

## **Descriptions of the Three Markets in The New Shoe Simulation**

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In marketing management, a market is a group of final customers who respond in a homogeneous way to a marketing mix. If two customers are defined as being in different markets, then by definition, they respond differently to different levels of advertising, promotion, price, etc. The optimal price and levels of promotion expense will be different in different markets.

When a group of customers with homogeneous response patterns and with sufficient purchasing power are identified, they are given identifying labels such as Home market or Foreign market. Sometimes these labels reflect the customer needs or benefits sought and sometimes they reflect the products they tend to buy or where they buy them. In short, the labels used to identify markets may be misleading as to the reasons why customers buy a product or service. For example, marketers find popular labels such as the “sports car” or “SUV” market carry very little explanatory power. It is well understood that marketers can design better strategies when they focus on the kinds of holes that customers want than on the kinds of drills the engineers have asked them to sell. The Wall Street Journal is full of examples of marketers using popular labels to describe complex business strategies to non-marketers.

The three labels used in the simulation to identify the three markets do not carry much explanatory power. However the dimensions of the three groups suggest that each market has different needs and responds differently to different levels of marketing effort in the marketing mix.

### **The Home Market**

This was the first market the firm entered. It is characterized as a group of customers who want a high performance shoe such as those used by sports professionals. Market research shows that product performance is the most important element in the customer’s satisfaction. Firms that fail to maintain a competitive level of product development are doomed in this market. The fact that the signature shoes are used by professionals and have a distinctive style gives the wearer a mark of prestige and reflects the wearer’s commitment to his or her sport. Design gimmicks such as embedding wood chips in the heels of basketball shoes do not work in the Home market.

Advertising copy used in this market links the shoe’s performance to the superior performance of a super star(s). Advertising presents an elite product with an “If you have to ask, you can’t afford it” type of appeal. The customers in the Home market respond well to advertising and research suggests that at low levels of marketing effort an additional \$1000 of advertising brings an average of 66 shoes in additional sales volume. With extremely heavy levels of advertising an additional \$1000 of advertising brings in an average additional sales volume of 55 shoes. Statistical research suggests that the customer response to advertising in the Home market can be predicted by the formula  $Q = 1600A^{0.29}$

where Q = quantity of shoes sold,

A = the size of the advertising budget.

Pull strategies work better than push strategies in the Home market and consumer promotions such as deals and give-aways work moderately well. Market research suggests that at medium levels of promotion expense, an additional \$1,000 in promotion effort brings in an average of 30 additional shoes in sales volume. A lunch with the stars contest worked well last year. Statistical research suggests that the customer response to consumer promotion in the Home market can be predicted by the formula

$$Q = 8.38C^{0.61}$$

where Q = quantity of shoes sold,

C = the size of the Consumer promotion budget.

Push strategies in the Home market do not generate high response levels. Retailers who cater to the Home market and who specialize in high performance equipment seek out your firm's brand on their own. Additional calls by additional sales people generate relatively small amounts of additional sales. It is estimated that with a medium sized sales force, an additional sales person will bring in an average of 400 additional shoes. Experiments in pushing more product onto the dealers' shelves by increasing the size of the sales force proved that dealers know what their customers want in the Home Market. The extra sales people did improve customer relations but the increase in sales volume was negligible. "You can not convince retailers to buy extra stock and have them push it on through this market," said one sales manager.

Channel members are even less responsive to dealer promotions. They do expect the basic deals such as case allowances and sales spiffs, but attempts to double the level of dealer promotions in the home market have generated negligible new sales volume. Dealers in the Home market are not responsive to high levels of dealer promotions.

The demand curve or the price response function in the Home market is extremely complicated. There appears to be a strong prestige component and at lower prices sales, sales volumes have been known to drop off significantly. Customers in the home market expect to pay for good performance and they demand evidence of quality features. New customers perceive a positive link between higher prices and higher quality. Customers in the Home market tend to shop for athletic shoes as specialty goods and the customers who have bought the shoes a lower prices are very satisfied. However, lower prices have a negative impact on customers shopping for high quality and a price that is too low can result in lower sales and a smaller market share.

### **The Domestic Market**

The success of the firm in providing high performance shoes for professional athletes also indicated a strong national demand for high quality shoes with a distinctive 'professional' style. The Domestic market has a stronger need for demonstrated value and a lesser need for extreme performance than the Home market. The customers in the Domestic market are broader demographically than the Home market.

The Domestic market wants a high quality shoe but they shop for bargains and are sensitive to special deals and low prices. The customers in the Domestic market respond extremely well to consumer promotions. An average of 55 shoes in sales volume per \$1,000 dollars in promotion budget seems to be common in the industry. Statistical research suggests that the customer response to consumer promotions in the Domestic market can be predicted by the formula

$$Q = 1150C^{0.29}$$

where Q = quantity of shoes sold,

C = the size of the consumer promotion budget.

Advertising copy used in this market focuses on the shoe's superior performance and highlights specific features such as better fit and more cushioning. The customer's response to advertising effort is relatively modest. At high levels of advertising, an average of 20 shoes per \$1,000 is a reasonable expectation. However, at low levels of expenditure, advertising is surprisingly ineffective in the Domestic market. The advertising response function appears to have a classic "S" shape.

Because there are many suppliers of "Marquee" footwear who claim to have high quality, it is more difficult to get adequate distribution in the Domestic market than in the Home market. Retailers and dealers seem to respond to extra sales people reasonably well and extra calls are rewarded with extra sales. A midsize sales force in the Domestic market seems to produce an average sales volume of 10,000 shoes per salesman.

Statistical research suggests that the customer response to dealer promotion in the Domestic market can be predicted by the formula

$$Q = 49,414N^{0.1984}$$

where Q = quantity of shoes sold,

N = the number of salespeople.

The difficulty in getting shelf space in the Domestic market can only be overcome with large dealer promotions and strong incentives. Case allowances and special training programs are particularly powerful in pushing product through the channels. Marketing plans with fairly high levels of expenditures seem to generate an average of 30 shoes per \$1,000 of effort in dealer promotion activity. Statistical research suggests that the customer response to dealer promotion in the Domestic market can be predicted by the formula

$$Q = 12D^{0.569}$$

where Q = quantity of shoes sold,

D = the size of the Dealer promotion budget.

Customers in the Domestic market shop for value and look for lower prices. They are price sensitive and will switch to other brands if a firm has too high a price for the value being offered. Market research suggests that the demand curve in the Domestic market is approximated by the following formula:

$$Q = 576,115 - 3,994P$$

where Q = quantity of shoes sold,

P = the selling price.

The demand curve research reported above used a sample of firms in a mature market that had a good quality product supported by an active promotion strategy.

### **The Foreign Market**

Inexpensive running shoes and sandals are manufactured all over the world. For most people in foreign countries, buying an expensive, imported American running shoe would be seen as an extreme luxury or a waste of money. However, there is a foreign market segment who have a strong need for athletic shoes with professional performance and features. There is also the need for athletes to be seen as wearing the type of shoes that only a successful professional would wear. These needs are felt by a significant number of affluent people in foreign markets and they believe that by wearing an American made signature shoe gives them with special prestige.

Advertising coverage for reaching the Foreign market segment is spotty and inconsistent. The people in our targeted Foreign market do not rely on mass media for information about the type of running shoes they want. Some advertising is necessary to give the brand social legitimacy but even those media plans with relatively high budgets show the average sales volume due to advertising at an estimated 10 shoes per \$1,000 in budget.

The lack luster performance of pull strategies in Foreign markets is also demonstrated by the market response to consumer promotions. Customers in the Foreign market do not respond well to coupons and contests. Firms with moderate size expenditures for customer promotions are estimating an average response of 12 shoes per \$1,000 in budget.

The problems in getting distribution to the Foreign market are considerable. The firm's sales people make many repeat-calls convincing retailers that expensive American-made athletic shoes offer high potential profits. Selling the shoe's extreme performance is a difficult sales presentation when the audience is the traditional distributor who sees shoes as a basic commodity. More sales people and more calls per customer are needed but the rewards are worth the effort. Dealers and retailers respond positively to sales people and firms with large sales forces find that the average sales volume is 12,000 shoes per salesman. Statistical research suggests that the customer response to sales force levels in the Foreign market can be predicted by the formula

$$Q = 53,957N^{0.354}$$

where Q = quantity of shoes sold,  
N = the number of salesmen.

Dealer promotions are a powerful incentive in the Foreign market and must be used to support the efforts of the sales force. Some firms with large dealer promotion budgets attribute an average of 50 extra shoes for every \$1,000 spent on dealer promotions. Case allowances and cumulative rebates work particularly well to push product onto the shelves. Statistical research suggests that the customer response to dealer promotion in the Foreign market can be predicted by the formula

$$Q = 5410D^{0.161}$$

where Q = quantity of shoes sold,

D = the size of the Dealer promotion budget.

Research shows that customers in our Foreign market believe there is a strong connection between price and performance. That is to say, customers in this market believe that low prices imply low quality. Customers in the Foreign market exhibit a prestige pricing phenomena similar to the Home market. When customers believe the price is too low, they buy fewer shoes and if the price is too high, they buy fewer shoes. However, they are less price sensitive than the customers in the Home market and the percentage drop in volumes is not as steep as the drop in the Home market.