Chapter 6: Analyzing Consumer Market

What influences consumer behavior:
1-Cultural Factors
2-Social Factors
3-Personal Factors

A-AGE AND STAGE IN THE LIFE CYCLE
B- OCCUPATION AND ECONOMIC CIRCUMSTANCES
C-PERSONALITY AND SELF-CONCEPT
D-LIFESTYLE AND VALUES

1-Cultural Factors
Culture, subculture, and social class are particularly important influences on consumer buying behavior. Culture is the fundamental determinant of a person’s wants and behavior. The growing child acquires a set of values, perceptions, preferences, and behaviors through his or her family and other key institutions. Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include:
- nationalities,
- religions,
- racial groups
- geographic regions.
When subcultures grow large and affluent enough, companies often design specialized marketing programs to serve them.

Multicultural marketing grew out of careful marketing research, which revealed that different ethnic and demographic niches did not always respond favorably to mass-market advertising. Virtually all human societies exhibit social stratification.

Stratification sometimes takes the form of a caste system (social class) where the members of different castes are reared for certain roles and cannot change their caste membership.

Social classes have several characteristics.
- First, those within each class tend to behave more alike
- Second, persons are perceived as occupying inferior or superior positions according to social class.
- Third, social class is indicated by a cluster of variables—for example, occupation, income, wealth, education, and value orientation—rather than by any single variable.
- Fourth, individuals can move up or down the social-class ladder during their lifetimes. The extent of this mobility varies according to how rigid the social stratification is in a given society.

Social classes show distinct product and brand preferences.
Social classes differ in media preferences, with upper-class consumers often preferring magazines and books and lower-class consumers often preferring television.
Even within a media category such as TV, upper-class consumers tend to prefer news and drama, and lower-class consumers tend to prefer soap operas and sports programs.
There are also language differences among the social classes.
Advertising copy and dialogue must ring true to the targeted social class.

2-Social Factors
In addition to cultural factors, a consumer’s behavior is influenced by such social factors as reference groups, family, and social roles and statuses.

REFERENCE GROUPS:
A person’s reference groups consist of all the groups that have a direct (face-to-face) or indirect influence on his/her attitudes or behavior.

Membership groups:
Groups having a direct influence on a person. (types: primary and secondary).
1- Primary groups: such as family, friends, neighbors, and co-workers, those with whom the person interacts fairly continuously and informally.
2- secondary groups: such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction. People are significantly influenced by their reference groups in at least three ways.

Opinion leader is the person in informal, product-related communications who offers advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used.
Marketers try to reach opinion leaders by identifying demographic and psychographic characteristics associated with opinion leadership, identifying the media read by opinion leaders, and directing messages at opinion leaders.

People are also influenced by groups to which they do not belong. (like aspirational and dissociative groups):
1. **Aspirational** groups are those a person hopes to join.
2. **Dissociative groups** are those whose values or behavior an individual rejects.

**FAMILY:**
The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group.
- We can distinguish between two families in the buyer's life.
- The **family of orientation** consists of parents and siblings. Even if the buyer no longer interacts very much with his or her parents, their influence on behavior can be significant.
- A more direct influence on everyday buying behavior is the **family of procreation**—namely, one's spouse and children.
- In the United States, husband-wife involvement has traditionally varied widely by product category.
- The wife has usually acted as the family's main purchasing agent, especially for food, sundries, and staple-clothing items.
- Now traditional purchasing roles are changing, and marketers would be wise to see both men and women as possible targets.
- Another shift in buying patterns is an increase in the amount of dollars spent and the direct and indirect influence wielded by children and teens.
- Direct influence describes children's hints, requests, and demands—"I want to go to McDonald's."
- Marketers use every possible channel of communication to reach kids, especially such popular media as Nickelodeon, Cartoon Network, or the Disney Channel on TV and magazines such as Nickelodeon, Sports Illustrated for Kids, and Disney Adventures.

**ROLES AND STATUSES:**
- A person participates in many groups—family, clubs, organizations. The person's position in each group can be defined in terms of role and status.
- A role consists of the activities a person is expected to perform. Each role carries a status.
- A senior vice president of marketing has more status than a sales manager, and a sales manager has more status than an office clerk.
- People choose products that reflect and communicate their role and actual or desired status in society.
- Company presidents often drive Mercedes, wear expensive suits, and drink expensive wines. Marketers must be aware of the status symbol potential of products and brands.

### 3-Personal Factors
A buyer's decisions are also influenced by personal characteristics. These include:
- buyer's age and stage in the life cycle
- occupation and economic circumstances
- personality and self-concept
- lifestyle and values

Because many of these characteristics have a very direct impact on consumer behavior, it is important for marketers to follow them closely. See how well you do with "Marketing Memo: The Average American Consumer Quiz."

**AGE AND STAGE IN THE LIFE CYCLE:**
People buy different goods and services over a lifetime. **Consumption** is also shaped by the family life cycle and the number, age, and gender of people in the household at any point in time. American households are increasingly fragmented—the traditional family of four with a husband, wife, and two kids makes up a much smaller percentage of total households than it once did.

In addition, psychological **life-cycle stages** may matter. Adults experience certain "passages" or "transformations" as they go through life. Marketers should also consider critical life events or transitions—marriage, childbirth, illness, relocation, divorce, career change, widowhood—as giving rise to new needs. These should alert service providers—banks, lawyers, and marriage, employment, and bereavement counselors—to ways they can help.

**OCCUPATION AND ECONOMIC CIRCUMSTANCES**
Occupation also influences consumption patterns. Marketers try to identify the occupational groups that have above-average interest in their products and services. A company can even tailor its products for certain occupational

Product choice is greatly affected by **economic circumstances**: 
• spendable income (level, stability, and time pattern)
• savings and assets (including the percentage that is liquid)
• debts, borrowing power,
• attitudes toward spending and saving.

Luxury-goods makers such as Gucci, Prada, and Burberry can be vulnerable to an economic downturn. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products or introduce or increase the emphasis on discount brands so that they can continue to offer value to target customers.

PERSONALITY AND SELF-CONCEPT:
Each person has personality characteristics that influence his or her buying behavior. By personality, we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli. Personality is often described in terms of such traits as:

• self-confidence,
• dominance,
• autonomy,
• deference,
• sociability,
• defensiveness, and
• adaptability

Personality can be a useful variable in analyzing consumer brand choices. The idea is that brands also have personalities, and consumers are likely to choose brands whose personalities match their own.

Brand personality: as the specific mix of human traits that may be attributed to a particular brand.

Stanford’s Jennifer Aaker conducted research into brand personalities and identified the following five traits:

1. Sincerity (down-to-earth, honest, wholesome, and cheerful)
2. Excitement (daring, spirited, imaginative, and up-to-date)
3. Competence (reliable, intelligent, and successful)
4. Sophistication (upper-class and charming)
5. Ruggedness (outdoorsy and tough)

She proceeded to analyze some well-known brands and found that a number of them tended to be strong on one particular trait:

• Levi’s with "ruggedness";
• MTV with "excitement";
• CNN with "competence"; and
• Campbell’s with "sincerity."

The implication is that these brands will attract persons who are high on the same personality traits. A brand personality may have several attributes: Levi’s suggests a personality that is also youthful, rebellious, authentic, and American. The company utilizes product features, services, and image making to transmit the product’s personality.

Consumers often choose and use brands that have a brand personality consistent with their own actual self-concept (how one views oneself), although in some cases the match may be based on the consumer’s ideal self-concept (how one would like to view oneself) or even others’ self-concept (how one thinks others see one) rather than actual self-image. These effects may also be more pronounced for publicly consumed products as compared to privately consumed goods. On the other hand, consumers who are high "self-monitors"—that is, sensitive to how others see them—are more likely to choose brands whose personalities fit the consumption situation.

LIFESTYLE AND VALUES

- People from the same subculture, social class, and occupation may lead quite different lifestyles.
- A lifestyle is a person's pattern of living in the world as expressed in activities, interests, and opinions.
- Lifestyle portrays the "whole person" interacting with his or her environment.
- Marketers search for relationships between their products and lifestyle groups. For example, a computer manufacturer might find that most computer buyers are achievement-oriented.
- The marketer may then aim the brand more clearly at the achiever lifestyle. Marketers are always uncovering new trends in consumer lifestyles. Here's an example of one of the latest lifestyle trends businesses are currently targeting:
- Lifestyles are shaped partly by whether consumers are money-constrained or time-constrained. Companies aiming to serve money-constrained consumers will create lower-cost products and services.
By appealing to the money-constrained, Wal-Mart has become the largest company in the world. Its "everyday low prices" have wrung tens of billions of dollars out of the retail supply chain, passing the larger part of savings along to shoppers with rock-bottom bargain prices.

In some categories, notably food processing, companies targeting time-constrained consumers need to be aware that these very same consumers seek the illusion that they are not operating within time constraints. The food processing industry has a name for those who seek both convenience and some involvement in the cooking process: the "convenience involvement segment.

Consumer decisions are also influenced by core values, the belief systems that underlie consumer attitudes and behaviors. Core values go much deeper than behavior or attitude, and determine, at a basic level, people's choices and desires over the long term. Marketers who target consumers on the basis of their values believe that by appealing to people's inner selves, it is possible to influence their outer selves—their purchase behavior.

Key Psychological Processes

The starting point for understanding consumer behavior is the stimulus-response model shown in Figure 6.1. Marketing and environmental stimuli enter the consumer's consciousness. A set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions.

Four Key Elements Psychological Processes

1-MOTIVATION: FREUD, MASLOW, HERZBERG
A person has many needs at any given time.

1- Some needs are biogenic; they arise from physiological states of tension such as hunger, thirst, or discomfort.
2- Other needs are psychogenic; they arise from psychological states of tension such as the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A motive is a need that is sufficiently pressing to drive the person to act.

Three of the best-known theories of human motivation—those of Sigmund Freud, Abraham Maslow, and Frederick Herzberg—carry quite different implications for consumer analysis and marketing strategy.

FREUD'S THEORY:
Sigmund Freud assumed that the psychological forces shaping people's behavior are largely unconscious, and that a person cannot fully understand his or her own motivations. When a person examines specific brands, he or she will react not only to their stated capabilities, but also to other, less conscious cues. Shape, size, weight, material, color, and brand name can all trigger certain associations and emotions. A technique called laddering can be used to trace a person's motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal. Motivation researchers often collect "in-depth interviews" with a few dozen consumers to uncover deeper motives triggered by a product. They use various projective techniques such as word association, sentence completion, picture interpretation, and role playing. Many of these techniques were pioneered by Ernest Dichter, a Viennese psychologist who settled in America.

Today motivational researchers continue the tradition of Freudian interpretation. Jan Callebaut identifies different motives a product can satisfy. For example, whisky can meet the need for social relaxation, status, or fun. Different whisky brands need to be motivationally positioned in one of these three appeals. Another motivation researcher, Clotaire Rapaille, works on breaking the "code" behind a lot of product behavior.
Research analyzing paper towels, according to Rapaille, revealed that its appeal to mothers is in how cleanliness plays into their instinctive desire to have their genes survive. "You are not just cleaning the table. You are saving the whole family," asserts the researcher.

MASLOW’S THEORY:
Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend considerable time and energy on personal safety and another on pursuing the high opinion of others? Maslow's answer is that human needs are arranged in a hierarchy, from the most pressing to the least pressing. In order of importance, they are:
1. physiological needs,
2. safety needs,
3. social needs,
4. esteem needs, and
5. self-actualization needs.

People will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, he or she will then try to satisfy the next-most-important need. Maslow's theory helps marketers understand how various products fit into the plans, goals, and lives of consumers.

HERZBERG’S THEORY:
Frederick Herzberg developed a two-factor theory that distinguishes:
1. dissatisfiers (factors that cause dissatisfaction) and
2. satisfiers (factors that cause satisfaction).

The absence of dissatisfiers is not enough; satisfiers must be present to motivate a purchase. For example, a computer that does not come with a warranty would be a dissatisfier. Yet the presence of a product warranty would not act as a satisfier or motivator of a purchase, because it is not a source of intrinsic satisfaction. Ease of use would be a satisfier.

Herzberg's theory has two implications.
1. First, sellers should do their best to avoid dissatisfiers (for example, a poor training manual or a poor service policy). Although these things will not sell a product, they might easily unsell it.
2. Second, the seller should identify the major satisfiers or motivators of purchase in the market and then supply them. These satisfiers will make the major difference as to which brand the customer buys.

2- PERCEPTION:
A motivated person is ready to act. How the motivated person actually acts is influenced by his or her view or perception of the situation. Perception is the process by which an individual selects, organizes, and interprets information inputs to create a meaningful picture of the world and physical stimuli and conditions of individual's surroundings reactions stimuli.

SELECTIVE ATTENTION
It has been estimated that the average person may be exposed to over 1,500 ads or brand communications a day. Because a person cannot possibly attend to all of these, most stimuli will be screened out—a process called selective attention. Selective attention means that marketers have to work hard to attract consumers' notice. The real challenge is to explain which stimuli people will notice. Here are some findings:

1. People are more likely to notice stimuli that relate to a current need. A person who is motivated to buy a computer will notice computer ads; he or she will be less likely to notice DVD ads.
2. People are more likely to notice stimuli that they anticipate. You are more likely to notice computers than radios in a computer store because you do not expect the store to carry radios.
3. People are more likely to notice stimuli whose deviations are large in relation to the normal size of the stimuli. You are more likely to notice an ad offering $100 off the list price of a computer than one offering $5 off.
Although people screen out much of the surrounding stimuli, they are influenced by unexpected stimuli, such as sudden offers in the mail, over the phone, or from a salesperson. Marketers may attempt to promote their offers intrusively to bypass selective attention filters.

**SELECTIVE DISTORTION:**
- Even noticed stimuli do not always come across in the way the senders intended.
- **Selective distortion** is the tendency to interpret information in a way that will fit our preconceptions.
- Consumers will often distort information to be consistent with prior brand and product beliefs.
- A stark demonstration of the power of consumer brand beliefs is the typical result of product sampling tests.
- In "blind" taste tests, one group of consumers samples a product without knowing which brand it is, whereas another group of consumers samples the product knowing which brand it is.
- Invariably, differences arise in the opinions of the two groups despite the fact that the two groups are literally consuming exactly the same product.

When consumers report different opinions between branded and unbranded versions of identical products, it must be the case that the brand and product beliefs, created by whatever means (e.g., past experiences, marketing activity for the brand, etc.), have somehow changed their product perceptions. Examples of branded differences can be found with virtually every type of product. For example, one study found that consumers were equally split in their preference for *Diet Coke versus Diet Pepsi* when tasting both on a blind basis. When tasting the branded versions, however, consumers preferred Diet Coke by 65 percent and Diet Pepsi by only 23 percent (with the remainder seeing no difference).

**Selective distortion can work to the advantage** of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more *positive*.

**SELECTIVE RETENTION:**
- People will fail to register much information to which they are exposed in memory, but will tend to retain information that supports their attitudes and beliefs.
- Because of selective retention, we are likely to remember good points about a product we like and forget good points about competing products.
- Selective retention again works to the advantage of strong brands.
- It also explains why marketers need to use repetition in sending messages to their target market—to make sure their message is not overlooked.

**SUBLIMINAL PERCEPTION** The selective perception mechanisms require active engagement and thought by consumers. A topic that has fascinated armchair marketers for ages is *subliminal perception*. The argument is that marketers embed covert, subliminal (subconscious) messages in ads or packages. Consumers are not consciously aware of these messages, but yet they affect their behavior. Although it is clear many subtle subconscious effects can exist with consumer processing, *no evidence supports the notion that marketers can systematically control consumers at that level*.

**3-LEARNING**
When people act, they learn. **Learning** involves changes in an individual's behavior arising from experience. Most human behavior is learned. Learning theorists believe that learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement. **Drive** is a strong internal stimulus impelling action. **Cues** are minor stimuli that determine when, where, and how a person responds. A countertendency to generalization is discrimination. **Discrimination** means that the person has learned to recognize differences in sets of similar stimuli and can adjust responses accordingly.

**4-MEMORY**
All the information and experiences individuals encounter as they go through life can end up in their long-term memory. Cognitive psychologists distinguish between **short-term memory** (STM)—a temporary repository of information—and **long-term memory** (LTM) — a more permanent repository.

Brand associations consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand node.

**MEMORY PROCESSES:**
1. **MEMORY ENCODING** Memory encoding refers to how and where information gets into memory.
Memory encoding can be characterized according to the amount or quantity of processing that information receives at encoding (i.e., how much a person thinks about the information) and the nature or quality of processing that information receives at encoding (i.e., the manner in which a person thinks about the information). The quantity and quality of processing will be an important determinant of the strength of an association.

2. Memory retrieval refers to how information gets out of memory. According to the associative network memory model, the strength of a brand association increases both the likelihood that that information will be accessible and the ease with which it can be recalled by "spreading activation."

Successful recall of brand information by consumers does not depend only on the initial strength of that information in memory. Three factors are particularly important.

- **First**, the presence of other product information in memory can produce interference effects. It may cause the information to be either overlooked or confused. One challenge in a category crowded with many competitors—for example, airlines, financial services, and insurance companies—is that consumers may mix up brands.
- **Second**, the time since exposure to information at encoding affects the strength of a new association—the longer the time delay, the weaker the association. The time elapsed since the last exposure opportunity, however, has been shown generally to produce only gradual decay. Cognitive psychologists believe that memory is extremely durable, so that once information becomes stored in memory, its strength of association decays very slowly.
- **Third**, information may be "available" in memory (i.e., potentially recallable) but may not be "accessible" (i.e., unable to be recalled) without the proper retrieval cues or reminders. The particular associations for a brand that "come to mind" depend on the context in which the brand is considered.

### The Buying Decision Process: The Five-Stage Model

#### Problem Recognition
- The buying process starts when the buyer recognizes a problem or need.
- The need can be triggered by internal or external stimuli.
- Marketers need to identify the circumstances that trigger a particular need so that they can develop marketing strategies that trigger consumer interest.

#### Information Search
An aroused consumer will be inclined to search for more information. We can distinguish between two levels of arousal. The milder search state is called information about a product. At the next level, the person may enter an active information search: looking for reading material, phoning friends, going online, and visiting stores to learn about the product.

These information sources fall into four groups:

1. **Personal**: Family, friends, neighbors, acquaintances
2. **Commercial**: Advertising, Web sites, salespersons, dealers, packaging, displays
3. **Public**: Mass media, consumer-rating organizations
4. **Experiential**: Handling, examining, using the product

- Through gathering information, the consumer learns about competing brands and their features.
- Generally speaking the consumer receives the most information about a product from commercial sources.
- The most effective information often comes from personal sources or public sources that are independent authorities.
- The Internet has changed information search.
- The consumer will come to know only a subset of these brands (awareness sent).
- Some brands will meet initial buying criteria (consideration set).
- Only a few will remain as strong contenders (choice set) and the consumer makes a final choice from this set.
- **Figure 6.5** makes it clear that a company must strategize to get its brand into the prospect’s awareness set, consideration set, and choice set.
- The company must also identify the other brands in the consumer’s choice set so that it can plan the appropriate competitive appeals.

#### Evaluations of alternatives
Some basic concepts will help us understand consumer evaluation processes:
First, the consumer is trying to satisfy a need.
Second, the consumer is looking for certain benefits from the product solution.
Third, the consumer sees each product as a bundle of attributes with varying abilities for delivering the benefits sought to satisfy this need.

The attributes of interest to buyers vary by product—for example:
1. **Cameras.** Picture sharpness, camera speeds, camera size, price.
2. **Hotels.** Location, cleanliness, atmosphere, price.
3. **Mouthwash.** Color, effectiveness, germ-killing capacity, price, taste/flavor

Consumers will pay the most attention to attributes that deliver the sought-after benefits. The market for a product can often be segmented according to attributes that are important to different consumer groups.

**BELIEFS AND ATTITUDES**
Evaluations often reflect beliefs and attitudes. Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behavior.

A **belief** is a *descriptive thought* that a person holds about something. People’s beliefs about the attributes and benefits of a product or brand influence their buying decisions. Just as important as beliefs are attitudes. An **attitude** is a person’s *enduring favorable or unfavorable evaluation, emotional feeling, and action tendencies toward some object or idea*. People have attitudes toward almost everything: religion, politics, clothes, music, food.

- Attitudes put people into a *frame of mind*: liking or disliking an object, moving toward or away from it.
- Attitudes lead people to behave in a fairly consistent way toward similar objects.
- Because attitudes economize on energy and thought, they can be very difficult to change.
- A company is well-advised to fit its product into existing attitudes rather than to try to change attitudes.

**EXPECTENCY VALUE MODEL**
- The consumer arrives at attitudes (judgments, preferences) toward various brands through an attribute evaluation procedure.
- He or she develops a set of beliefs about where each brand stands on each attribute.
- The expectancy-value model of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance.

**Purchase Decisions**
In the evaluation stage, the consumer forms preferences among the brands in the choice set. The consumer may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make up to five sub-decisions:
- brand (brand A),
- dealer (dealer 2),
- quantity (one computer),
- timing (weekend), and
- payment method (credit card).

**INTERVENING FACTORS**
**The first factor** is the attitudes of others. The extent to which another person’s attitude reduces the preference for an alternative depends on two things:
- The intensity of the other person’s negative attitude toward the consumer’s preferred alternative and
- The consumer’s motivation to comply with the other person’s wishes.

**The second factor** is *unanticipated situational factors* that may erupt to change the purchase intention.

A consumer’s decision to modify, postpone, or avoid a purchase decision is heavily influenced by *perceived risk*. **There are many different types of risks** that consumers may perceive in buying and consuming a product:
1. **Functional risk**—the product does not perform up to expectations.
2. **Physical risk**—the product poses a threat to the physical well-being or health of the user or others.
3. **Financial risk**—the product is not worth the price paid.
4. **Social risk**- the product results in embarrassment from others.
5. **Psychological risk**- the product affects the mental well-being of the user.
6. **Time risk**- the failure of the product results in an opportunity cost of finding another satisfactory product.

The amount of perceived risk varies with:
- the amount of money at stake,
- the amount of attribute uncertainty, and
- the amount of consumer self-confidence.

Consumers develop routines for reducing risk, such as
- decision avoidance,
- information gathering from friends, and
- preference for national brand names and warranties.

Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce perceived risk.

**Postpurchase Behavior**
The marketer's job therefore does not end with the purchase. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses.

**POSTPURCHASE SATISFACTION**
What determines customer satisfaction with a purchase? Satisfaction is a function of the closeness between expectations and the product's perceived performance, the consumer is disappointed; if it meets expectations, satisfied; if it exceeds delighted. These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others.

**POSTPURCHASE ACTIONS**
Satisfaction or dissatisfaction with the product will influence subsequent behavior. If the consumer is satisfied, he or she will exhibit a higher probability of purchasing the product again.

Dissatisfied consumers may abandon or return the product. They may seek information that confirms its high value. They may take public action by complaining to the company, going to a lawyer, or complaining to other groups (such as business, private, or government)

**POSTPURCHASE USE AND DISPOSAL**
Marketers should also monitor how buyers use and dispose of the product. A key driver of sales frequency is product consumption rate—the more quickly buyers consume a product, the sooner they may be back in the market to repurchase it.

**Other Theories of Consumer Decision Making**
The consumer decision process may not always develop in a carefully planned fashion. It is important to understand other theories and approaches to how consumers make decisions and when they might apply.

**Level of Consumer Involvement**
The expectancy-value model assumes a high level of involvement on the part of the consumer. Consumer involvement can be defined in terms of the level of engagement and active processing undertaken by the consumer in responding to a marketing stimulus (e.g., from viewing an ad or evaluating a product or service).
- **ELABORATION LIKELIHOOD MODEL**
- **LOW-INVOLVEMENT MARKETING STRATEGIES**
- **VARIETY-SEEKING BUYING BEHAVIOR**

**Decision Heuristics and Biases**
As the low-involvement and noncompensatory model discussions suggest, consumers do not always process information or make decisions in a deliberate, rational manner. Behavioral decision theory is a thriving area in consumer research. Behavioral decision theorists have identified many different heuristics and biases in everyday consumer decision making. Heuristics are rules of thumb or mental shortcuts in the decision process.

Heuristics can come into play when consumers forecast the likelihood of future outcomes or events.

**1. The availability heuristic:** Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind.
2. The representativeness heuristic: Consumers base their predictions on how representative or similar the outcome is to other examples.

3. The anchoring and adjustment heuristic: Consumers arrive at an initial judgment and then make adjustments of that first impression based on additional information.

Mental Accounting
Researchers have found that consumers use mental accounting when they handle their money. Mental accounting refers to the manner by which consumers code, categorize, and evaluate financial outcomes of choices.

According to Chicago's Richard Thaler, mental accounting is based on a set of key core principles:

1. Consumers tend to segregate gains. When a seller has a product with more than one positive dimension, it is desirable to have each dimension evaluated separately. Listing multiple benefits of a large industrial product, for example, can make the sum of the parts seem greater than the whole.

2. Consumers tend to integrate losses. Marketers have a distinct advantage in selling something if its cost can be added to another large purchase.

3. Consumers tend to integrate smaller losses with larger gains. The "cancellation" principle might explain why withholding taxes taken from monthly paychecks are less aversive than large, lump-sum tax payments—they are more likely to be absorbed by the larger pay amount.

4. Consumers tend to segregate small gains from large losses. The "silver lining" principle might explain the popularity of rebates on big-ticket purchases such as cars.

The principles of mental accounting are derived in part from prospect theory. Prospect theory maintains that consumers frame decision alternatives in terms of gains and losses according to a value function. Consumers are generally loss averse. They tend to overweight very low probabilities and underweight very high probabilities.

SUMMARY:
1. Consumer behavior is influenced by three factors: cultural (culture, subculture, and social class); social (reference groups, family, and social roles and statuses); and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality, and self-concept). Research into all these factors can provide marketers with clues to reach and serve consumers more effectively.

2. Four main psychological processes affect consumer behavior: motivation, perception, learning, and memory.

3. To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers, or users. Different marketing campaigns might be targeted to each type of person.

The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. The marketers' job is to understand the behavior at each stage. The attitudes of others, unanticipated situational factors, and perceived risk may all affect the decision to buy, as will consumers' levels of postpurchase satisfaction and postpurchase actions on the part of the company.
Chapter 8: IDENTIFYING MARKET SEGMENTS AND TARGETS

- Markets are not homogeneous. A company needs to identify which market segments it can serve effectively. Such decisions require a keen understanding of consumer behavior and careful strategic thinking. To compete more effectively companies are now embracing target marketing. Effective target marketing requires that marketers:
  a. Identify and profile distinct groups of buyers who differ in their needs and preferences.
  b. Select one or more market segments to enter.
  c. For each target market, establish and communicate the distinctive benefit(s) of the company’s market offering.

LEVELS OF MARKET SEGMENTATION

- The starting point for discussing segmentation is mass marketing.
  - Mass marketing = mass production + mass distribution + mass promotion of a prod. → all buyers.
  - Mass marketing: largest potential market → lowest costs → lower prices (or higher margins).

Segment Marketing

- A market segment consists of a group of customers who share a similar set of needs and wants.
- The marketer does not create the segments.
- The marketer’s task is to identify the segments and decide which one(s) to target.
- A flexible market offering consists of two parts:
  1. A naked solution containing the product and service elements that all segment member’s value.
  2. Discretionary options that some segment member’s value.
- Market segments can be defined in many different ways. One way to carve up a market is to identify preference segments.
  i. Homogeneous preferences: all consumers have the same preferences.
  ii. Diffused preferences: consumers vary greatly in their preferences.
  iii. Clustered preferences: market might reveal distinct preferences clusters.

Figures 8.1 (a), 8.1 (b), and 8.1 (c) show the differences.

Niche Marketing

- A niche is a more narrowly defined customer group seeking a distinctive mix of benefits. Marketers usually identify niches by dividing a segment into sub-segments.
- Niche marketers presumably understand their customers’ needs so well that the customers willingly pay a premium.
  - Globalization has facilitated niche marketing.
  - The low cost of setting up online shops has led to many small business start-ups aimed at niches.

Local Marketing

- Target marketing is leading to marketing programs tailored to the needs and wants of local customer groups.
- Local marketing reflects a growing trend called grassroots marketing.
- Marketing activities concentrate on getting as close and personally relevant to individual customers as possible.
- A large part of local, grassroots marketing is experiential marketing that promotes a product or service not just by communicating its features and benefits, but by also connecting it with unique and interesting experiences.
- Pine and Gilmore have argued that we are on the threshold of the “Experience Economy” a new economic era in which all businesses must orchestrate memorable events for their customers.
  1) If you charge for stuff you are in the commodity business.
  2) If you charge for tangible things you are in the Goods business.
  3) If you charge for activities you perform you are in the Service business.
  4) If you charge for time customers spend with you are in the Experience business.

Customerization

- The ultimate level of segmentation leads to “segments of one” “customized marketing,” or “one-to-one marketing.”
- Today customers are taking more individual initiative in determining what and how to buy.
- Wind and Rangaswamy see the Choiceboard as a movement toward “customerizing” the firm.
- Customerization combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice.
- Each business unit will have to decide whether it would gain more by designing its business system to create offering for segments or for individuals. (Figure 8.2)

SEGMENTING CONSUMER MARKETS

- Two broad groups of variables are used to segment consumer markets.
1) **Descriptive characteristics:**
   a. Geographic,
   b. Demographics, and
   c. Psycho-graphic.

2) **Behavioral considerations:** such as consumer responses to benefits, use occasions, or brands. 

   Table 8.1 shows the major segmentations variables.

   a. **Geographic Segmentation**
      - Geographic segmentation calls for dividing the market into different geographical units.
      - More and more, regional marketing means marketing right down to a specific zip code.
      - Claritas, Inc. has developed a geoclustering approach called PRIZM that classifies neighborhoods into distinct groups and lifestyle segments called PRIZM Clusters.

   b. **Demographic Segmentation**
      - In demographic segmentation the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class.
      - Consumer needs, wants, usage rates, and product and brand preferences are often associated with demographic variables. Demographic variables are easy to measure.
      - **Age and Life-Cycle Stage**
        - Consumer wants and abilities change with age.
        - **Life Stage**
          - Persons in the same part of the life cycle may differ in their life stage. Life stage defines a person’s major concern. These life stages present opportunities for marketers who can help people cope with their major concerns.
        - **Gender**
          - Men and women tend to have different attitudinal and behavioral orientations, based partly on genetic makeup and partly on socialization.
          - Some traditionally more male-orientated markets, are beginning to recognize gender segmentation, changing how they design and sell their products.
        - **Income**
          - Income segmentation is a long-standing practice in product and service categories.
          - However, income does not always predict the best customers for a given product.
          - Increasingly, companies are finding that their markets are “hourglass-shaped” as middle-market Americans migrate toward more premium products.
        - **Generation**
          - Each generation is profoundly influenced by the times in which it grows up.
          - Demographers call these groups cohorts.
          - 1) They share similar outlooks and values.
          - 2) Marketers often advertise to a cohort group by using icons and images prominent in their experiences.
          - Figure 8.3 depicts six well-established cohort groups.
          - Generational cohorts also influence each other.
          - Meredith, Schewe, and Karlovich developed a framework called the Lifestage Analytic Matrix that combines information on cohorts, life stages, physiographics, emotional effects, and socio-economics.
    c. **Psychographic Segmentation**
      - Psychographics is the science of using psychology and demographics to better understand consumers.
      - In psychographic segmentation, buyers are divided into different groups on the basis of lifestyle or personality or values.
      - One of the most popular commercially available classification systems is SRI Consulting Business Intelligence’s VALS framework.
      - Figure 8.4 illustrates the VALS Segmentation System.
      - The major tendencies of the four groups with **high resources are:**
        a. Innovators.
        b. Thinkers.
        c. Achievers.
        d. Experiencers.
      - The major tendencies of the four groups with **lower resources are:**
        a. Believers.
b. Strivers.
c. Makers.
d. Strugglers

Behavioral Segmentation
In behavioral segmentation, buyers are divided into groups on the basis of their knowledge, attitude, toward, use of, or response to a product.

Decision Roles
People play five roles in a buying decision.
A) Initiator: peer (example, buying Sony PS)
B) Influencer: friend
C) Decider: father
D) Buyer: mother
E) User: kid

Behavioral Variables
Many marketers believe that behavioral variables are the best starting points for constructing market segments.

- **Occasions:** Occasions can be defined in terms of the time of day, week, month, year or in terms of other well-defined temporal aspects of a consumer’s life.
- **Benefits:** Buyers can be classified according to the benefits they seek.
- **User Status:** Markets can be segmented into non-users, ex-users, potential users, first-time users, and regular users of a product.
- **Usage Rates:** Markets can be segmented into light, medium, and heavy product users. Heavy users often account for a small percentage of the market but a high percentage of total consumption.
- **Buyer-Readiness Stage:** A market consists of people in different stages of readiness to buy a product.
  1. Some are unaware of the product.
  2. Some are aware.
  3. Some are informed.
  4. Some are interested.
  5. Some desire.
  6. Some intend to buy.

- **Loyalty Status:** Buyers can be divided into four groups according to brand loyalty status:
  2. Split loyals.
  4. Switchers.
A company can learn a great deal by analyzing the degrees of brand loyalty.

- **Attitude:** Five attitude groups can be found in a market:
  1. Enthusiastic.
  2. Positive.
  3. Indifferent.
  4. Negative.
  5. Hostile.
Combining different behavioral bases can help to provide a more comprehensive and cohesive view of a market and its segments.

Figure 8.5 depicts one possible way to break down a target market.

The Conversion Model
- The conversion Model has been developed to measure the strength of the psychological commitment between brands, consumers, and their openness to change.
- The model segments users of a brand into four groups based on strength of commitment from high to low:
  1) Convertible.
  2) Shallow.
  3) Average.
  4) Entrenched.
- The model also classifies non-users of a brand into four groups based on their “balance of disposition” and openness to trying the brand, from low to high:
  1) Strongly unavailable.
2) Weakly unavailable.
3) Ambivalent.
4) Available.

**BASIS FOR SEGMENTING BUSINESS MARKETS**

- Business markets can be segmented with some of the variables used in consumer market segmentation but business marketers also use other variables.
- Table 8.2 shows that demographic variables are the most important, followed by operating variables, down to the personal characteristics of the buyers. The table lists major questions that business marketers should ask in determining which segments and customers to serve.

**Marketing to Small Businesses**

- Small businesses are now responsible for 50 percent of the gross national product.

**Sequential Segmentation**

- Business marketers generally identify segments through a sequential process.
- Business buyers seek different benefit bundles based on their stage in the purchase decision process.
  1. First-time prospects.
  2. Novices.
- One proposed segmentation scheme classifies business buyers into three groups, each warranting a different type of selling:
  1. Price-orientated customers (transactional selling).
  2. Solution-orientated customers (consultative selling).
  3. Strategic-value customers (enterprise selling).

**MARKET TARGETING**

- Once the firm has identified its market-segment opportunities, it has to decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups.
- This has led some market researchers to advocate a needs-based market segmentation approach. Table 8.3 shows the seven-step segmentation process.

**Effective Segmentation Criteria**

To be useful, market segments must rate favorable on five key criteria:
1. Measurable.
2. Substantial.
3. Accessible.
4. Differentiable.
5. Actionable.

**Evaluating and Selecting the Market Segments**

- In evaluating different market segments, the firm must look at two factors: The segment’s overall attractiveness and the company’s objectives and resources.
- After evaluating different segments the company can consider five patterns of target market selection, shown in Figure 8.6.
- Single-segment concentration.
  1. Through concentrated marketing, the firm gains a strong knowledge of the segment’s needs and achieves a strong market presence.
  2. However, there are risks, a market segment can turn sour, or a competitor may invade the segment.
  3. For these reasons, many companies prefer to operate in more than one segment.
  4. Companies can try to operate in super-segments rather than in isolated segments.

- A super-segment is a set of segments sharing some exploitable similarity.
  1. **Selective specialization:** The firm selects a number of segments, each objectively attractive and appropriate. This multi-segment strategy has the advantage of diversifying the firm’s risk.
  2. **Product specialization:** The firm makes a certain product that it sells to several different market segments.
  3. **Market Specialization:** The firm concentrates on serving many needs of a particular customer group.
  4. **Full market coverage:** The firm attempts to serve all customer groups with all the products they might need.
- In undifferentiated marketing, the firm ignores segment differences and goes after the whole market with one offer.
In differentiated marketing, the firm operates in several market segments and designs different products for each segment.

Managing Multiple Segments
- The best way to manage multiple segments is to appoint segment managers with sufficient authority and responsibility for building the segment’s business.

Differentiated Marketing Costs
- Differentiated marketing typically creates more total sales than undifferentiated marketing but also increases the cost of doing business.
- The following costs are likely to be higher:
  1) Product modifications.
  2) Manufacturing costs.
  3) Administrative costs.
  4) Inventory costs.
  5) Promotion costs.

Additional Considerations
- Three other considerations must be taken into account in evaluating and selecting segments: segment-by-segment invasion plans, updating segmentation schemes, and ethical choice of market targets.
- **Segment-by-segment invasion plans**
  1) A company would be wise to enter one segment at a time.
  2) A company’s invasion plans can be thwarted when it confronts blocked markets.
  3) The problem of entering blocked markets calls for a megamarketing approach.
  4) Megamarketing is the strategic coordination of economic, psychological, political, and public-relations skills, to gain the cooperation of a number of parties in order to enter or operate in a given market.
  5) Once in, a multinational must be on its best behavior. This calls for well-thought-out civic positioning.

Figure 8.7 illustrates segment-by-segment invasion plans.

Updating Segmentation Schemes
- Market segmentation analysis must be done periodically because segments change.
- One way to discover new segments is to investigate the hierarchy of attributes consumers examine in choosing a brand if they use phased decision strategies.
- This process is called market partitioning.
- The hierarchy of attributes can reveal customer segments.

Ethical Choice of Market Targets
Market targeting generates public controversy. The public is concerned when marketers take unfair
Chapter 12: SETTING PRODUCT STRATEGY

The customer will judge the offering by three basic elements:
- product features and quality,
- services mix and quality, and
- price.

PRODUCT CHARACTERISTICS AND CLASSIFICATIONS
A product is anything that can be offered to a market to satisfy a want or need. Products that are marketed include:

1. Physical goods
2. Services
3. Experiences
4. Events
5. Persons
6. Places
7. Properties
8. Organizations
9. Information
10. Ideas

Product Classifications
Marketers have traditionally classified products on the basis of characteristics: durability, tangibility, and use. Each product type has an appropriate marketing-mix strategy.

Durability and Tangibility
Products can be classified into three groups, according to durability and tangibility:
- Nondurable goods: tangible consumed in one or a few uses.
- Durable goods: tangible that normally survives many uses. Durable goods require more personal selling and service, command a higher margin, and require more seller guarantees.
- Services: intangible, inseparable, variable, and perishable products that require more quality control, supplier credibility, and adaptability.

Consumer-Goods Classification
1. Convenience goods are purchased frequently, immediately, and with a minimum of effort.
2. Shopping goods are goods that the consumer, in the process of selection and purchase, characteristically compares on such basis as suitability, quality, price, and style.
3. Homogeneous shopping goods are similar in quality but different enough on price to adjust shopping comparisons.
4. Heterogeneous shopping goods: differ in product features and services that may be more important than price.
5. Specialty goods have unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort.
6. Unsought goods are those that the consumer does not know about or does not normally think of buying. The classic examples of known but unsought goods are life insurance and cemetery plots.

Industrial-Goods Classification
We can distinguish three groups of industrial goods: materials and parts, capital items, and suppliers and business services.

Materials and parts: These are goods enter the manufacturer’s product completely.
- Raw materials include:
  1. Farm products—commodity characteristics.
  2. Natural products—are in limited supply.
- Manufactured materials and parts fall into two categories:
  1. Component materials.
  2. Component parts.

Capital items are long-lasting goods that facilitate developing or managing the finished product. They include:
- Installations.
- Equipment.

Supplies and business services are short-term goods and services that facilitate developing or managing the finished product. Supplies are two kinds:
- Maintenance and repair items (including services such as, legal, consulting, and advertising).
- Operating supplies.

DIFFERENTIATION

Product Differentiation
1. Form: Many products can be differentiated in form—the size, shape, or physical structure of a product.
2. Features: Most products can be offered with varying features that supplement its basic function.
3. Customization: marketers can differentiate products by making them customized to an individual. Mass customization is the ability of a company to meet each customer’s requirements.
4. **Performance Quality:** Most products are established at one of four performance levels: low, average, high, or superior.

5. **Conformance Quality:** Buyers expect products to have a high conformance quality – the degree to which all the product units are identical and meet the promised specifications.

6. **Durability:** A measure of the product’s expected operating life under natural or stressful conditions

7. **Reliability:** Buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period

8. **Repairability:** Is the measure of the ease of fixing a product.

9. **Style:** Describes the product’s look and feel to the buyer.

**PRODUCT AND BRAND RELATIONSHIPS**

Each product can be related to other products to ensure that a firm is offering and marketing the optimal set of products.

**The Product Hierarchy**

The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify six levels of the product hierarchy.

1. Need family – security
2. Product family – all classes that satisfy the core need - savings and income
3. Product class, or category – functional coherence - financial instruments
4. Product line – similar functions, similar customer segments and distribution - life insurance
5. Product type – group of products that share one of several possible forms - term life insurance
6. Item, also called stockkeeping unit (SKU) or product variant – renewable term insurance

**Product Systems and Mixes**

- **A product system** is a group of diverse but related items that function in a compatible manner.
- **A product mix** (also called a product assortment) is a set of all products and items a particular seller offers for sale. A product mix consists of various product lines.
- A company’s product mix has a certain **width, length, depth, and consistency**.
- **The width** of a product mix refers to how many different product lines the company carries.
- **The length** of a product mix refers to the total number of items in the mix.
- We can also talk about the **average length** of a line. This is obtained by dividing the total length by the number of lines.
- **The depth** of a product mix refers to how many variants are offered of each product in the line.
- **The consistency** of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

**Market Profile**

- The product map shows which competitors’ items are competing against company X’s items.
- The map also reveals possible locations for new items.
- Another benefit of product mapping is that it identifies market segments.
- **Product-line analysis provides information for two key decision areas**—product-line length and product-mix pricing.

**Product-Line Length**

- Company objectives influence product-line length.
- One objective is to create a product line to induce upselling.
- A different objective is to create a product line that facilitates cross selling.
- Still another objective is to create a product line that protects against economic ups and downs.
- Product lines tend to lengthen over time.
- A company lengthens its product line in two ways: by line stretching and line filling.

**Line Stretching**

- Line stretching occurs when a company lengthens its product line beyond its current range.
- **Down-market stretch:** Is when a company positioned in the middle market may want to introduce a lower-priced line.
- **Up-Market stretch:** Companies may wish to enter the high end of the market.
- **Two-way stretch:** Is where companies serving the middle market may stretch the line in both directions.
- **Line Filling:** A product line can also be lengthened by adding more items within the present range.

**Line Modernization, Featuring, and Pruning**

Product lines need to be modernized. In rapidly changing product markets, modernization is continuous.

- Companies plan improvement to encourage customer migration to higher-valued, higher-priced items.
- The product-line manager typically select one or a few items in the line to feature.
- Product-line managers must periodically review the line for deadwood that is depressing profits.

**Product-Mix Pricing** Price-setting logic must be modified when the product is part of a product mix.  
**Product-line pricing**: Companies develop product lines rather than single products and introduce price steps.  
**Optional-feature pricing**: companies offer optional products, features, and services with their main product.  
**Captive-product pricing**: Some products require the use of ancillary or captive products.  
**Two-part pricing**: Service firms often engage in two-part pricing, a fixed fee plus a variable usage fee.  
**By-product pricing**: The production of certain goods often results in by-products.

**PACKAGING, LABELING, WARRANTIES, AND GUARANTEES**

**Packaging**
- We define packaging as all the activities of designing and producing the container for a product.  
- From the perspective of both the firm and consumers, packaging must achieve a number of objectives:  
  1. Identify the brand  
  2. Convey descriptive and persuasive information  
  3. Facilitate product transportation and protection  
  4. Assist at-home storage  
  5. Aid product consumption  
- After packaging is designed, it must be tested:  
  - **Engineering tests** are conducted to ensure that the package stands up under normal conditions.  
  - **Visual tests** are used to ensure that the script is legible and the colors harmonious.  
  - **Dealer tests** are performed to ensure that dealers find the packages attractive and easy to handle.  
  - **Consumer tests** ensure favorable consumer response.

**Labeling**
- Sellers must label products  
- Labels perform several functions  
  - The label identifies the product or brand  
  - The label might also grade the product  
  - The label might describe the product  
  - Finally, the label might promote the product through attractive graphics  
- Labels eventually become outmoded and need freshening up

**Warranties and Guarantees**
- Warranties are formal statements of expected product performance by the manufacturer.  
- Guarantees reduce the buyer’s perceived risk. Guarantees are most effective in two situations: the product is not well-known, the product’s quality is superior to the competition.
Chapter 14: Developing Pricing Strategies and Programs

- Price is the one element of the marketing mix that produces revenue; the other elements produce costs.
- Prices are perhaps the easiest element of the marketing program to adjust; product features, channels, and even promotion take more time.
- Price also communicates to the market the company’s intended value positioning of its product or brand.
- A well-designed and marketed product can command a price premium.
- Pricing decisions are clearly complex and difficult.
- Holistic marketers must take into account many factors in making pricing decision—the company, customers, competition, and marketing environment.
- Pricing decisions must be consistent with the firm’s marketing strategy and its target markets and brand positionings.

UNDERSTANDING PRICING

Price is not just a number on a tag or an item. Price comes in many forms and performs many functions.
1. Throughout most of history prices were set by negotiation between buyers and sellers.
2. Setting one price for all buyers is a relatively modern idea.
3. Traditionally, price has operated as the major determinant of buyer choice.
4. Price remains one of the most important elements determining market share and profitability.

A Changing Pricing Environment

- Today, many firms are bucking the low-price trend and have been successful in trading consumers up to more expensive products and services by combining unique product formulations with engaging marketing campaigns.
- Today the Internet is partially reversing the fixed pricing trend.

How Companies Price

Companies do their pricing in a variety of ways.
1. In small companies, prices are often set by the boss
2. In large companies, pricing is handled by division and product-line managers
3. In large companies, top management sets general pricing objectives, policies, and
4. Effectively designing and implementing pricing strategies requires a thorough understanding of consumer pricing psychology and a systematic approach to setting, adapting, and changing prices.

Consumer Psychology and Pricing

Marketers recognize that consumers often actively process price information, interpreting prices in terms of their knowledge from:
- prior purchasing experiences,
- formal communications (advertising, sales calls, and brochures),
- informal communications (friends, colleagues, or family members) and
- point-of-purchase or
- online resources.

Purchase decisions are based on:
1. Consumers’ perception of prices. And what they consider actual price—not the marketer’s stated price.
2. Consumers may have a lower price threshold below which prices may signal inferior or unacceptable quality.
3. Upper price threshold above which prices are prohibitive and seen as not worth the money

Reference Prices

When examining products, consumers often employ reference prices.
1. In considering an observed price, consumers often compare it to an internal reference price (pricing from memory).
2. An external frame of reference (posted “regular retail price”).
3. All types of reference prices are possible:
   - "Fair Price" (what the product should cost)
   - Typical Price
   - Last Price Paid
   - Upper-Bound Price (reservation price or what most consumers would pay)
   - Lower-Bound Price (lower threshold price or the least consumers would pay)
   - Competitor Prices
   - Expected Future Price
   - Usual Discounted Price
4. When consumers evoke one or more of these frames of reference, their perceived price can vary from the stated price.
These "unpleasant surprises" : when perceived price is lower than the stated price, can have a greater impact on purchase

**Price-Quality Inferences**
- Many consumers use price as an indicator of quality
- Some companies adopt exclusivity and scarcity to justify premium prices

1. **Price Endings**: Many sellers believe that prices should end in an odd number.
2. Research has shown that consumers tend to process prices in a "left-to-right" manner rather than by rounding.
3. **Pricing cues**: like "sale" signs and prices that end in a 9 are less effective the more they are employed.

**SETTING THE PRICE**
1. A firm must set a price for the first time when:
   - it develops a new product,
   - when it introduces its regular product into a new distribution channel or geographic area, and
   - when it enters bids on new contract work.
2. The firm must decide where to position its product on quality and price.
3. Most marketers have 3–5 price points or tiers.
4. The firm has to consider many factors in setting its pricing policy.
   - **Six-step procedure**
     1. Selecting the pricing objective
     2. Determining demand
     3. Estimating costs
     4. Analyzing competitors' costs, prices, and offers
     5. Selecting a pricing method
     6. Selecting the final price

**Step 1: Selecting the Pricing Objective**
The company first decides where it wants to position its market offering.
The clearer a firm’s objectives, the easier it is to set price.
The five major objectives are:
   1. survival,
   2. maximum current profit,
   3. maximum market share,
   4. maximum market skimming, and
   5. product-quality leadership.

**Survival**
- Companies pursue survival as their major objective when they are plagued with overcapacity, intense competition, or changing consumer wants.
- Survival is a short-run objective.

**Maximum Current Profit**
- Many companies try to set a price that will maximize current profits.
- They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow, or rate of return on investment.

**Maximum Market Share**
- Some companies want to maximize their market share.
- They believe that a higher sales volume will lead to lower unit costs and higher long-run profit.
- This practice is called market-penetration pricing.
- The following conditions favor setting a low price:
  1. The market is highly price-sensitive, and a low price stimulates market growth.
  2. Production and distribution costs fall with accumulated production experience.
  3. A low price discourages actual and potential competition.

**Maximum Market Skimming:**
- Companies unveiling a new technology favor setting high prices to maximize market skimming.
- This is also called market-skimming pricing, where prices start high and are slowly lowered over time.
- Market skimming makes sense under the following conditions:
  1. A sufficient number of buyers have a high current demand.
  2. The unit costs of producing a small volume are not so high that they cancel the advantage of charging what the traffic will bear.
  3. The high initial price does not attract more competitors to the market.
4. The high price communicates the image of a superior product.

**Product-Quality Leadership**
A company might aim to be the product-quality leader in the market. Many brands strive to be “affordable luxuries”—products or services characterized by high levels of perceived quality, taste, and status with a price just high enough not to be out of consumer’s reach.

**Other Objectives**
Nonprofit and public organizations may have other pricing objectives. Whatever the specific objective, businesses that use price as a strategic tool will profit more than those who simply let costs or the market determine their pricing.

**Step 2: Determining Demand**
- Each price will lead to a different level of demand and therefore have a different impact on a company’s marketing objectives.
- The relation between alternative prices and the resulting current demand is captured in a demand curve.

**Price Sensitivity**
The demand curve shows the market’s probable purchase quantity at alternative prices. The first step in estimating demand is to understand what affects price sensitivity.
- Generally speaking, customers are most price-sensitive to products that cost a lot or are bought frequently.
- Customers are **less price-sensitive** to low-cost items or items they buy infrequently.
- They are also less price-sensitive when price is only a small part of the total cost of obtaining, operating, and servicing the product over its lifetime (total cost of ownership—TCO).
- Companies prefer customers who are less price-sensitive.

**Estimating Demand Curves**
- Most companies attempt to measure their demand curves using several different methods.
- Surveys can explore how many units consumers would buy at different proposed prices.
- Price experiments can vary the prices of different products to see how the change affects sales.
- Statistical analysis of past prices, quantities sold, and other factors can reveal their relationships. These can be:
  - Longitudinal or
  - Cross-sectional

**Price Elasticity of Demand**
- Marketers need to know how responsive or elastic, demand would be to a change in price.
- If demand hardly changes with a small change in price, we say the demand is **inelastic**.
- If demand changes considerably, **demand is elastic**.
- Demand is likely to be **less elastic** under the following conditions:
  1. There are few or no substitutes or competitors.
  2. Buyers do not readily notice a higher price.
  3. Buyers are slow to change their buying habits.
  4. Buyers think the higher prices are justified.
- If demand is elastic, sellers will consider lowering the price.
- A lower price will produce more total revenue as long as the costs of producing and selling more units do not increase disproportionately
- Price elasticity depends on the magnitude and direction of the contemplated price change.
  1. It may be negligible with a small price change.
  2. Substantial with a large price change
  3. It may differ for a price cut versus a price increase.
  4. There may be a price indifference band within which price changes have little or no effect
- Long-run price elasticity may differ from short-run elasticity.

**Step 3: Estimating Costs**
**Demand sets a ceiling** on the price the company can charge for its product. **Costs set the floor.**

**Types of Costs and Levels of Production:**
- A company’s costs take two forms, **fixed and variable**.
  1. **Fixed costs** (also known as overhead) are costs that do not vary with production or sales revenue.
  2. **Variable costs** vary directly with the level of production.
3. **Total costs** consist of the sum of the fixed and variable costs for any given level of production.

4. **Average cost** is the cost per unit at that level of production

- Management wants to charge a price that will **at least cover the total production costs** at a given level of production.
- To price intelligently, management needs to know how its **costs vary with different levels of production**.
- To estimate the real profitability of dealing with different retailers, the manufacturer needs to use activity-based accounting (ABC).
  - ABC accounting tries to identify the real costs associated with serving each customer.
  - The key to effectively employing ABC is to define and judge “activities” properly.

**Accumulated Production**

- The decline in the average cost with accumulated production experience is called the **experience curve or learning curve**.
- Experience-curve pricing carries major risks.
  1. Aggressive pricing might give the product a cheap image.
  2. The strategy assumes that competitors are weak followers.
- Most experience-curve pricing has focused on manufacturing costs, but all costs, including marketing costs, can be improved on

**Target Costing**

- Costs change with production scale and experience. They can also change as a result of a concentrated effort to reduce them through target costing.
- The objective is to bring the final cost projections into the target cost range.

**Step 4: Analyzing Competitors’ Costs, Prices, and Offers**

Within the range of possible prices determined by market demand and company costs, the firm must take competitors’ costs, prices, and possible price reactions into account.

- The firm should first consider the nearest competitor’s price.
- The introduction of any price or the change of any existing price can provoke a response from customers, competitors, distributors, suppliers, and even the government.
- How can a firm anticipate a competitor’s reactions?
  - One way is to assume the competitor reacts in the standard way to a price being set or changed.

**Step 5: Selecting a Pricing Method**

Given the customers’ demand schedule, the cost function, and competitors’ prices, the company is now ready to select a price.

- Costs set the floor to the price.
- Competitors’ prices and the price of substitutes provide an orienting point.
- Customers’ assessment of unique features establish the price ceiling.
- There are six price-setting methods:
  1. Markup pricing
  2. Target-return pricing
  3. Perceived-value pricing
  4. Value pricing
  5. Going-rate pricing
  6. Auction-type pricing

**Markup Pricing**

- The most elementary pricing method is to add a standard markup to the product’s cost
- Does the use of standard markups make logical sense? Generally, no. Any pricing method that ignores:
  - current demand,
  - perceived value, and
  - competition
  is not likely to lead to the optimal price.
- Markup pricing remains popular.
  1. Sellers can determine costs much more easily than they can estimate demand.
  2. By tying the price to cost, sellers simplify the pricing task.
  3. Where all firms in the industry use this pricing method, prices tend to be similar.
  4. Many people feel that cost-plus pricing is fairer to both buyers and sellers.

**Target-Return Pricing**

- In target-return pricing, the firm determines the price that would yield its target rate of return on investments (ROI).
Target-return pricing tends to ignore price elasticity and competitors’ prices.

Perceived Value Pricing
- An increasing number of companies base their price on the customer’s perceived value.
- They must deliver the value promised by their value proposition, and the customer must perceive this value.
- Perceived value is made up of several characteristics:
  1. Buyer’s image of the product performance
  2. Channel deliverables
  3. The warranty quality
  4. Customer support
  5. Supplier’s reputation
  6. Trustworthiness
  7. Esteem
- The key to perceived-value pricing is to deliver more value than the competitor and to demonstrate this to prospective buyers.

Value Pricing
- In recent years, several companies have adopted value pricing: they win loyal customers by charging a fairly low price for a high-quality offering.
- Value pricing is not a matter of simply setting lower prices.
- It is a matter of reengineering the company’s operations to become a low-cost producer without sacrificing quality.
- Lowering pricings significantly helps to attract a large number of value-conscious customers.
- An important type of value pricing is everyday low pricing (EDLP) that takes place at the retail level.
  - A retailer who holds to an EDLP pricing policy charges a constant low price with little or no price promotions and special sales.
  - In high-low pricing, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below the EDLP level.
  - The two different pricing strategies have been shown to affect consumer price judgments
  - Deep discounts (EDLP) can lead to lower perceived prices by consumers over time than frequent shallow discounts (high-low) even if the actual averages are the same.
  - Some retailers have even based their entire marketing strategy around what could be called extreme everyday low pricing.

Going-Rate Pricing
- In going-rate pricing, the firm bases its price largely on competitor’s prices.
  - The firm might charge the same, more, or less than major competitor (s).
  - Going-rate pricing is quite popular where costs are difficult to measure or competitive response is uncertain.

Auction-type pricing
- Auction-type pricing is growing more popular, especially with the growth of the Internet.
- There are three types of auction-type pricing:
  1. English auctions (ascending bids)
  2. Dutch auctions (descending bids)

Step 6: Selecting the Final Price
- Pricing methods narrow the range from which the company must select its final price.
- In selecting the price, the company must consider additional factors, including the impact of other marketing activities, company pricing policies, gain-and-risk sharing pricing, and the impact of price on other parties.

Marketing Insight: Stealth price increase
- Companies trying to figure out how to increase revenue without really increasing prices are increasingly charging additional fees for what once had been free features / services.

Impact of Other Marketing Activities
- The final price must take into account the brand’s quality and advertising relative to the competition.
- Farris and Reibstein’s findings suggest that price is not as important as quality and other benefits in the market offering.

Company Pricing Policies
• The price must be consistent with company pricing policies.
• Many companies set up a pricing department to develop policies and establish or approve pricing decisions.
• The aim is to ensure that salespeople quote prices that are reasonable to customers and Profitable to the company

Gain-and-Risk Sharing Pricing
- Buyers may resist accepting a seller’s proposal because of a high-perceived level of risk.
- The seller has the option of offering to absorb part or all of the risk if he does not deliver the full promised value.

Impact of Price on Other Parties
• Management must also consider the reactions of other parties to the contemplated price:
  1. How will distributors and dealers feel about it?
  2. Will the sales force be willing to sell at that price?
  3. How will competitors react?
  4. Will suppliers raise their prices when they see the company’s price?
  5. Will the government intervene and prevent this price from being charged?
• Marketers need to know the laws regulating pricing in the United States.

ADAPTING THE PRICE
• Companies usually do not set a single price, but rather a pricing structure that reflects variations in:
  1. Geographical demand and costs
  2. Market-segment requirements
  3. Purchase timing
  4. Order levels
  5. Delivery frequency
  6. Guarantees
  7. Service contracts
  8. Other factors
• As a result of discounts, allowances, and promotional support, a company rarely realizes the same profit from each unit of a product it sells.

Geographical Pricing (Cash, Countertrade, Barter)
• Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries.
  ➢ Should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business?
  ➢ How should exchange rates and the strength of different currencies be accounted for?
  ➢ Another issue is how to get paid.
  ➢ Many buyers want to offer other items in payment, a practice known as countertrade.
• Countertrade may account for 15 to 25 percent of the world’s trade and takes several forms:
  1. Barter
  2. Compensation deal
  3. Buyback arrangement
  4. Offset

Price Discounts and Allowances
Most companies will adjust list prices and give discounts and allowances for early payment, volume purchases, and off-season buying.
- Discount pricing has become the modus operandi of a surprising number of companies offering both products and services.
- Some product categories tend to self-destruct by always being on sale.
- Discounting can be a useful tool if the company can gain concessions in return.
- Sales management needs to monitor the proportion of customers who are receiving discounts.
- Higher levels of management should conduct a net price analysis to arrive at the “real price” of their offering.

Promotional Pricing
Companies can use several pricing techniques to stimulate early purchase:
  1. Loss-leader pricing
  2. Special-event pricing
3. Cash rebates
4. Low-interest financing
5. Longer payment terms
6. Warranties and service contracts
7. Psychological discounting
8. Promotional-pricing strategies are often a zero-sum game

**Differentiated Pricing**
Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on.

- Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs.
  1. In first-degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand.
  2. In second-degree price discrimination, the seller charges less to buyers who buy a larger volume.
  3. In third-degree price discrimination, the seller charges different amounts to different classes of buyers:
     - Customer-segment pricing
     - Product-form pricing
     - Image pricing
     - Channel pricing
     - Location pricing
     - Time pricing
- Yield pricing, and yield management systems are used to offer discounts based upon some criteria.
- The phenomenon of offering different pricing schedules to different consumers is exploding.
- Research shows that constant price variations work best in situations where there is no bond between buyer and seller.
- Companies are using variable prices as a reward for good behavior
- Some forms of price discrimination are illegal.
- Price discrimination is legal if the seller can prove that its costs are different when selling different volumes or different quantities of the same product to retailers.
- Predatory pricing—selling below cost with the intent of destroying competition - is unlawful.
- For price discrimination to work, certain conditions must exist:
  1. The market must be segmentable and the segments must show different intensities of demands.
  2. Members in the lower-price segment must not be able to resell the product to the higher-price segment.
  3. Competitors must not be able to undersell the firm in the higher-price segment.
  4. The cost of segmenting and policing the market must not exceed the extra revenue derived from price discrimination.
  5. The practice must not breed customer resentment and ill will.
  6. The particular form of price discrimination must not be illegal.

**INITIATING AND RESPONDING TO PRICE CHANGES**
Companies often face situations when they may need to cut or raise prices.

**Initiating Price Cuts**
Several circumstances might lead a firm to cut prices:

- Excess plant capacity
- Companies may initiate a price cut in a drive to dominate the market through lower costs.
- Either the company starts with lower costs or initiates price cuts in hope of gaining market share and lower costs.
- A price-cutting strategy involves possible traps:
  1. Low-quality trap
  2. Fragile-market-share trap
  3. Shallow-pockets trap

**Initiating Price Increases**

- A successful price increase can raise profits considerably.
- A major circumstance provoking price increases is cost inflation.
- Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases.
- Companies often raise their prices by more than the cost increase in anticipation of further inflation or governmental price controls, in a practice called anticipatory pricing.
- Another factor leading to price increase is over-demand.
- The price can be increased in the following ways:
a. Delayed quotation pricing  
b. Escalator clauses  
c. Unbundling  
d. Reduction of discounts

- A company needs to decide whether to raise its price sharply on a one-time basis or to raise it by small amounts several times.
- Consumers, generally, prefer small price increases on a regular basis to sudden, sharp increases.
- In passing on price increases to consumers, the company must avoid looking like a price gouger. Customer memories are long, and they can turn against companies they perceive as price gougers.
- Several techniques help consumers avoid sticker shock and a hostile reaction when prices rise:
  1. Sense of fairness must surround any price increase.
  2. Customers must be given advance notice so that they can do forward buying or shop around.
  3. Sharp price increases need to be explained in understandable terms.
  4. Making low-visibility price moves first is also a good technique:
     - Eliminating discounts
     - Increasing minimum order sizes
     - Curtailing production of low-margin products
     - Creating new economy brands

Responding to Competitor’s Price Changes
How should a firm respond to a price cut initiated by a competitor? The best response varies with the situation.
- One way is to assume that the competitor reacts in a set way to price changes.
- The other is to assume that the competitor treats each price change as a fresh challenge and reacts according to self-interests at that time.
- In markets characterized by high product homogeneity, the firm should search for ways to enhance its augmented product.
- If not it will have to meet the price reduction.
- In non-homogeneous product markets, the firm has more latitude. It needs to consider the following:
  1. Why did the competitor change the price?
  2. Does the competitor plan to make the price change temporary or permanent?
  3. What will happen to the company’s market share and profits if it does not respond?
  4. Are other companies going to respond?
  5. What are the competitor’s and other firm’s responses likely to be to each possible reaction?
- Market leaders frequently face aggressive price cutting by smaller firms trying to build market share.
- The brand leader can respond in several ways:
  1. Maintain price
  2. Maintain price and add value
  3. Reduce price
  4. Increase price and improve quality
  5. Launch a low-price fighter line
- The company has to consider the products:
  1. Stage in the life cycle
  2. Its importance in the company’s portfolio
  3. The competitor’s intentions and resources
  4. The market’s price and quality sensitivity
  5. The behavior costs of with volume.
  6. The company’s alternative opportunities
- An extended analysis of alternatives may not be feasible when the attack occurs.
- It would make better sense to anticipate possible competitors’ price changes and to prepare contingent responses.

Marketing Memo: How to fight low-cost rivals
The first approach to competing against cut-price players is to differentiate the product or service through various means. Secondly, companies must not use differentiation tactics in isolation; companies must be able to persuade consumers to pay for the additional benefits; companies must first bring costs and benefits in line.
Chapter 15: DESIGNING AND MANAGING INTEGRATED MARKETING CHANNELS

- Successful value creation needs successful value delivery.
- Holistic marketers are increasingly taking a value network view of their businesses.
- Instead of limiting their focus to their immediate suppliers, distributors, and customers, they are examining the whole supply chain that links raw materials, components, and manufactured goods and shows how they move toward the final consumers.
- Companies are looking at the suppliers’ suppliers upstream and at the distributors’ customers downstream.

MARKETING CHANNELS AND VALUE NETWORKS

- Marketing channels: are sets of interdependent organizations involved in the process of making a product or service available for use or consumption.
- Merchants: intermediaries buy, take title to, and resell the merchandise.
- Agents: search for customers and may negotiate on the producer’s behalf (do not take title to the goods).
- Facilitators: assist in the distribution process (neither takes title to goods nor negotiates purchases or sales).

The Importance of Channels

- A marketing channel system is the particular set of marketing channels employed by a firm.
- In managing its intermediaries, the firm must decide how much effort to devote to push versus pull marketing.
- Push strategy:
  - Involves the manufacturer using its sales force and trade promotion money to induce intermediaries to carry, promote, and sell the product to end user.
  - Push strategy is appropriate where there is low brand loyalty in a category, brand choice is made in the stores, the product is an impulse item, and product benefits are well understood.
- Pull strategy:
  - Involves the manufacturer using advertising and promotion to induce consumers to ask intermediaries for the product, thus inducing the intermediaries to order it.
  - Pull strategy is appropriate when there is high brand loyalty and high involvement in the category, when people perceive differences between brands, and when people choose the brand before they go to the store.

Channel Development

- A new firm: local operation selling in a limited market, using existing intermediaries.
- If the firm is successful: new markets and use different channels in different markets.

Hybrid Channels

- Today’s successful companies are also multiplying the number of “go-to-market” or hybrid channels in any one-market area.

Understanding Customer Needs

- Different consumers have different needs during the purchase process.
- Nunes and Cespedes argue that in many markets, buyers fall into one of four categories:
  - 1. Habitual shoppers: Purchase from the same places in the same manner over time.
  - 2. High value deal seekers - Know their needs and buying at the lowest possible price.
  - 3. Variety-loving shoppers: buy in their favorite channel, regardless of price.
  - 4. High-involvement shoppers: make their purchase in a low-cost channel, but take advantage of customer support from a high-touch channel.

Value Networks

- Company should first think of the target market, and then design the supply chain backward from that point.
- This view has been called demand chain planning.
- A value network includes a firm’s suppliers, its suppliers’ suppliers, its immediate customers, and their end customers.
- Managing this value network has required increasing investments in information technology (IT) and software.
- Marketers have traditionally focused on the side of the value network that looks toward the customer.
- In the future, they will increasingly participate in, influence their companies’ upstream activities, and become network managers.

THE ROLE OF MARKETING CHANNELS

Disadvantages:
Delegation means relinquishing some control over how and to whom the products are sold.

Advantages:
1. Many producers lack the financial resources to carry out direct marketing.
2. Producers often earn a greater return by increasing investment in their main business.
3. In some cases, direct marketing simply is not feasible.
4. Intermediaries have superior efficiency in making goods widely available and accessible to target markets.
5. Through their contacts, experiences, specialization, and scale of operations, intermediaries usually offer the firm more than it can achieve on its own.

**Channel Functions and Flows**

**Functions** of the marketing channels:
1. Some functions constitute a forward flow of activity from the company to the customer.
2. Other functions constitute a backward flow from customers to the company.
3. Still others occur in both directions.

**Types of channels:** selling a physical product and services might require three channels:
1. A sales channel
2. A delivery channel
3. A service channel

**Channel Levels:** The producer and the final consumer are part of every channel.

1. A zero-level channel (also called a direct-marketing channel) consists of—a manufacturer selling directly to the final consumer.
2. A one-level channel contains one selling intermediary—such as a retailer.
3. A two-level channel contains two intermediaries—wholesaler and a retailer.
4. A three-level channel contains—wholesalers, jobbers, and retailers.

**Direction if flow:** Channels normally describe a forward movement of products from source to user.
- Reverse-flow channels are important in the following cases:
  1. To reuse products or containers
  2. To refurbish products for resale
  3. To recycle products
  4. To dispose of products and packaging

**Service Sector Channels:** Producers of services and ideas also face the problem of making their output available and accessible to target populations. As the Internet and other technologies advance, service industries are operating through new channels.

**CHANNEL-DESIGN DECISIONS**

Designing a marketing channel system involves analyzing customer needs, establishing channel objectives, identifying major channel alternatives, and evaluating major channel alternatives.

**Analyzing Customers’ Desired Service Output Levels**

Channels produce five service outputs to the target customers:
1. Lot size
2. Waiting and delivery time
3. Spatial convenience
4. Product variety
5. Service backup

The marketing-channel designer knows that providing greater service outputs means increased channel costs and higher prices for customers.

**Establishing Objectives and Constraints**

Channel objectives should be stated in terms of targeted service output levels. Objectives vary according to:
1. Market segments that want different service levels.
2. Product characteristics.
3. Strengths and weaknesses of different types of intermediaries.
4. Legal regulations and restrictions.

**Identifying and Evaluating Major Channel Alternatives**

- Companies can choose from a wide variety of channels for reaching customers—from sales forces, to agents, distributors, dealers, direct mail, telemarketing, and the Internet.
- A channel alternative is described by three elements: The types and number of intermediaries needed. And the terms and responsibilities of each channel member.

1. **Types of Intermediaries**
- A firm needs to identify the types of intermediaries available to carry on its channel work.
- Companies should search for innovative marketing channels.
2. Number of Intermediaries

Companies have to decide on the number of intermediaries to use at each channel level. Three strategies are available: exclusive distribution, selective distribution, and intensive distribution.

A. **Exclusive distribution** means severely limiting the number of intermediaries.

B. **Selective distribution** involves the use of more than a few, but less than all, of the intermediaries.

C. **Intensive distribution** consists of the manufacturer placing goods or services in as many outlets as possible.

3. Terms and Responsibilities of Channel Members

The producer must determine the rights and responsibilities of participating channel members. The main elements in the "trade-relations mix" are:

1. Price policy
2. Conditions of sale
3. Distributors' territorial rights
4. Mutual services and responsibilities

**Evaluating the Major Alternatives**

Each channel alternative needs to be evaluated against economic, control, and adaptive criteria.

**Economic Criteria**

- Firms will try to align customers and channels to maximize demand at the lowest overall cost.
- Sellers try to replace high-cost channels with low-cost channels as long as the value added per sale is sufficient.

**Control and Adaptive Criteria**

- Using a sales agency poses 2 types of problems:
  a. **Control problem**: members must make some degree of commitment to each other.
  b. Decrease in the producer's ability to respond to a changing marketplace. Channel structures and policies must provide high adaptability.

**CHANNEL-MANAGEMENT DECISIONS**

After a company has chosen a channel alternative, individual intermediaries must be selected, trained, motivated, and evaluated. Channel arrangements must be modified over time.

1. **Selecting Channel Members**

- To customers, the channels are the company. Companies need to select their channel members carefully.
- To facilitate channel member selection, producers should determine what characteristics distinguish better intermediaries.
- They should evaluate the:
  1. Number of years in business
  2. Other lines carried
  3. Growth and profit records
  4. Financial strength
  5. Cooperativeness
  6. Service reputation
  7. Size and quality of the sales force (in agents)
  8. Locations and type of customers (in department stores)

2. **Training and Motivating Channel Members**

- The company should provide training programs and market research programs to improve intermediaries’ performance.
- The company must constantly communicate its view that the intermediaries are partners in a joint effort to satisfy end users of the product.
- **Channel power** can be defined as the ability to alter channel member’s behavior.
- Manufacturers can draw on the following types of power to elicit cooperation:
  1. Coercive power
  2. Reward power
  3. Legitimate power
  4. Expert power
  5. Referent power

3. **Evaluating Channel Members**

- Producers must periodically evaluate intermediaries’ performance against such standards as sales quota attainment, average inventory levels, customer delivery times, treatment of damaged and lost goods, and cooperation in promotional and training programs.
- Under performers need to be counseled, retrained, motivated, or terminated

**Modifying Channel Arrangements**
• Modification becomes necessary when the distribution channel is not working as planned.
  1. When consumer-buying patterns change
  2. When the market expands
  3. When new competition arises
  4. When innovative distribution channels emerge
  5. And when the product moves into the later stages in the product life cycle. No marketing channel will remain effective over the whole product life cycle.

• Changing channel structure by:
  1. Adding or dropping individual channel members.
  2. Adding or dropping particular market channels.
  3. Developing a totally new way to sell goods.
  4. The most difficult decision involves revising the overall channel strategy.

CHANNEL INTEGRATION AND SYSTEM
Distribution channels change. New wholesaling and retailing institutions emerge, and new channel systems evolve.

Vertical Marketing Systems (VMS)
• One of the most significant recent channel developments is the rise of vertical marketing systems.
• A vertical marketing system (VMS), by contrast, comprises the producer, wholesaler(s), and retailer(s) acting as a unified system.
• One channel member, the channel captain, owns the others, franchises them, or has so much power.
• VMSSs achieve economies through:
  1. Size
  2. Bargaining power
  3. The elimination of duplicated services
• There are three types of VMS:
  1. Corporate
  2. Administered
  3. Contractual

Corporate VMS
A corporate VMS combines successive stages of production and distribution under single ownership.

Administered VMS
• An administered VMS coordinates successive stages of production and distribution through the size and power of one of the members.
• Manufacturers of a dominant brand are able to secure strong trade cooperation and support from resellers.

Contractual VMS
• A contractual VMS consists of independent firms at different levels of production and distribution integrating their programs on a contractual basis to obtain more economies or sales impact than they could achieve alone.
• Contractual VMSSs now is one of the most significant developments in the economy. They are of three types:
  1. Wholesaler-sponsored voluntary chains
  2. Retailer cooperatives
  3. Franchise organizations
• The traditional system is the manufacturer-sponsored retailer franchise.
• Another is the manufacturer-sponsored wholesaler franchise.
• A new system is the service-firm-sponsored retailer franchise.

Horizontal Marketing Systems
Another channel development is the horizontal marketing system, in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity.

Integrating Multi-Channel Marketing Systems
• Most companies have adopted multichannel marketing.
• Multi-channel marketing occurs when a single firm uses two or more marketing channels.
• Strategies of selling through one channel reflect the strategies and tactics of selling through other channels.
• Moriarty and Moran propose using the hybrid grid to plan the channel architecture.
  1. The grid shows several marketing channels (rows).
  2. Several demand-generation tasks (columns)
  3. The grid illustrates why using only one channel is not efficient.

CONFLICT, COOPERATION, AND COMPETITION
• Channel conflict is generated when one channel member’s actions prevents the channel from achieving goals.
• Channel coordination: channel members advance channel goals above incompatible individual goals.
• Types of Conflict and Competition
  o Vertical channel conflict means conflict between different levels within the same channel.
  o Horizontal channel conflict involves conflict between members at the same level within the channel.
  o Multi-channel conflict exists when the manufacturer has established two or more channels that sell to the same market. When the members of one channel get a lower price or work with a lower margin.

Causes of Channel Conflict
1. Goal incompatibility.
2. Some conflict arises from unclear roles and rights.
3. Conflicts can also stem from differences in perception.
4. Conflict might additionally arise because of the intermediary’s dependence on the manufacturer.

Managing Channel Conflict
• The challenge is not to eliminate conflict but to manage it better.
• There are several mechanisms for effective conflict management.
  1. One is the adoption of superordinate goals
  2. Channel members come to an agreement on the fundamental goal they are jointly seeking.
  3. A useful step is to exchange persons between two or more channel levels.
  4. Co-optation is an effort by one organization to win the support of the leaders of another organization by including them in advisory councils, and like.
  5. Much can be accomplished by encouraging joint membership in and between trade associations.
  6. When conflict is chronic or acute, the parties may have to resort to:
     a. Diplomacy
     b. Mediation
     c. Arbitration
     d. Lawsuits

E-COMMERCE MARKETING PRACTICES
• E-business describes the use of electronic means and platforms to conduct a company’s business.
• E-commerce means that the company offers to transact or facilitate the selling of products and services online.
• E-purchasing means companies decide to purchase goods, services, and information from online suppliers.
• E-marketing describes company efforts to communicate, promote, and sell its products and services online.
• We can distinguish between pure-click companies and brick-and-click companies.

Pure-Click Companies
• There are several kinds of pure-click companies:
  1. Search engines
  2. Internet Service Providers (ISPs)
  3. Commerce sites
  4. Transaction sites
  5. Content sites
  6. Enabler sites
• Consumer surveys suggest that most significant inhibitors of online shopping are the absence of:
  1. Pleasurable experiences.
  2. Social interaction.
  3. And personal consultation.

Brick-and-Click Companies
• Many companies opened Web sites describing their business but resisted adding e-commerce to their sites. They felt that selling their products or services online would produce channel conflict.
• Adding an e-commerce channel creates the threat of a backlash from retailers, brokers, agents, or other intermediaries.
• The question is how to sell both through intermediaries and online.
• There are at least three strategies for trying to gain acceptance from intermediaries:
  1. Offer different brands or products on the Internet.
  2. Offer the off-line partners higher commissions to cushion the negative impact on sales.
  3. Take orders on the Web site but have retailers deliver and collect payment.

M-Commerce
• No longer need to be near a computer to send and receive information.
• Many see a big future in M-commerce (m for mobile).
• The potential market opportunities for location-based services are enormous.
Chapter 17: DESIGNING AND MANAGING INTEGRATED MARKETING COMMUNICATIONS

THE ROLE OF MARKETING COMMUNICATIONS

The Changing Marketing Communication Environment
Technology and other factors have profoundly changed the way consumers process communications and even whether they choose to process the information.

Marketing Communications Mix (SPPASM TWID)
The marketing communications mix consists of eight major modes of communication:
1. Advertising
2. Sales promotion
3. Events and experiences (Sponsoring and Trade fairs)
4. Public relations and publicity
5. Direct marketing, MLM
6. Interactive marketing
7. Word of mouth marketing
8. Personal selling

Every brand contact delivers an impression that can strengthen or weaken a customer’s view of the company.

Marketing Communication Effects
1. Integrated to deliver a consistent message and achieve the strategic positioning desired.
2. Influence at each stage of the buying process.
3. Marketing communications are judged by ability to build brand equity and drive brand sales.
4. Brand awareness is a function of all brand-related exposures accumulated by the consumer.
5. Marketing communications options should be considered to create the desired brand image.

The Communication Process Models: Two models are useful: a macro model and a micro model

Macro Model of the Communication Process
Major parties in a communication: Sender ➔ Receiver

Major communication tools: Message + Media

Major communications functions
1. Encoding
2. Decoding
3. Response
4. Feedback

The last element is noise.
1. Senders must know what audiences they want to reach and what response they want to get.
2. They must encode their messages so that the target audience can decode them.
3. They must transmit the message through media that reaches the target audience.
4. Develop feedback channels to monitor the responses.

The more the sender’s field of experience overlaps with that of the receiver, the more effective the message is likely to be.

Micro Model of Consumer Responses
Micro models of marketing communications concentrate on consumer’s specific response to communications. All these models assume that the buyer passes through a:

a. Cognitive stage
b. Affective stage
c. Behavioral stage (in that order)
This "learn-feel-do" sequence is appropriate when the audience has a high involvement with a product category perceived to have high differentiation. An alternative sequence, "do-feel-learn", and "learn-do-feel"

A hierarchy-of-effects model in the context of a marketing communication campaign:

- Awareness
- Knowledge
- Liking
- Preference
- Conviction
- Purchase

DEVELOPING EFFECTIVE COMMUNICATIONS

There are eight steps in developing effective communications. The five basic are: identifying the target audience, determining the objectives, designing the communications, selecting the channels, and establishing the budget.

Identifying the Target Audience

The process starts with a clear target audience in mind.
1. Potential buyers of the company’s products
2. Current users, deciders, or influencers
3. Individuals, groups, or particular publics
4. General public

The target audience is a critical influence on the communicator’s decisions on:

- What to say
- How to say it
- When to say it
- Where to say it
- To whom to say it

Determine the Communication Objectives

Communication objectives can be set at any level of the hierarchy-of-effects model. Four possible objectives:
1. Category need
2. Brand awareness
3. Brand attitude
4. Brand purchase intention

Design the Communication

Formulating the communication to achieve the desired response will require solving three problems: what to say (message strategy), how to say it (creative strategy), and who should say it (message source).

Message Strategy

- In determining message strategy, management searches for appeals, themes, or ideas that will tie into the brand positioning and help to establish points-of-parity or points-of-difference.

Some of these may be related directly to:
1. **Product or service** performance: Quality, Economy, and value of the brand
2. **Extrinsic considerations**: Contemporary, Popular, or Traditional
3. **Reward from a product**: Rational, Sensory, Social, or Ego satisfaction

Creative Strategy

- An ineffective communication: means wrong message, or the right message was expressed poorly.
- Creative strategies are how marketers translate their messages into specific communication.
- Creative strategies can be broadly classified as either "informational" or "transformational" appeals.

Informational Appeals: elaborates on product or service attributes or benefits. Examples are:
1. Problem solving ads
2. Product demonstration ads
3. Product comparison ads
4. Testimonials

Transformational Appeals: elaborates on a non-product-related benefit or image. It might depict:
1. What kind of person uses a brand
2. What kind of experience results from using the brand

Communicators use **negative appeals** such as:
1. Fear
2. Guilt
3. Shame

Communicators also use **positive emotional** appeals such as:
1. Humor
2. Love
3. Pride
4. Joy

Motivational or “borrowed interest” devices
- are often employed to attract consumer attention and raise their involvement with an ad.
- Borrowed interest techniques are necessary in the tough new media environment
- borrowed interest approaches can attract attention and create more liking.

But they may also:
- Attention getting tactics are often too effective and distract from brand or product claims.
- One challenge in arriving at the best creative strategy is to attract the attention of the consumer, but still be able to deliver the intended message.

Message Source (Who says the message)
- Messages delivered by attractive or popular sources can achieve higher attention and recall.
- What is important is the spokesperson’s credibility. The three factors underlining credibility are:
  1. Expertise.
  2. Trustworthiness.
  3. Likability.

Marketing Insight: Celebrity endorsements as a strategy
A well-chosen celebrity can draw attention to a product or a brand. Celebrities can play a strategic role for their brands; using celebrities’ poses certain risks.

Global Adaptations
Multinational companies wrestle with a number of challenges in developing global communications:
- Whether the product is appropriate for a country.
- That the market segment they address is both legal and customary.
- Whether the style of the ad is acceptable.
- Whether ads should be created at headquarters or locally.
  1. Product – many products are prohibited in certain parts of the world.
  2. Market Segment – television ads to children maybe prohibited in some countries
  3. Style – comparative ads maybe prohibited
  4. Local or global – many companies are attempting to build a global brand image by using the same advertising in all markets.

Select the Communication Channels
- Selecting efficient channels to carry the message becomes more difficult as channels of communication become more fragmented and cluttered.
- Communication channels may be personal and non-personal

Personal Communication Channels
- Involve two or more persons communicating directly face-to-face, person to audience, over the telephone, or through e-mail. Effectiveness through individualized presentation and feedback. Channels:
  1. Advocate channels consist of company salespeople contacting buyers in the target market.
  2. Expert channels consist of independent experts making statements to target buyers.
  3. Social channels consist of neighbors, friends, family members, and associates talking to target buyers.
- Personal influence carries especially great weight in two situations:
  1. With products that are expensive, risky, or purchased infrequently.
  2. Where the product suggests something about the user’s status or taste
- Many companies are becoming acutely aware of the power of word of mouth or “buzz”.
  1. In some cases, positive word of mouth happens in a natural way.
  2. “Buzz” is managed
- Companies can take several steps to stimulate personal influence channels to work on their behalf:
  1. Identify influential individuals and companies and devote extra effort to them.
  2. Create opinion leaders by supplying certain people with the product on attractive terms.
  3. Work through community “influentials” such as presidents of social and religious organizations.
  4. Use influential or believable people in testimonial advertising.
  5. Develop advertising that has high “conversation value”.
  6. Develop word-of-mouth referral channels to build business.
  7. Establish an electronic forum.
  8. Use viral marketing: passing on company products, services, or information from user to user.

Non-Personal Communication Channels
- Communications to more than one person and includes media, sales promotions, events, and publicity.
- Media includes print, broadcast, network, electronic, and display media.
- Public relations include communications directed internally or externally to consumers, other firms, media, and government.
- **Sales promotions**: consumer promotions, trade promotions, and business and sales-force promotion.
- **Events and experiences** include sports, arts, entertainment, and cause events:
  1. A company can build its brand image through creating or sponsoring events.
  2. Companies can create events designed to surprise the public and create a buzz.
  3. The increased use of attention-getting events is a response to the fragmentation of the media.
  4. The lasting effects of events on brand awareness, knowledge, or preference will depend upon the quality of the product, the event itself, and its execution.

**Integration of Communication Channels**

- Mass communications affect personal attitudes toward behavior through a two-step process:
  1. Ideas flow from mass media to opinion leaders.
  2. Opinion leaders to the less media-involved population groups.
- This two-step flow has several implications:
  1. Influence of opinion leaders on public opinion is more direct and powerful, than mass communications.
  2. People interact primarily with their own social groups and acquire ideas from opinion leaders in their group.
  3. In two-step process, mass communicators should direct messages specifically to opinion leaders.

**Establish the Total Marketing Communications Budget**

One of the most difficult marketing decisions is determining how much to spend on promotion. Industries and companies vary considerably in how much they spend on promotion.

- **Companies decide on the promotion budget in four common ways:**
  1. the affordable method
  2. percentage-of-sales method
  3. competitive-parity method
  4. the objective-and-task method

**Affordable Method**

- Many companies set the promotion budget at what they think the company can afford.
- This method completely ignores that promotion is an investment, uncertain annual budget, and makes long-range planning difficult.

**Percentage-of-Sales Method**

- Many companies set promotion expenditures at a specified percentage of sales.

**Competitive-Parity Method**

- Some companies set their promotion budget to achieve share-of-voice parity with competitors

**Objective-and-Task Method**

- Marketers develop promotion budgets by defining specific objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

**Marketing communications budgets tend to be higher in:**

  1. Low channel support.
  2. Much change in the marketing program over time.
  3. Many hard-to-reach customers
  4. More complex customer decision-making
  5. Differentiated products and non-homogeneous customer needs
  6. Frequent product purchases in small quantities.

**DECIDING ON THE MARKETING COMMUNICATIONS MIX**

Communications budget must be allocated over the six major modes: advertising, sales promotion, public relations and publicity, events and experiences, sales force, and direct marketing, considering:

- Characteristics of the Marketing Communications Mix
- Each communication tool has its own unique characteristics and costs.

**Advertising**

- Advertising can be used to build up a long-term image for a product or trigger quick sales.
- Advertising can efficiently reach geographically dispersed buyers.
- Certain types of advertising require large budgets; others do not.
- Consumers might believe that the advertised brand must offer a “good value”.

**Sales Promotion**

- Companies use sales-promotion tools to draw a stronger and quicker buyer response.
- Sales promotion can be used for short-run effects.
- Sales-promotion offer three distinct benefits:
  1. Communication
  2. Incentive
3. Invitation

Public Relations and Publicity
- Marketers tend to under-use public relations.
- When coordinated with other promotion-mix elements, it can be extremely effective.
- The appeal of public relations and publicity is based on three distinctive qualities:
  1. High credibility.
  2. Ability to catch buyers off guard.
  3. Dramatization.

Events and Experiences
There are many advantages to events and experiences:
1. Relevant
2. Involving
3. Implicit

Direct and Interactive Marketing
- The many forms of direct marketing—direct mail, telemarketing, and Internet marketing—share three distinctive characteristics.
- Direct marketing is:
  1. Customized
  2. Up-to-date
  3. Interactive

Word-Of-Mouth Marketing
Word of mouth also takes many forms online or off-line. Three noteworthy characteristics are:
1. Credible
2. Personal
3. Timely

Personal Selling
- Personal selling is the most effective tool at the later stages of the buying process, particularly in building up buyer preference, conviction, and action.
- Personal selling has three distinctive qualities:
  1. Personal interaction
  2. Cultivation
  3. Response

Factors in Setting the Marketing Communications Mix
Type of Product Market
- Consumer markets tend to spend comparatively more on sales promotion and advertising.
- Business marketers tend to spend comparatively more on personal selling.

Buyer-Readiness Stage
- Communication tools vary in cost-effectiveness at different stages of buyer readiness
- Advertising and publicity play the most important roles in the awareness-building stage.
- Customer conviction is influenced mostly by personal selling
- Closing the sale is influenced mostly by personal selling and sales promotion
- Reordering is also affected mostly by personal selling, sales promotion, and somewhat by advertising.

Product Life-Cycle Stage
In the introduction stage:
1. Advertising and publicity have the highest cost-effectiveness.
2. Followed by personal selling to gain distribution coverage
3. Sales promotion to induce trial
In the growth stage: Demand has its own momentum through word-of-mouth.
In the maturity stage:
1. Sales promotion
2. Advertising
3. Personal selling all grow more important in that order.
In the decline stage:
1. Sales promotion continues strong.
2. Advertising and publicity are reduced
3. Salespeople give the product only minimal attention.
Measuring Communication Results
- Too often, communications directors supply only outputs and expenses.
- Members of the target audience are asked:
  1. Whether they recognize or recall the message.
  2. How many times they saw it.
  3. What points they recall.
  4. How they felt about the message.
  5. Previous and current attitudes toward the product and the company
  6. The communications director should also collect behavioral measures of audience response.

MANAGING THE INTEGRATED MARKETING COMMUNICATIONS PROCESS
As defined by the American Association of Advertising Agencies, integrated marketing communications (IMC) is a concept of marketing communications planning that recognizes the added value of a comprehensive plan.

Coordinating Media
- A single-vehicle, single-stage campaign is a one-time mailing offer.
- A single-vehicle, multiple-stage campaign would involve successive mailings to the same prospect.
- Multiple media deployed within a tightly defined time frame can increase message reach and impact.
- Research has shown that promotions can be more effective when combined with advertising.

Implementing IMC
Integrated marketing communications has been slow to take hold for several reasons:
- Large companies employ several communications specialists to work with their brand managers who know comparatively little about the other communication tools.
- Today a few larger agencies have substantially improved their integrated offerings and call themselves communications companies
  1. They have acquired promotion agencies
  2. Public relations firms
  3. Package-design consultancies
  4. Web-site developers
  5. Direct mail houses
- Integrated marketing communications can produce stronger message consistency and greater sales impact.
- IMC should improve the company’s ability to reach:
  1. The right customers
  2. With the right messages
  3. At the right time
  4. In the right place