Marketing Matters

A Newsletter of the Institute for Research in Marketing

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CARLSON SCHOOL OF MANAGEMENT
UNIVERSITY OF MINNESOTA

Letter from the Director

Greetings from Hong Kong! For the 2007-2008 academic year, I am taking a sabbatical, spending the year at the Hong Kong University of Science and Technology (www.ust.hk). Though a hemisphere away, I continue to work with my colleagues at the Carlson School of Management. I am particularly grateful to Professor Rajesh Chandy, who is serving as co-director of the Institute for Research in Marketing.

I would also like to welcome and thank the newest members of the institute's advisory board. Bryan Maach of Cisco Systems and Scott Lutz of Best Buy, the two latest firms represented, bring fresh perspective and expertise to our panel. I am also delighted to count among our number Vivian Milroy Callaway of General Mills and Kate Whittington of Target, who replace Bob Anderson and Will Setliff, respectively.

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Vivian Milroy Callaway, General Mills engages conference attendees in a discussion on consumer connection during the June conference.

SMART MOVES

Assessing a channel switch

Unfortunately for companies considering switching channels, there is no how-to guide. No matter how you look at this sticky choice, Professor George John says, "It's almost impossible to make these decisions intuitively."

In the paper "Assessing the Effects of a Channel Switch," forthcoming in *Marketing Science*, John, Pillsbury-Gerot Chair, and his co-authors Associate Professor Om Narasimhan and Carlson School doctoral alum Xinlei Chen use the 2002 acquisition of Gatorade by PepsiCo to explore the relative merits of switching marketing channels (the means by which they get their goods to the customer)—in this case, from wholesaler distribution to direct-to-store distribution—in order to try to find a practical methodology for assessing the total impact of a channel switch.

"The business press felt that PepsiCo's principal gain from buying Gatorade would be that they could ramp up sales of Gatorade by moving it from the wholesaler channel into Pepsi's direct-to-store distribution channel," explains John. Direct-to-store distribution would allow for frequent deliveries and coordinated marketing campaigns with retailers, which might boost sales. In turn, store owners would respond positively to the personal contact and labor provided by direct-to-store distribution, such as multiple weekly deliveries, in-store set-up of displays, and shelf-stocking all done by the manufacturer.

Despite its many advantages, direct-to-store distribution is also a more

George John

Om Narasimhan

expensive option. For any company in PepsiCo's situation, John warns that costs and benefits have to be quantified to make the right decisions. "The most crucial output from our work is an estimate of these relative unobserved channel costs," he says.

The paper's results showed that, on a 32 oz. bottle of Gatorade, direct-to-store distribution would cost PepsiCo an extra 6 cents over wholesale distribution. "In the case of Gatorade, our calculations show that these increased costs overwhelm the added benefits of direct-to-store distribution, so PepsiCo is better off not making the switch."

When asked what simple advice he might give a firm considering a marketing channel switch, John laughs, "Hire us to do the calculations!" As of this writing, it appears that PepsiCo has, intentionally or not, taken John's results to heart: despite the predictions of the business press, Gatorade remains under wholesale distribution.

Director, continued

Since our last newsletter, the institute has co-hosted a successful conference "Creating and Cultivating Brand Connections" with the Marketing Science Institute, a Cambridge, Mass.-based think tank. Featuring academics from the University of Minnesota, Dartmouth College, Stanford University, and the University of Southern California, as well as industry experts from the Carlson Companies, Frito-Lay, General Mills, and Target, the conference provided considerable insight on branding topics ranging from cognitive neuroscience to brand success metrics. Turn to page 3 to learn more.

In October, the institute hosted its third speaker event, "Mindless Eating: Why We Eat More Than We Think," with best-selling author and researcher Brian Wansink of Cornell University. More information on Wansink's research is available on page 5.

The Carlson School's marketing faculty continue to see their leading-edge research garner considerable national and international media attention. You know you've arrived when your research makes an appearance in Jay Leno's opening monologue on NBC's "Tonight Show," as Professor Joan Meyers-Levy experienced in September with her research on ceiling height and thought. Congratulations, Joan!

As you can see, at the Carlson School of Management, there's always more than meets the eye. To learn more about the Institute for Research in Marketing, including information on our past and future speakers' series, conferences, and innovative faculty research, please visit carlsonschool.umn.edu/marketinginstitute.

Best wishes,

Akshay R. Rao
Co-Director, Institute for Research in Marketing
General Mills Professor of Marketing

Fairness pays

Tony Haitao Cui

It has long been thought that fair dealing and above-board transactions between business partners yield a better relationship. Now, research from the Carlson School shows that, for manufacturers and retailers, thinking about what is best for the entire channel has higher payoffs than just looking out for one firm's best interests.

"Traditionally manufacturers and retailers set prices that were best for each of them, without regard to the other firm in the channel," says study author Assistant Professor Tony Haitao Cui. "What this study concludes is that when the channel members think about fairness and set a constant wholesale price, both partners benefit by getting a better price in the marketplace."

In the paper "Fairness and Channel Coordination," published in *Management Science*, Cui reveals his finding that in a marketing channel consisting of a manufacturer and a retailer, a consistent wholesale price throughout the channel can maximize the profits for both the manufacturer and the retailer. In short, looking beyond initial monetary payoffs will benefit both firms in a marketing channel.

Cui and his co-authors Jagmohan S. Raju and Z. John Zhang of the Wharton School of Business at the University of Pennsylvania started by looking at the relationship between a manufacturer and a retailer to see how the concept of fairness affected channel coordination.

"What we found is that while elaborate pricing contracts may be one way to increase channel profits, it is far simpler than that," explains Cui.

"The most important outcome of this study is that when the retailer and the manufacturer voluntarily align their interests, it benefits both of them, more than it would if they were just looking out for their own bottom-line."

Mark your calendar

Carlson on Metrics

On May 21-23, 2008, the Institute for Research in Marketing will host "Carlson on Metrics." The institute's third annual conference, Carlson on Metrics, will highlight the most current thinking and practice on the metrics of marketing effectiveness. Covering topics such as the long-term impact of marketing actions, the implementation of innovation, and quantifying corporate and brand advertising, the conference will highlight the approaches being taken by top thought leaders in marketing today.

Visit carlsonschool.umn.edu/marketinginstitute/metrics for updates.

Creating and Cultivating Brand Connections

Technology makes it ever easier to get marketing messages to customers. But how deep are the connections? In June, the Institute for Research in Marketing co-hosted the conference "Creating and Cultivating Brand Connections" with the Cambridge, Mass.-based Marketing Science Institute (MSI). At the conference, co-chaired by Carlson School Associate Professor Rohini Ahluwalia, academics and marketing leaders explored how companies can form and foster deep, enduring emotional connections between their brands and their consumers.

Brand resonance

In the conference's opening session, attendees heard from brand guru Kevin Lane Keller of the Tuck School of Business at Dartmouth College on brand resonance and how the intensity of the connection consumers feel with a brand can lead to brand loyalty. Immediately following Keller, presentations on achieving brand resonance in the marketplace were given by what MSI Executive Director Dominique Hannsens termed "a house of brands and a branded house—Carlson Companies and Target Corporation."

Kim Olson of the Carlson Companies emphasized pointed communication, both within a company and to its consumers, and Lance Thornswood shared how Target's affordable chic identity is built by buzz creation, community outreach, and the careful cultivation of Target's unique brand resonance.

Brand attachment

Moving from brand resonance to brand attachment, CW Park of the University of Southern California's Marshall School of Business outlined the reasons that Target's brand strategy is so effective in the marketplace: their brand pleases, enriches, and enables the self. According to Park, these are not academic terms, but measurable components of a brand's success that relate more strongly to brand performance than traditional attitudinal measurements. Frito-Lay's Pam Forbus expanded on the need for companies to connect their brands to the self, using her company's forward-thinking strategy of the co-creation of their brands using consumer-produced ads. It's efficient, inexpensive, and lets consumers demonstrate what the brand means to them, noted Forbus.

Finally, Vivian Milroy Callaway of General Mills spoke about the evolution of a heritage brand over time. With changing times and fashions, a brand like Betty Crocker might get stale, but with the successful introduction of new products, an enduring brand can be refreshed and become dynamic again, reinforcing long-established brand attachments.

> "Rigorous research that matters and is applicable; that is what our institute strives for." —ROHINI AHLUWALIA, CONFERENCE CO-CHAIR

Pam Forbus, Frito Lay; George John, Carlson School; and Vivian Milroy Callaway recap their discussion on brand connections.

Choice and emotion

In the last section of the conference, the Carlson School's Akshay Rao and Baba Shiv of StanfordUniversity's Graduate School of Business delved into choice, attachment, and the role of emotion in brand connections using a new source of data: brain scanning. Reminding the audience that a brand is a strategic asset, Rao discussed his functional MRI scans of decision-makers and drew implications for brand connection metrics and the design of new product lines. Shiv explored the idea that choosing and deciding are not the same thing: choices are temporary, but influencing people's commitments to a brand using emotional components affects long-term decision making, regardless of whether the context is consumer marketing, industrial marketing, durables, or any other field.

Commenting on the conference this summer, Jan Elsesser, an Institute for Research in Marketing advisory board member from GfK Custom Research, asserted that it was one of the best conferences she'd ever attended, particularly in its juxtaposition of academics and marketing professionals discussing the same issues. "The thinking side and the practical side came together nicely," Elsesser said. Conference co-chair Rohini Ahluwalia summed up, "Rigorous research that matters and is applicable; that is what our institute strives for."

Mark Bergen, Carlson School; Diane Harper, Kraft

Terri Bartlett, DMEF; Chris Winter, Wells Fargo; Jan Elsesser, GfK

Rajeev Batra, University of Michigan; Peter Averdick, Wachovia; Lopo Rego, University of Iowa

New Advisory Board members

Vivian Milroy Callaway, '79 MBA, serves as vice president of the Center for Learning and Experimentation at General Mills, where she has worked in various marketing capacities for over 25 years. Currently she is transforming the central consumer insights functions of General Mills into catalysts for further knowledge and growth across the organization.

Scott Lutz, senior vice president of growth at Best Buy, Inc., is a University of Missouri graduate with extensive business experience in the areas of innovation, new business development, manufacturing operations, and new wealth creation. Prior to coming to Best Buy, Lutz has worked at ConAgra, General Mills, Procter & Gamble, and the SunMilk Dairy Co. He is an adjunct professor at the University of St. Thomas and was named one of *Fast Company* magazine's "Fast 50 Champions of Innovation" in 2002.

Bryan Maach, Cisco Systems's vice president of market intelligence, is a natural fit for the institute's mission of connecting cutting-edge research to real-world marketing problems. Along with his team, Maach's goal at Cisco is to develop a community of research professionals providing actionable results for Cisco's senior leadership, focusing particularly on market dynamics, competitive threats, and new growth opportunities. Maach is a graduate of Bowling Green State University and Iowa State University.

Kate Whittington is the group manager of Target Corporation's new division of Guest Insights, a team responsible for providing insight and inspiration about Target guests to partners throughout the company. Whittington is a Carleton College alum and earned an MBA from Harvard Business School, where she was a distinguished Baker Scholar.

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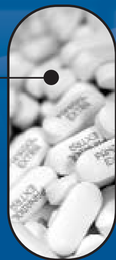
Marketing Moments



Early results of research by Assistant Professor Selin Malkoc and doctoral student Noelle Nelson suggest that simple grammatical changes can make a big difference in the marketing of medications. The active voice seems to make a medicine's benefits more appealing to consumers. The passive voice, on the other hand, seems to render side effects less worrisome. For pharmaceutical companies, a grammatical revision might be just what the doctor ordered.

Brands Coca-Cola, Campbell's, Kodak, and Nike are cited frequently as "American icons," but what does it mean to be iconic? In new research attempting to measure brand iconicity, Assistant Professor Carlos Torelli finds that some brands are, in fact, more iconic than others. Those that rate highest on his scale are brands, like Coca-Cola, that facilitate the communication of culturally relevant associations and beliefs, while even well-known brands like Campbell's and Kodak rate lower. Thinking about brands with high iconicity can affect the choices and judgment of consumers who then see the world through culturally colored glass or, in this case, a familiarly shaped glass bottle.

Preliminary results from three new experiments by doctoral student Christine M. Bennett, Professor Barbara Loken, and Carlson PhD alum Hakkyun Kim suggest that, contrary to popular belief, under certain conditions corporate sponsorship may negatively affect a nonprofit's efforts to garner financial support from the public.

Center Stage

Portions and profits

On October 24, the institute hosted Brian Wansink, author of the best-selling book *Mindless Eating: Why We Eat More Than We Think*, at its third speakers' series event. Wansink discussed the influence of advertising and marketing on eating habits to a diverse crowd of academics, business people, and students at the Carlson School of Management.

As the director of the Food and Brand Lab at Cornell University, Wansink seeks to help companies develop "win-win" strategies to help people eat more nutritiously and control their portions. In turn, companies watching portions *and* profits are able to leverage those strategies to build their businesses in a fast-paced, competitive marketplace.

In his talk, Wansink described what *The New York Times* has called his "brilliantly mischievous experiments about the psychology of eating," in which his research team has demonstrated that even diners who think they are immune to trickery and hidden persuasions fall prey to emotional and visual cues that are scarcely related to their actual hunger levels. "The cues are so ubiquitous that people think it's ridiculous that they would be tripped up by them," Wansink told the audience, but by eating party mix from a larger bucket or slurping soup from a secretly bottomless bowl, even quick-witted test subjects invariably find their portions less substantial and adjust their snacking, and their belts, to fit.

Brian Wansink signing copies of *Mindless Eating*.

Wansink's work has led to innovations in the business world in the hope that what's good for the bottom line can also be good for the waistline. After all, Wansink laughed, the best diet is the one you don't even know you're on.

For more information on upcoming speakers' series events, visit carlsonschool.umn.edu/marketinginstitute/events

Research highlight

Evidence reported in Assistant Professor Jane E. J. Ebert's recent *Management Science* article, "The Fragility of Time: Time-Insensitivity and Valuation of the Near and Far Future," suggests that people do not place a high enough value on the future when making current decisions, even though time itself is an important part of so many choices. With Drazen Prelec of MIT's Sloan School of Management, Ebert further explains that even low-level sensitivity to time is easily influenced, with important implications for everyday choices as well as policy assessments.

To learn more about the research highlighted here, please visit carlsonschool.umn.edu/marketinginstitute/recentresearch

Recent publications

From January 2006 to the present, the faculty of the Department of Marketing and Logistics Management had 31 papers accepted by leading journals in the field:

Journal of Consumer Research (10)
Journal of Marketing (4)
Journal of Marketing Research (8)
Management Science (2)
Marketing Science (4)
Organizational Behavior and Human Decision Processes (1)
Science (1)
Journal of Law and Economics (1)

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Inside this issue:

Find 2008 conference information, new board members, and research highlights.

Research in motion

Fueling innovation and change

Bryan Maach, vice president of market research & analysis for Calif.-based Cisco Systems, Inc., joined the Institute for Research in Marketing Advisory Board in June 2007. Historically a B2B technology and network communications company, Cisco is increasing its relevance and presence in the consumer arena.

"Research helps people make decisions that yield better outcomes," Maach points out. "Business is all about what is next, but academics ask 'Why is this happening and what is likely to occur next?' Partnering with the Institute for Research in Marketing and the faculty at the Carlson School helps a dynamic and expanding brand like Cisco put into practice the spectrum of research in marketing that can fuel innovation and change."

With over 125 acquisitions since its founding, Cisco is a brand in transition. Like many of the institute's advisory board members, Maach sees the integration of academic research into the corporate environment as a way to push boundaries.

"There are a lot of innovations in the marketplace, some successful, some not. We want to focus on new offerings and solutions that are differentiated and meaningful for customers," explains Maach. "Seldom is there the luxury of stepping back to think more deeply about an issue, about why things are or are not happening. But academics pose questions about the entire scope of an issue. That helps us focus our approach in ways we might otherwise be unable to do." Working with Carlson marketing faculty through the institute has been one way that Cisco has developed innovation efforts.

This marriage of practitioners and academics, in Maach's view, is a real opportunity for business. "At the end of the day, our team is charged with understanding the new trends and helping implement actions that will have traction in the marketplace. Introducing a theoretical angle into the mix makes it more substantial." For Cisco, when research and practice are brought together, it creates a richer understanding of marketing problems and an ability to act on them.

For more information on the Institute for Research in Marketing, call Rebecca Monro at 612-626-7940 or email mktginst@umn.edu.