that have raised their prices more moderately. For example, in the past two years, Kraft Heinz increased prices on its various consumer packages goods by 14.2 percent, followed by a 2.5 percent jump. In turn, it was forced to admit to a 7.1 percent decline in its annual sales. At General Mills, the sales decrease for its various pet food brands was about 4 percent, forcing executives to acknowledge that the company "had overestimated customers' willingness to pay higher prices for dog treats."

Whereas during and immediately following the pandemic, home improvements stores enjoyed record profits, as people actively sought to enhance their living spaces, those trends have come to a halt. Consumers seek more limited and reasonable options, to match their limited budgets. In turn, Home Depot has been working to moderate its price increases, enabling it to maintain its performance, even if not quite at the level it achieved a couple of years ago. Shake Shack similarly learned its lesson, such that it only increased prices by 1 percent in the past year, following a 7 percent jump in 2022. Once it did so, both its sales and its store traffic numbers rose. In contrast, Baja Fresh noted a nearly 1 percent decrease in same-store sales, due to its seeming determination to keep prices high.

But such determination might not be possible for much longer. Alternative approaches are required, including greater and more precise price discrimination based on consumers' willingness to pay. For example, Netflix has added a lower-cost subscription plan for viewers willing to watch a few advertisements during their streaming session, while McDonald's has introduced some higher priced options like the Double Big Mac for those diners willing to pay more for a bigger burger. At the same time though, McDonald's has acknowledged that for lower income consumers, who have long represented a key target demographic, attracted by its famous dollar menu, its appeal is diminishing. The company CEO thus promised to expand its attention to developing affordable options, especially in response to consumers' complaints (shared on social media, of course) of having to pay $7 for an Egg McMuffin.

Discussion Questions

1. If you were advising a restaurant retailer, how would you recommend it deal with continued high prices for its materials?
2. Have you changed your consumption habits, due to continued price increases?

Sources: Brian Cheung, "Consumers Are Tired of Price Increases. Big Brands Are Paying Attention," *NBC News*, February 21, 2024; Melissa Repko, "Home Depot Beats Earnings, Sales Estimates Even as Consumers Take on Smaller Home Improvement Projects," *CNBC*, February 20, 2024; Christine Romans, "Fast Foodies Are Getting Fed Up with Price Hikes at the Drive-Thru," *NBC News*, February 7, 2024

Back to Top

A Wrinkle in Segmentation: The SephoraKids

Use with Chapter 6, "Consumer Behavior", and Chapter 9, "Segmentation, Targeting, and Positioning"

istockphoto / Arsenii Palivoda

A conventional segmentation approach for skincare and beauty brands relies on consumers' current needs. People with dry skin get targeted with inducements to buy serious moisturizers; those struggling with acne might receive coupons for products with salicylic acid; and aging consumers often see personalized advertisements for eye creams or overnight lotions that contain retinol. In addition to reflecting the desires of these consumers to obtain solutions that help them look better, this segmentation philosophy is need-based. A consumer with oily skin should not use products formulated to overcome dryness for example.

For most consumers, these sorts of personalized targeting efforts make sense. But some consumers go in the other direction, purposefully and perhaps recklessly seeking out offerings that were never designed for them. That type of behavior is the defining trait of a newly identified group of consumers, referred to on TikTok by the hashtag #sephorakids. These preteen shoppers make a habit of hanging out in physical beauty retail shops, such as Sephora and Ulta, where they trial, experiment with, and purchase skincare products that were formulated for much older people.

Notably, any 10-year-old kid likely lacks the consumer sophistication needed to fully understanding advertising messages. That is, perhaps they simply misunderstand the purpose of antiaging creams that contain relatively harsh acids, designed to address concerns like age spots and wrinkles. But their purchasing habits also might result from arguably irresponsible marketing. These young shoppers have nearly constant access to influencers, many of whom make their skincare routines central to their content. Having watched innumerable beauty experts and influencers spread series of serums, toners, creams, and oils onto their faces, perhaps they believe that everyone should be doing the same, even at their young age.

In turn, some brands are actively catering and marketing to these young shoppers, as part of their constant efforts to expand into new markets and grow their market share. Even if preteens should not be using retinol, brands such as e.l.f. and Bubble stock other formulations that they say can improve the skin texture of young users. The Yawn brand even markets its products as appropriate for children as young as 3 years of age. As detailed by a beauty industry researcher, "I'm also increasingly seeing girls younger than teens using adult products…. From a business perspective, the marketing is there; these younger age groups are actively being targeted."

In addition to concerns about the risks and implications for young users—including that they are being overly sensitized to worry about their looks and that they might cause real damage to their skin by using harsh products on it—other issues arise with regard to their behaviors while in stores. The thousands of TikTok videos with the #sephorakid hashtag mostly represent complaints about the inconsiderate, entitled, and downright rude behaviors displayed by the preteen shoppers. Employees tell stories of being treated rudely when they tell girls that they are out of stock of new product releases by popular brands such as Drunk Elephant. They also post videos displaying the mess left behind by the children, with spilled serums, ruined lip glosses, and carved up eyeshadow samples. In addition, regular shoppers express their near shock at being "bullied" by kids in the store who try to cut the checkout line, comment on their looks or age, or snatch desired products out of their hands.

Back to Top

Such anecdotes suggest a deeply unpleasant shopping experience for many consumers and retail employees. But other evidence indicates that there is little chance that the retail stores will seek to put a stop to the preteens' behaviors: Recent market analyses predict that the baby and child skincare market will grow at a nearly 8 percent annual rate, to reach an estimated $380 million in market value.

Discussion Questions

1. How would you explain the growing use of skincare products, designed for older age segments, among young consumers? What do you think is the most influential driver of this consumption behavior?
2. What should retailers do in response to such developments, if anything? Should their goal be to sell to new customer segments, protect the enjoyable shopping experience of existing customers, or something else?

Sources: Mia Taylor, "'Sephora Kids' and the Booming Business of Beauty Products for Children," BBC, January 22, 2024; #sephorakids, TikTok; Statista, "Baby and Child Skin Care–Worldwide," October 2023, https://www.statista.com/outlook/emo/beauty-personal-care/skin-care/baby-child-skin-care/worldwide.

Back to Top

Can Electric Trucks Tow a Snowmobile? Frustrations with the F-150 Lightning

Use with Chapter 6, "Consumer Behavior", and Chapter 12, "Developing New Products"

istockphoto / Scharfsinn86

When Ford Motor Company first announced that it would be introducing an electric version of its F-150 truck, it seemed like a turning point in the automotive market. If Ford believed that truck buyers would embrace an electric version of the best-selling vehicle in the entire U.S. market, then maybe consumers really were ready for the switch from gas-powered to electric vehicles (EVs). Even before the Lightning model trucks hit dealerships, Ford registered lists of more than 200,000 interested buyers. Other carmakers announced their own electric truck plans. The predictions of an unavoidable EV revolution were ubiquitous. But just about a year later, the new product adoption curve has hit a roadblock. In particular, early adopters of the electric F-150 Lightning have raised ongoing concerns about its capabilities, in terms of both range and power.

In particular, when these owners started up their trucks on the first cold morning after their purchase, they had an unhappy surprise: Their trucks' average 300-mile ranges were dropping as precipitously as the temperatures. In some cases, the range decreased by as much as half. Drivers worried about their ability to complete their daily commutes and get their kids to and from school, a fear that grows especially intense in a scenario in which they had to consider the prospect of being stuck in frigid temperatures. Furthermore, if consumers lacked an in-home charging station, they could not warm up their trucks in the morning before leaving home—an uncomfortable and even dangerous limitation in really cold climates.

The range limitations also intensified the moment drivers hitched a load to tow. With greater weight, the trucks could not go as far. This issue hindered the efforts of truck drivers in any temperatures, such that a construction company owner in Florida found that, unless he stopped midday to recharge, he could not get to every job on his schedule in a day if he needed to bring along any heavy equipment.

In response to such concerns and constraints, the group of late majority consumers are expressing far more reservations before buying. Despite the huge waiting list for Lightning models, Ford sold only about 24,000 of the electric trucks. It also has reduced its planned production. Even though the Lightning is still available, far fewer of them are hitting dealership lots. Instead, Ford has indicated its plans to shift focus toward expanding its offerings of smaller, lightweight, non-towing vehicles.

Still, with the Lightning, Ford comes second only to Tesla in terms of the number of EVs sold in the United States. More battery-powered cars are being sold than ever before, and technological advances continue to promised that, at some point, range and power concerns can be overcome. But in the meantime, consumers remain cautious. As one industry analyst explained, when describing the state of the EV product market: "You had a wave of early adopters, but the mainstream consumer is just not jumping up and down for E.V.s. The manufacturers are putting out product, but the consumer is like, 'We're not participating.'"

Discussion Questions

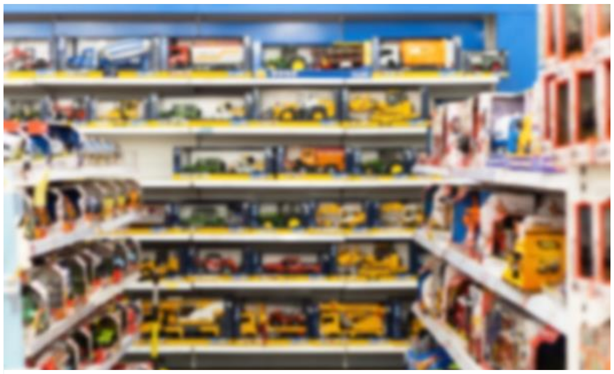
1. How would you graph the adoption curve for EVs overall? What about for electric trucks in particular?
2. Should carmakers continue to develop heavier electric vehicles like trucks and SUVs? If so, how should they go about introducing them, to deal with and overcome consumers' hesitation?

Sources: Neal E. Boudette, "How Ford's F-150 Lightning, Once in Hot Demand, Lost Its Luster," *The New York Times*, February 7, 2024; Neal E. Boudette, "Ford Will Cut Planned Electric F-150 Production as Demand Slows," *The New York Times*, December 12, 2023

Back to Top

Playing the Global Field to Find a Stable Source of Toys

Use with Chapter 8, "Global Marketing", Chapter 12, "Developing New Products", and Chapter 16, "Supply Chain Management"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Multiple global trends drive manufacturers' choices about where they want to locate their plants. In recent years, the challenges of COVID-19–related shortages, political tensions, and safety concerns have prompted many firms, in various industries, to seek to move more of their productions outside of their traditional locations in China and explore other international possibilities. These trends appear particularly acute in the toy manufacturing sector.

Major brands such as Hasbro and Mattel are in the process of reducing, minimizing, or eliminating their dependence on Chinese factories to craft the dolls, cars, knickknacks, and so forth that children demand for their playtime. These companies still cite the massive challenges they faced during the pandemic, when families stuck at home sought out more entertainment options, while supply chain constraints left the companies unable to supply that demand. Furthermore, it was not that long ago that Mattel was forced to recall millions of toys, produced in a Chinese factory, that contained lead.

Along with these historical but memorable incidents, the costs of doing business in China continue to rise. The country's remarkable growth and development have supported rising wages in factories. In addition, if already obvious tensions between China and the United States intensify, it seems likely that new duties will get imposed on toys imported from China.

Unique to toys, the supply chain has distinctive timing constraints. Most companies want manufacturers to produce high volumes for certain times of year and reduce their output at other times. Such fluctuations rarely are profitable, so instead, many of the plants in China produce at relatively consistent levels, then store the toys until U.S. retailers ask for them.

As toy companies look to alternative sites for their production facilities, such as in India, Vietnam, and Thailand, they confront notable challenges. With their relatively underdeveloped infrastructure (compared with China), these other countries cannot hold inventory for months at a time, ensure consistent deliveries, and remain competitively priced. In addition, safety oversight is especially pertinent to toy manufacturers, and in some cases, factories have few such protections in place.

Even with all these motives though, only about 1 percent of all toys imported into the United States or Europe come from India. The need to diversify internationally is clear. The means to do so is less so.

Discussion Questions

1. Why is the demand for moving production beyond China especially acute for the toy industry? What features set it apart from other sectors?
2. If you were starting up a new toy company, where would you consider locating your factories? Provide justification for your answer.

Sources: Richa Naidu, "Toy Manufacturers' Shift from China Is No Child's Play," Reuters, January 15, 2024

Back to Top

Innovations that Seem Loco, Even Though They’re Carefully Analyzed: How Taco Bell Devises New Products

Use with Chapter 12, “Developing New Products”

istockphoto / tupungato

Every single item on Taco Bell’s menu contains, essentially, the same five or so ingredients: some type of tortilla, meat and/or beans, tomatoes and lettuce, sour cream, and cheese. With such a small array of inputs, how and why is the fast-food chain so widely renowned for being among the greatest and most successful innovators in the world? One key is the company’s recognition that new product iterations can introduce some change, but not too much of it. The company adopts what it calls the Distinctiveness Rule: “You can change either the taste or the form” of a product that consumers already love, “but you can’t change the taste *and* the form.” Thus, their innovations are always relatively incremental, so that fans who are already satisfied with the crunch and shape of a taco can have them, just with the novel flavor of Doritos added in, and those who adore the cheese ratios of a regular quesadilla can experience the benefits of eating a Crunchwrap Supreme with less mess.

Such a rule might make the process seem simple. It is, of course, anything but. Taco Bell hires hundreds of engineers, chefs, and scientists to staff its Innovation Kitchen; collaborates with Frito-Lay’s similarly massive team of innovators to develop new crunchy taco shell options; solicits input from consumers through multiple channels, which it analyzes in great detail; and runs nearly constant focus groups to test its latest creations. The analytical process can take literally decades. A case in point is the Crunchwrap Supreme. The Taco Bell product developer who came up with the notion of folding a tortilla into a hexagonal shape, so that all the fillings would be contained within it, began talking about her idea in 1995. It took until 2005 for her to devise a folded design that would remain closed rather than popping open (harder than it seems!), and then convince her bosses to introduce it to the menu. Once they did though, it sold 51 million products within six weeks.

Although the immensely popular Doritos Locos Tacos came to market a bit faster, after the idea first arose in 2009, it still took three years to reach a point that it was ready for consumers. A key stumbling point was figuring out how to get the Doritos seasoning to stick on a taco shell, without leaving people’s fingers stained orange. The in-depth development process relied on computer-simulated experiments, along with customer feedback and real-world attempts. The result was not just one of the most popular product introductions in the history of fast food but also a patent for the application process. Furthermore, while working on the shell itself, Taco Bell innovators also solicited help from packaging experts to create a taco “holster” that would protect consumers’ fingers from discoloration.

These examples are obvious and well-known successes. But Taco Bell estimates that it considers several thousand new ideas each year, only around 70 of which undergo actual tests. Of those 70 or so product possibilities, only 10 ever make it on to menus—which is no guarantee of success either. Despite in-depth research into the appeal of blue corn tortillas, the Midnight Melt left consumers confused and unwilling to try it. But with its determination to study, analyze, anticipate, and drive the preferences of the 42 million people who visit Taco Bell restaurants each year, the company can, its own words, “change the eating habits of an entire nation.”

Discussion Questions

1. Do you eat at Taco Bell? If so, how do you react when it introduces a new menu item—do you try it right away?
2. What are the benefits of prioritizing incremental innovation (form or taste, but not both) for Taco Bell?

Sources: Antonia Hitchens, “Taco Bell’s Innovation Kitchen, the Front Line in the Stunt-Food Wars,” *The New Yorker*, April 17, 2023

Back to Top

Can Lots of Lobster Claws Release Red Lobster from its Pricing Pinch?

Use with Chapter 14, "Pricing Concepts for Establishing Value", and Chapter 15, "Strategic Pricing Concepts"

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We previously talked about the pricing implications when Red Lobster decided to make its deeply popular "Endless Shrimp" promotion into a permanent menu fixture (see "What If the Pricing Promotion Is Too Popular? Ask Red Lobster"). The fallout from that experiment continues to challenge the restaurant chain, and its latest response may come as a surprise: It decided to add an Endless Lobster promotion too!

To remind you, following the company's decision to make its Endless Shrimp promotion permanent, it suffered $11 million in losses in the next quarter, then experienced another $12.5 million loss during the subsequent quarter. Investment groups began trying to sell their shares; executives began worrying about their jobs. In addition, the price for the all-you-can-eat deal rose substantially and rapidly, from $20 when first announced to $25 currently.

So in the face of such losses, why in the world would the restaurant add yet another price promotion? Considering the strategic design of the promotion gives us some clues. First, the lobster promotion is explicitly and strictly limited, in availability and scope. Only 150 people who enter will win the right to have an unlimited number of the luxury crustacean. In addition, their free offer includes only 12 desirable whole Maine lobsters; once they have consumed all of those meals, the remainder of their free food will consist of still tasty but less popular Rock lobster tails instead.

Second, it coincides with and is closely linked to the restaurant's annual and popular Lobsterfest campaign. Thus, it offers a logical connection to an existing marketing tactic, which arguably should enhance the impact and benefits of each strategic element. Every year, Red Lobster introduces new, lobster-inspired menu items during Lobsterfest, such that it knows the people who enter the contest to win already are likely to be excited at the prospect of having even more.

Discussion Questions

1. Is a further price promotion a good idea, following a failed price promotion? Why or why not?
2. What other options does Red Lobster have, to recover from such steep recent losses?

Sources: John Towfighi, "Red Lobster Was Nearly Crippled by All-You-Can-Eat Shrimp. Now It's Trying Endless Lobster," *CNN*, February 21, 2024

Back to Top

When It Comes to Pricing for Airport Snacks, Is the Sky the Limit?

Use with Chapter 15, "Strategic Pricing Concepts"

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You're a careful traveler, so you arrive at the airport with plenty of time and without any prohibited liquids, such that you get through security easily. But then what happens? Faced with several hours of free time, you might settle in at the gate to scan social media or watch a downloaded movie, but at some point, you also might get hungry or a little bored. And then what? As various memes imply, the rules go out the window when it comes to snacking and consuming in the airport. If the only food outlet open is a hamburger joint, people will scarf down a cheeseburger for breakfast. They will start drinking alcohol well before they would ever do on a regular weekday, and they will indulge in cinnamon buns or donuts that are strictly forbidden in their normal healthy diets.

Such choices likely reflect the unique consumption context that an airport implies. Especially for leisure travelers, arriving at the airport seems like the start of vacation, when most people loosen their self-imposed consumption or behavioral rules. They already are willing to make changes to their regular diets and try new things, because their goal is explicitly to take a break and leave behind their day-to-day, regular lives.

But along with these unconventional and experimental consumption choices, travelers also appear willing to pay far more, even for the same candy bar or magazine, than they would ever expect to pay in their local grocery store. In turn, conveniently located storefronts in terminals can charge much higher prices. A recent, lighthearted (and unscientific) survey of the prices for buying a bag of Chex Mix in different airports revealed just how much higher. Posting on X, a frequent traveler noted that, for the same 8.75-ounce bag, she paid $4.76 at Dallas Fort Worth airport, $5.99 in Indianapolis, and a whopping $9.99 at LaGuardia. Others quickly chimed in too, revealing that Bostonians could grab some Chex Mix at Logan Airport for $5.69, but Chicagoans were out of luck: At both O'Hare and Midway, the snack bag cost more than $12.

Although many fliers might seem willing to pay such prices, some rules are in place to protect these largely captive audiences. Many municipalities subject sellers in public transportation settings to what is referred to as "street pricing plus" standards. That is, they can add a mark-up—which acknowledges that many of these retailers pay substantial fees to be able to operate in the airport—but the increase they impose cannot exceed some set percentage above what a vendor in that area would normally charge. For example, in Los Angeles, the vendors can add an 18 percent upcharge. But in Portland and Salt Lake City, local legislation demands that they charge only the street pricing rate, without any designated "plus" amount.

Of course, even if they have to dump their drinks, travelers could just bring healthy, affordable food items from home. But when the rules no longer apply, and consumers feel free to indulge in ways they would never do in their regular lives, who wants the boring snacks that they have at home?

Discussion Questions

1. Do you indulge more (whether in terms of what you buy or how much you pay) when you travel?
2. What is a reasonable price markup for vendors in an airport? That is, should they be allowed to charge more than the "street price" level?

Sources: Natalie B. Compton, "Chex Mix Has Become the Symbol of Overpriced Airport Snacks," *The Washington Post*, February 7, 2024

Back to Top

Marketing Tidbits

From Mickey Mouse to Winnie the Pooh: Many Classic Characters are Losing their Copyright Protection in 2024

Use with Chapter 11, "Product Branding and Packaging Decisions"

By design, copyrights can exist for only a certain amount of time. In the United States, for creative productions that appeared before 1978, that time is 95 years. (After 1978, the U.S. Patent Office changed the rules, such that most U.S. copyrights issued today last for the lifetime of the creator, plus 70 years.) A little quick math, and you realize that everything published in 1928 has lost its copyright protections. A little quick history lesson, and you realize why this particular annual milestone is significant: 1928 saw the introduction of a wealth of globally known, nearly universally recognized characters. A selected list includes Mickey Mouse and Minnie Mouse, Winnie the Pooh and Piglet, and Peter Pan. Because the initial versions of each of these characters first came into being in 1928, today's creative artists, marketers, and advertisers can use them freely and for any purpose. They need to take some care though; the version of Mickey Mouse that is now accessible to the public is only the one that appeared in Disney's first film featuring him, *Steamboat Willie*. More recent versions still fall under strict protections. But artists should not necessarily feel limited by that requirement. Copyright protection applies to various other artistic works, including songs and literature. That means that anyone can leverage the once-scandalous plot of *Lady Chatterley's Lover* or the sounds of "Mack the Knife" and "The Charleston" in their current artistic endeavors, without fear of reprisal—at least in a legal sense. Nobody had better turn Winnie the Pooh into a murderous psychopath or anything, or they will be in big trouble with us.*

*Too late. *Winnie the Pooh: Blood and Honey* is terrifyingly slated for release in early 2024.

Sources: Sopan Deb, "These Classic Characters Are Losing Copyright Protection. They May Never Be the Same," *The New York Times*, January 1, 2024; Darryn King, "Oh Much More than Bother: This Winnie the Pooh Is Terrifying," *The New York Times*, February 9, 2023

Form Follows Function: The New Major League Baseball Jerseys Do not Receive Much Love

Use with Chapter 12, "Developing New Products"

In the spring, as temperatures warm, some people's thoughts turn to baseball, and other people's focus is on the fashion trends that will arrive, once winter coats are put away. This year, those interests are combining in interesting ways. The Nike Vapor Premier uniforms that Major League Baseball revealed as the official uniform for the 2024 season have prompted some strong opinions, many of them negative. Nike notes that it designed the uniforms to provide more performance benefits and lightweight functionality, but fans (as well as not a small number of players) note that the jerseys look more cheap and flimsy than lightweight. In addition, the redesigned shirts feature smaller lettering and, for many teams, non-embroidered logos and patches. Such considerations seemingly might not affect how players perform, but for fans who often shell out hundreds of dollars for an authorized jersey, the changes are deeply problematic. They look like "cheap knockoffs" instead of expensive, authentic versions, such that they cannot provide value in terms of signaling status. The smaller lettering also makes it more difficult to stake a visible claim on their back for their favorite player. Furthermore, team loyalties rank among the most powerful brand connections that consumers establish. Receiving a physical product linked to a beloved team brand—even if that product is made by a different brand (Nike) and distributed by yet another brand supplier (usually, Fanatics)—that evokes low quality perceptions is disturbing. Look, it's hard enough rooting for the Oakland Athletics or Chicago White Sox. Do these poor fans have to deal with unlikeable jerseys too?

Sources: Nathaniel Meyersohn, "Why the New Major League Baseball Jerseys Have Players and Fans Furious," *CNN*, February 21, 2024

Back to Top

Beyond Football: This Year's Trends in Super Bowl Advertisements

Use with Chapter 19, "Advertising, Public Relations and Sales Promotions"

People who tune into the Super Bowl might be classified into two main groups: sports fanatics who are determined to watch every down, and everyone else, who watches mostly for the commercials (and maybe a Taylor Swift sighting or three). But among this latter, more casual group of viewers, we can also find evidence of true dedication. That is, some 160,000 viewers register in advance of the game, agreeing to rank the commercials during the broadcast, and then *USA Today* publishes the results. The lists offer some interesting insights into current trends. For Super Bowl LVIII, nearly half of the top 10 most popular advertisements leveraged people's nostalgic affection for good buddies: Danny DeVito helped Arnold Schwarzenegger enunciate the final syllable in "neighbor" in State Farm's well-known tagline; Matt Damon complained to Ben Affleck that "Sometimes, it's really hard to be your friend" before participating in a performance by the "Dun'kings" while wearing Dunkin'-branded jumpsuits; Jennifer Aniston (Rachel) forgot who David Schwimmer (Ross) even was, to make room in her brain for recalling what Uber Eats delivers; and the Clydesdales relied on their old Labrador Retriever friend to lead the way for a delivery by Budweiser. As these examples indicate, many of the most popular ads were humorous. But others actively sought an emotional appeal and made ethical claims, including Dove's encouragement of bodily confidence among young girls; Google Pixel's demonstration of how it was working to increase inclusivity among people with limited vision; the NFL's determination to expand access around the globe; or the reminder from the Foundation to Combat Antisemitism that silence allows for hatred to persist, whereas making our voices heard means standing up to hate. In addition to their popularity among the estimated 123.4 million viewers who tuned in, we hope the advertisements were effective in meeting the companies' marketing objectives too, considering that a 30-second slot cost a record-breaking $7 million in 2024.

Sources: "Best 2024 Super Bowl Commercials," *USA Today*, February 13, 2024; Suzanne Vranica, "How Much Does a Super Bowl Ad Cost this Year?" *The Wall Street Journal*, February 13, 2024

Back to Top