

So What?



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Hungry for a snack? What sounds good to you—a bowl of ice cream, some popcorn, or a candy bar? It depends on what you're in the mood for, doesn't it? If you're hungry for something chocolaty, you might choose the candy bar. If you'd like something salty or more filling, though, you'd probably choose the popcorn. Or, if it's almost time for dinner, you might avoid snacking completely. In short, you're likely to choose what best satisfies your needs and wants—the option that is most useful to you, whether it be ice cream, popcorn, candy, or nothing at all.

You're not the only one to base your decisions on what would bring you the most satisfaction. In fact, just about every individual and business in our economy makes choices similar to yours many times a day. They base their actions and choices on what will maximize their satisfaction or, in economic terms, what will bring them the most utility.

Objectives

A

Describe types of economic utility.

B

Explain ways in which business affects economic utility.

What's Utility?

Would you buy a pair of shoes that are two sizes too small? And would you order a ham sandwich if you're a vegetarian? You probably wouldn't do either. After all, how will a pair of shoes that doesn't fit be useful to you? And it's not like you'll be able to enjoy food you can't even eat. On the other hand, you'd love to buy that new pair of TOMS you've been eyeing or dig into a peanut butter sandwich, right? That's because both of those options provide you with something worthwhile that you can wear or eat. In other words, they have utility.



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▲ If you want a peanut butter sandwich, then the sandwich has utility for you. However, a sandwich you don't want to eat wouldn't have any utility for you at all!

A product with **utility** has the ability to satisfy customer wants or needs. The new pair of TOMS and the peanut butter sandwich possess utility. But the other, too-small pair of shoes and the ham sandwich *don't* offer utility. You can't or won't make use of them, and they don't satisfy your needs or wants.

But, goods aren't the only products that can possess utility. Services can, too. If your hair is getting shaggy, a haircut could have utility. Likewise, medical services have utility to you when you are sick or injured. In short, if something satisfies your needs or desires, then it possesses utility. In your opinion, what other goods and services have utility?

It's all relative

Have you heard of constants before? A **constant** is something that is permanent and unchanging, such as a fixed value in a mathematical formula or the speed of light in science. Now, think of the opposite of a constant. That's what a product's utility is. A product's utility is completely relative.

What does this mean? It means that utility isn't the same across the board. The same product might have wildly different utility levels, depending on who's using it (or when s/he's using it). A product that provides utility for one business might provide no utility at all for another business. And individual customers are just that—individuals. They view products through personal lenses, including:

- Age
- Income
- Interests
- Gender
- Educational level
- Preferences

A product that has tons of utility for one customer might be practically useless for another. For example, let's say a restaurant owner purchases a new oven, and s/he ranks the oven's utility as high. However, for the owner of a clothing store, the oven's utility would be low. The utility depends on which consumer is using it. Different consumers can see the same exact product in different ways—because they don't receive the same satisfaction from it.

Or, think about food products. What if you purchased a gallon of milk from the grocery store, only to discover once you got home that it was spoiled? That gallon of milk wouldn't have much utility for you, since you couldn't drink it. However, that doesn't mean *every* gallon of milk has low utility. Each gallon of milk—and each product in general—is ranked separately because a consumer judges each product's worth individually.

As you can see, the concept of utility is a very personal thing. The utility that a person receives from a product will vary based on many personal factors. The utility that a business receives from buying a product varies, too, based mainly on the size and type of business. And, individuals and businesses purchase the goods and services that benefit them the most—the ones with the most utility.

Take a measurement

So, which products provide the most utility? That's a good question without an easy answer. Unfortunately, because utility varies in so many ways, there is no direct method to measure it. Instead, economists typically measure utility indirectly. They do so by comparing the levels of satisfaction that individuals and businesses receive from different products. The higher the level of satisfaction for a particular consumer or business, the higher the level of utility.



Think for a moment about different types of phones—cellphones/smartphones, home telephones, and public telephones. You probably like cellphones and smartphones the best, don't you? You can use them to make calls, send texts, listen to music, play games, check your email, and even surf the Web. Home telephones are nice, too, when all you need to do is make or receive a call, but you can't do much else with them. And public telephones? You've probably never even used one! So, which type of phone satisfies the most needs and therefore has the most utility for you? You guessed it—the cellphone/smartphone.

- ◀ How do you decide which product provides the most utility? It depends on which product satisfies the most needs. For example, the phone that provides you with the most utility would probably be a smartphone.

You may see the word “usefulness” used as a synonym for utility. But do these terms really mean the same thing? Not necessarily! Goods and services that provide great satisfaction for a customer (those that have *high utility*) may not be all that practical. For example, think about any pictures or other items you use to decorate your room. They may not provide a *practical* use, but they do satisfy your desire to remember your friends and family or make your room look nicer, which means that they possess utility. On the other hand, a good or service that is very useful might have no utility at all for you. For example, a car is useful, but if you can't drive it has no utility for you.

Know the types

A product possesses utility only if it can satisfy the needs and wants of a person or a business. But in fact, there are four different types of utility that a product must have before it can benefit consumers and businesses. They are:

- Form/Task utility
- Time utility
- Place utility
- Possession utility



▲ Cotton doesn't have much utility for you in its raw form. However, when it's turned into clothing, form utility is created.

candle's scent, a pizza's flavor, an oil painting's colors, a song's melody, or a pillow's softness. By changing any of these elements, a business can change a good's form utility.

Task utility, on the other hand, applies to services. Services range from a doctor's care for the sick to a lawyer's handling of a legal case to an interior decorator's designs. And, just as form utility includes whatever can be touched or noticed by the senses, task utility encompasses every feature or characteristic of a service. It includes the offer to towel-dry your car at the car wash, the free ride to work from the car repair shop, and a band's encore at a concert, for instance.

Time utility. To be useful to customers, products must be available at the right time. After all, what good is holiday candy that isn't available until after the holiday or tax services that aren't available until June? If products aren't available when customers want and need them, customers won't be satisfied. On the other hand, though, when products are available at the time they are desired, they are said to have **time utility**.

It's important for businesses to get the timing right. For example, let's say you have friends over and you order a pizza to be delivered in thirty minutes. If the pizza arrives two hours later (after your friends have left and you've ordered something else), you're not going to be satisfied. The utility of the pizza depends on time.

What would happen if a person in Seattle wanted to buy a brand-new bright yellow Camaro, but the closest yellow one for sale was in Miami? That Camaro wouldn't have any utility for the person because it was not where it was wanted or needed.

Place utility. How useful is an available product if it isn't in the right place? Not very. Does the consumer expect the product to be on the shelf? Does the manufacturer require the design to be in hand? Does the wholesaler need the shipment to be at the warehouse? On its own, perfect timing is not enough. Getting the product to the right location is key.

Making changes to a product's location can create **place utility** for buyers. Place utility exists when goods or services are available at the place where they are needed or wanted by customers. A salesperson could move the energy bars to a lower shelf. A bus service could extend its reach into a new neighborhood. A bank could set up online account management. Or a retailer could offer "virtual" convenience through Internet shopping. Whatever the approach, locating the product *where* customers prefer it to be is essential to place utility.

Think about the differences between the types of products sold at beach resorts and those sold at mountain ski lodges. At the beach resort, you would probably find stores selling lots of beach towels, bathing suits, and flip flops. On the other hand, at the ski lodge, you

Form/Task utility. **Form utility** is created when a business alters or changes the shape or form of a product to make it more useful or satisfying for consumers. For example, how useful would raw materials such as sand, cotton, wood, wheat, and crude oil be to you? In their "raw" form, they are of little or no use to the average person; however, when these same raw materials become glass, clothing, paper, cereal, and gasoline, they are quite useful. In fact, very few materials are used in their raw form. Businesses use their human resources and capital goods to change the shapes or forms of materials so that they will hold utility for consumers and industrial users.

Form utility applies strictly to tangible goods, not services. Tangible goods include laptop computers, soft drinks, clothing, etc. A good's "form" includes whatever can be touched or noticed by the senses, such as



▲ Would you buy a box of Valentine's Day chocolate in March? Probably not, because it wouldn't have time utility.

would be more likely to find stores selling items such as sweaters, parkas, boots, gloves, and ski poles. Obviously, consumers want to buy different types of products at different locations.

Many businesses buy and sell products from different parts of the country. For example, a grocery store in Michigan might buy apples from Washington, cheese from Wisconsin, beef from Texas, and seafood from New Hampshire. By doing so, the grocery store managers are creating place utility—they are making sure that products are available where they are wanted or needed.

Possession utility. Even if a product has form, time, and place utility, it can't truly satisfy a person's or business's wants and needs if it doesn't have **possession utility**. Possession utility is created when ownership of a product is transferred from the seller to the person or business that will use the good or service. In other words, the person or business who purchases the product finds it useful and satisfying only after assuming ownership of the product.

For instance, you can't use a winter coat while it is on display in the store window, can you? On the hanger, it has no possession utility for you. But, after you purchase it and put it on, it becomes useful. The same goes for businesses. A self-employed carpenter can't make use of a saw or a box of nails until s/he purchases them, just as a coffeemaker doesn't take on possession utility for a restaurant until it takes possession of the machine.



▲ A product has no utility for you when it's still in the store window. You can't get possession utility from a product until you own it.

Although we can all think of many products that we would like to have, we know that we are limited by the amount of money we have available to spend. Businesses, too, have limited funds. Therefore, customers (both people and businesses) are forced to choose the ways in which they satisfy their desires carefully. In other words, we can't buy everything that we want, and it's ultimately up to us to determine which products take on possession utility.

Summary

Goods and services have utility only if they bring satisfaction to the person or company wanting them. A product's utility varies from person to person, from business to business, and over time. Economists indirectly measure utility by comparing the levels of satisfaction that individuals and businesses receive from different products. All products must have four types of utility to satisfy customer needs and wants. These utilities are form, time, place, and possession.



1. What is utility?
2. Is utility a constant? Why or why not?
3. Describe the difference between form utility and task utility.
4. How does timing affect consumer satisfaction?
5. Why is place utility important?
6. How is possession utility created?

Shawn is a salesperson for a manufacturing equipment company. One of his established customers is interested in purchasing the company's most expensive machine—but only if it can be delivered by Thursday at the latest. Shawn, of course, wants to meet the customer's needs. However, when he checks with the shipping department manager regarding the delivery date, the manager tells Shawn that while she will try to get the order there by Thursday, she can't guarantee it because the department is backed up with deliveries.

Shawn isn't sure what to do. On one hand, he wants to be honest with the customer. On the other hand, he wants to make the sale, and the only way that he can think of to do that is to let the customer think that the product will be delivered by Thursday—in other words, that the product has time utility for the customer. What would you do in this situation?

THE GRAY ZONE

Creating (and Enhancing) Utility

Now that you know what utility is, let's figure out how it relates to businesses. As it turns out, businesses have a lot to do with utility. They can create it, and they can enhance it. One of the biggest ways they can do this is through marketing.

It's all about the customer

If you're familiar with marketing, then you probably know about **the marketing concept**. If not, it basically boils down to one thing: the customer. The marketing concept is based on the belief that all business activities should be aimed toward satisfying customer wants and needs. In other words, the customer is at the heart of the marketing concept. Do you feel like you're experiencing *déjà vu*? That's because the marketing concept fits right in with everything we've just learned about utility.

Just like the marketing concept, utility focuses on the customer and what s/he thinks. Marketers can use utility to measure a customer's satisfaction—and figure out if their particular product satisfies the needs and wants of a particular consumer/business at a particular time. It's all about what the product provides the customer.

But marketers don't have an easy job! As discussed earlier, businesses and individual customers have different wants and needs. Marketers influence each type of economic utility to satisfy as many of those wants and needs as possible. After studying and analyzing which product features bring customers the most satisfaction, they recommend changes to producers to maximize form utility. They figure out when and where customers want products, and they use this knowledge to create time and place utility. And, marketers create possession utility by doing whatever it takes to make sure customers purchase products.



▲ Marketers are always thinking about the customer. They influence each type of economic utility by figuring out what customers want and need—and how their products can satisfy those needs.

Utility and business

Marketing isn't the only aspect of business that has a close relationship with utility. It's impossible for marketers to create or increase utility all by themselves. Instead, every department should be involved in maximizing utility. A product that possesses just one type of utility isn't going to make customers happy—all four types need to be present for a customer to be truly satisfied. A product may have form, time, and place utility, but if customers can't buy it (if the product has no *possession utility*), it won't be very successful.

Just as customers look for goods and services that will give them economic utility, businesses strive to produce the goods and services that will satisfy customers. This endless cycle is a trusted system that results in customer satisfaction and business profits. Let's take a closer look at how businesses create and enhance form/task, time, place, and possession utilities.

Form/Task utility

How can businesses create and enhance form or task utility? By developing new products or adding new features—including new styles, scents, flavors, textures, sounds, colors, services, etc.—to goods and services that are already on the market. Technology leaders, for instance, developed tablet computers to provide more form utility to consumers looking for a smaller, more portable alternative to laptop computers. Clothing and shoe manufacturers are famous for adding new styles, colors, and even sizes to their product lines to increase form utility. And, cellphone service suppliers frequently develop new calling, texting, and data plans to make them more attractive to potential customers.

◀ Businesses can create or enhance form/task utility by developing new products or services that meet customer needs. Tablet computers enhance form utility for customers who think laptops are too bulky or not portable enough.



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After marketers conduct thorough research and collect in-depth customer feedback, businesses use this information to determine what they need to do to maximize form utility. Should they develop a new product? Should they make changes to an existing product? From designers to manufacturers, the entire business works to create a product that fits the customers' needs.

A company-wide focus on communication and teamwork is the only way to truly create time utility.

Time utility

As we've learned, timing is extremely important for customers when they need to make a purchase. Marketers kick-start this process by figuring out when customers need the product, but then other areas of the business get involved. Production planners make sure that enough of each product is scheduled to be produced at the right time, while purchasing agents order the needed raw materials, parts, and supplies in time for them to be used in production. Operations managers ensure that the products get made on or ahead of schedule, while the shipping/delivery department makes sure that the finished product gets where it needs to be when it's supposed to be there.

In fact, it's smart for businesses to order or manufacture products *before* they're needed so that the goods and services are available when customers are ready to buy them. Businesses should also be sure to maintain adequate stock levels throughout the year so they don't run short if there's unexpected demand for a product.

But hiccups can happen, even for the best-prepared companies. Maybe a customer changes the date on his/her order, or a client needs more than originally planned. Good businesses are able to make changes quickly to avoid—or correct—timing problems. It's important to remember that customers typically purchase products when they want or need them—not when it is convenient for producers to provide them to customers, which might be days or weeks later.

Place utility

It's impossible for customers to be happy with a product if they can't find it. Businesses must be sure to put their products in the right place—the place where customers can (and want to) buy them. Think back to the beach example. What would happen if beach towels and bathing suits were offered in a Colorado ski shop? And what if snowsuits, gloves, and ski poles were for sale in a Hawaiian beach town? Although it's technically possible for customers to purchase the products, chances are slim—because the goods aren't where they're needed or desired.

Of course, it's not always as easy as this! Marketers must figure out where customers expect to find products. Where in the country (or world) should a company sell a product? What stores will be the best fit? And where in the aisle, on the shelf, or in the department should that product be placed?

After marketers figure out the answers to questions like these, other departments step in to determine *how* to get the product to the right place and then actually *deliver* it there. In short, they plan and move the product to the right place—the place where customers will purchase the product, which is likely to be the place where the producer or service provider will make the most sales.

Possession utility

Since customers can't be satisfied with a product they don't yet own, businesses do what they can to create possession utility for customers. To create (or increase) possession utility, many businesses seek out ways to make it easier for customers to buy their products.

Some customers want or need to buy a product right now, but they can't pay for it until later. That's when the business's credit department steps in—to help customers find a way to afford their purchases.

How do businesses do this? There are several ways. Retailers may offer **layaway**, a type of sale in which merchandise is removed from the sales floor and held by the business until the customer pays the outstanding balance. Many businesses also offer financing in the forms of credit cards, loans, or payment plans to their customers and clients so that customers can buy products on credit. Even wholesalers and suppliers frequently give business discounts and hold special sales. Sometimes, all it takes is a slightly lower price to convince reluctant customers to buy!

In addition to providing financial assistance to their customers, salespeople should also be sure to ask questions of customers and tailor their sales presentations to the customers' needs. Remember that a business can't make money unless it makes sales, so companies should do whatever it takes to get their products into customers' hands!



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▲ E-commerce is changing the way businesses create and enhance utility. Just think about the way music is sold now. Do you buy physical CDs, or do you purchase mp3s online?

Utility and the Internet

Did you know? More than 80 percent of all Americans who use the Internet have shopped online—and that number is only expected to grow! The ever-increasing popularity of buying online (also known as e-commerce) is changing how businesses operate—and how they create or enhance economic utility for their customers.

So how does the Internet play into utility? In our fast-paced society, convenience and immediate gratification drive many customers. As a result, more and more products are being offered via the Internet. At the same time, tangible versions of many of these products are disappearing. Think about how many people purchase mp3 music files online nowadays, for instance. The form utility of music has changed—from CDs that take up physical space and collect dust to digital files saved to a device that's the size of your hand.

The Internet has also resulted in an increase in the time utility that many products possess. Consider the speed at which you can purchase goods and services online. Navigate to Amazon.com or some other online shopping site, locate the item you want, and within minutes, it's yours! To top it all off, if something that you need is out of stock at one e-store, you can easily go to another site and find the same thing—ready and waiting for you to purchase.

The Web has probably changed place utility more than any other type of utility. It's possible to buy just about anything online—books, clothes, and groceries! In fact, you probably shop online far more often than you shop in stores. But, you can access more than just goods via the Internet. You can also use or purchase the services that businesses provide—everything from banking account access to a college education. The Internet provides customers with convenience that creates place utility. They can access business's products from almost anywhere!

Finally, businesses use the Internet to create or enhance possession utility. Some customers are hesitant to purchase a product because they have unanswered questions or are unaware of the product's immediate utility. To help customers who are unsure about making a purchase, businesses provide information about their products' features and benefits via their websites. On top of that, many businesses also have salespeople and/or customer service representatives available to answer customers' questions via "live chat" or email—in short, to add possession utility to their products.

Summary

Businesses create and enhance utility. One way they do this is through marketing. But, marketers can't create and enhance utility all by themselves—other business functions are involved. Businesses have to provide all four types of utility—form/task, time, place, and possession—for customers to be truly satisfied.

TOTAL RECALL

1. What is the marketing concept?
2. Explain how businesses can create or enhance form/task utility.
3. How do businesses create and enhance time utility?
4. What can businesses do to create and enhance place utility?
5. Discuss how businesses create and enhance possession utility.

Make It Pay!

When you purchase a product, all four types of utility are present—whether you realize it or not. Think of something you bought recently. Did you like the product's features? Did you find the product at a convenient time and place? Were you able to easily purchase the product when you wanted it?

Now, consider how the four utilities were provided. Was a *new* product developed? Was the product ordered *early*? Was it placed in the *best* location? Was the purchase process made *attractive*?

If you purchase a similar product in the future, what improvements—or increased utility—would you like to see?