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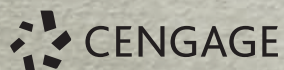
CONSUMER BEHAVIOR

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1 | What Is CB and Why Should I Care?

LEARNING OBJECTIVES

After studying this chapter, the student should be able to:

- 1-1 Understand the meaning of *consumption* and *consumer behavior*.
- 1-2 Describe how competition for business leads to better outcomes for consumers.
- 1-3 Explain the role of consumer behavior in today's business and society.
- 1-4 Be familiar with basic approaches to studying consumer behavior.
- 1-5 Recognize how trends including technological evolutions like big data and machine learning contribute to CB's dynamism.

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INTRODUCTION

Students rarely feel like an expert when they begin a new college class. However, a consumer behavior (CB) course is an exception. Everyone reading this book has years of experience spending and consuming! As we will see, the word “spending” means that something, such as time and/or money, is being used toward a value-producing activity or product. When this happens, “consumption” takes place. In fact, we act as consumers every day and every waking hour. That’s correct! Every day you have been alive you have been a consumer. As a result, you begin this book with a degree of expertise that makes the subject come alive with relevance. If you are 21, you have 21 years of CB experience!

The human experience is made up largely of consumption-relevant episodes. We wake, we drink, we eat, we clean, we dress, we ride, we shop, we play, we read, we choose, we watch, we Instagram, we Tweet, and on and on we go. Practically everything we do involves consumer behavior in some way. Take a look at Instagram, and it becomes obvious that many of the posts call attention to things to buy, places to go, things to do, and how they should be done. Websites like Pinterest and

Instagram mimic real discussions where one consumer tells others about the things that bring value to their lives. Certainly, the sharing of preferences and information about what to do helps consumer make decisions. The desire to share such information has driven Instagram to be one of the top websites in the United States.

Consumer decisions are sometimes simple, involving few resources, and other times complex, involving large amounts of resources. When consumers make decisions, they set in place a chain of reactions that change their lives, the lives of those around them, and the lives of people they don’t even know. How can even simple decisions be so important to society? The answer to this question is one of the key points of this subject.

A consumer decides how to use personal resources with the intention of improving one’s life through something of value. But, the value creation doesn’t stop here. Businesses survive by offering value propositions that tell consumers how they can maintain or make life better by engaging with some good, service, or experience. As long as consumers continue shopping, buying, and consuming, opportunity exists for business. The consumer journey starts a chain reaction of value-creating actions.

Much of the news reported in the media focuses on the economy. Various aspects of the economy cause great



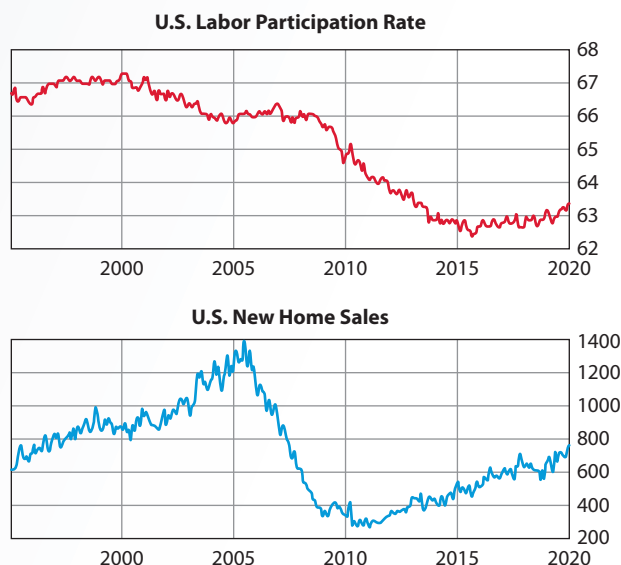
concern. Why so? Consider the labor participation rate, which had slid each year beginning 2008 until 2017, and then began to rise. Jobs provide resources for consumers to enhance their lives by acquiring value-providing goods and services. The more consumers work, the more they obtain value-creating resources. The resources mean more major purchases can take place, including new homes. Exhibit 1.1 tracks the labor participation rate with new housing sales over the last 25 years. Notice how the two statistics tend to track together. When consumers stop buying houses, many industries and people downstream are affected. Fewer home sales lead to fewer appliance and furniture purchases, less demand for architects, builders, and building supplies, and in turn, fewer jobs for people in those industries. Those that are unemployed or underemployed are less likely to be able to make major purchases like a home. Conversely, when consumers stop buying, the economy suffers and bad things take place. The 2020 COVID-19 Pandemic illustrates the point. As consumers were sequestered in their homes and were not out shopping and dining as normal, employees were laid off and the economy retracted.

What happens when consumers do buy things? Have you adopted some type of smartwatch yet? About one of five U.S. consumers own a smartwatch and three

out of four of those smartwatch adopters express satisfaction with the device. Although owners are aggravated by some aspects such as short battery life, overall sales are growing. When someone buys a smartwatch, a chain reaction occurs. Not only does the owner receive value, but value is created for others as the store must restock its inventory, triggering the manufacturer to produce more products. To do this, the manufacturer purchases raw materials, parts, and services from suppliers. Companies like UPS or FedEx ship raw materials and finished products, providing even more jobs. The consumer also will enhance the product by adding appropriate apps. Apps that track fitness can even change lifestyles: some consumers report changing their lifestyles and exercising because they succumb to the fear of their Fitbit or other exercise tracking app registering 0 at the end of a day.¹ Thus, what seems to be even a simple purchase sets in place a chain reaction of value-enhancing activities that improve individual lives and the lives of those who work to provide those products.

Marketers are challenged to continue to provide innovations that offer relative value advantages. For example, while Apple turns its attention toward augmented reality, automobile engineers are looking at transportation alternatives that don't involve drivers at all.

Exhibit 1.1



In fact, imagine climbing inside a tube that is propelled through a hyperloop at 500 miles per hour using technology that has been common at bank drive-throughs for decades.² Will innovations like these offer value for consumers?

Although some may call a course like this one “buyer behavior,” consuming involves more than just *buying*. Certainly, businesses are interested in getting someone to buy something. But the consumption process involves a lot more than just a purchase, and this consumption journey ultimately determines how much value results.

As you can see, our behavior as consumers is critically important, not just to ourselves, but to society as well. Consequently, many people, not just marketing people, are interested in learning about CB. True, the marketer who understands consumers will be able to design products with greater value potential, and thus, the marketer stands a greater chance of enhancing the well-being of stakeholders, including the company workforce, and its customers. Policy makers also show interest in CB because the knowledge allows them to make more effective public policy decisions. Last but not least,

consumers who understand CB can make better decisions concerning how they allocate scarce resources—that is, they become better consumers.

consumer behavior a set of value-seeking activities that take place as people go about addressing their real needs



Imagine climbing inside a tube that is propelled through a hyperloop at 500 miles per hour using technology seen at bank drive-throughs for decades. . . .

Thus, an understanding of CB can lead to better business for companies, better public policy for governments, and a better life for individuals and households.

1-1

CONSUMPTION AND CONSUMER BEHAVIOR

We consider CB from two unique perspectives:

- 1. The actual human thoughts, feelings, and actions involved in consumption experiences, and/or**
- 2. A field of study (human inquiry) that is developing an accumulated body of knowledge about human consumption experiences.**

If we think of a consumer considering the purchase of Jabra Elite Wireless Earbuds, CB naturally involves the thoughts, feelings, reactions, and consequences that take place as the consumer goes through a decision-making process, ownership, and usage of a product, in this case, high-tech earbuds. Alternatively, we consider the body of knowledge that researchers accumulate as they attempt to explain these thoughts, feelings, actions, reactions, and consequences as the field of study known as consumer behavior. Thus, rather than choosing between the two alternative approaches, the best appreciation of CB requires consideration of both perspectives.

1-1a Consumer Behavior as Human Behavior

Consumer behavior is the set of value-seeking activities that take place as people go about addressing and attempting to address real needs. In other words, when a

consumer is motivated by a need, a process kicks in as the consumer sets out to find desirable ways to fill this need. The process involves multiple psychological events, including thinking, feeling, and behaving, and the entire process culminates in value. If it is successful, the process creates sufficient value to address the need that began the process.

the consumption process involves a lot more than just a purchase, and this consumption journey ultimately determines how much value results.

THE BASIC CB PROCESS

Exhibit 1.2 illustrates the basic consumption process. We discuss each step in greater detail in later chapters. However, we briefly illustrate the process here, using a consumer who just purchased a new smartwatch. At some point, the consumer realized a need to more conveniently access outside media, such as Snapchat, TikTok, WhatsApp, and email, via the Internet. The realization of the need for a smartwatch may be motivated by a desire to do better on the job, to have better access to friends and family, to more quickly post news about personal activities, to be looked up to, or some combination of

Exhibit 1.2

The Basic Consumption Process



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Devices create customers for apps.
Consumers drive the economy.

such reasons. The realization of a need creates a want. A **want** is a specific *desire* that spells out a way a consumer can go about addressing a recognized need. A consumer feels a need to stay in touch, belong, socialize, or feel good about him or herself, and this need manifests itself in the want for better media access devices.

Realizing the need, our consumer decides to visit the new Amazon 4-Star store. After looking at several alternative devices and talking it over with a salesperson, the consumer selects the Fitbit Versa 2 Health & Fitness Smartwatch. Having made a choice, the consumer completes an exchange in which he gives up resources in return for ownership and the potential to use the product. An **exchange** is the acting out of a decision to give something up in return for something perceived to be of greater value. Here, the consumer decides the watch will be worth at least the price of the product plus the price of any apps and subscriptions that may be needed to fully use the device.

The consumer then uses the product and experiences all the associated benefits and costs associated with consumption. **Costs** are the negative results of consumption experiences. The costs involve more than just the monetary price of the product. Consumers spend time both shopping for and learning how to use a device. Physical effort also takes place as consumers visit retail stores and browse web resources during the process. The time, money, and effort spent acquiring a product comes at the expense of other activities, resulting in high opportunity costs for the consumer. Also, compatibility often is an

want a specific desire representing a way a consumer may go about addressing a recognized need

exchange the acting out of the decision to give something up in return for something perceived to be of greater value

costs the negative results of consumption experiences

issue for so-called smart devices. Health-conscious, budget-minded consumers like the Letsfit Smart Watch at a fraction of the price. To benefit from this value, consumers need to check compatibility with Windows, Android, and OSX before making the purchase. An incompatible phone or PC means the smartwatch's value is limited. In fact, even if a consumer might prefer a Fit-bit Versa 2, he/she may end up with an iWatch, especially if he/she already owns an iPhone or MacBook.

Benefits are positive results of consumption experiences. The benefits are multifaceted, ranging from potentially better job performance, easier access to text, email, and social networks, and health benefits from apps that monitor heart rate and calories consumed. Other tacit benefits may exist for some consumers who like the fact that other consumers notice and admire the smartwatch. Benefits like these potentially enhance the perceived self-esteem of the consumer.

Over time, the consumer evaluates the costs and benefits and reacts to the purchase in some way. These reactions involve thoughts and feelings. The thoughts may involve reactions to features such as the ease of use. The feelings may sometimes include frustration if the features do not work correctly or conveniently. Ultimately, the process results in a perception of value. We will discuss value in more detail in Chapter 2.

CONSUMPTION

Another way to look at the basic consumer behavior process is to consider the steps that occur when consumption takes place. Obviously, a consumer consumes. Interestingly, very few consumer behavior books define consumption itself. **Consumption** represents the process by which consumers use goods, services, or ideas and transform the experience into value. Thus, the actions involved in acquiring and using a technological device like a smartwatch create value for a consumer. Consumption

is a value-producing process in which the marketer and the consumer interact and apply resources to produce value. When the consumer fails to realize value from the process, something has broken down in the process; perhaps a bad performance from the marketer or perhaps a bad decision by the customer. Perhaps the consumer lacks the know-how

to extract value from the product. Thinking about the results of all of these combined interactions, one easily sees that consumption outcomes affect consumer well-being by affecting quality of life.

1-1b Consumer Behavior as a Field of Study

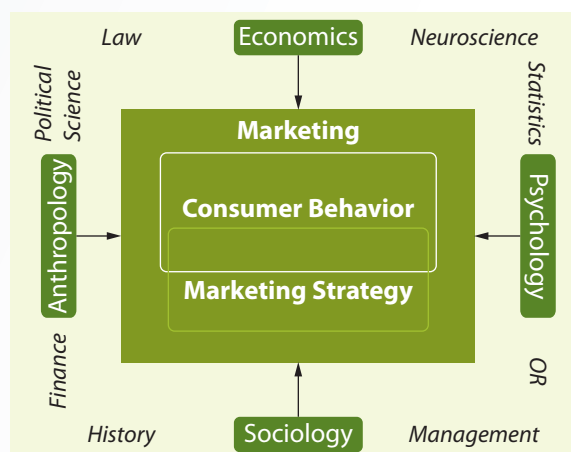
Consumer behavior as a field of study represents the study of consumers as they go through the consumption process. In this sense, consumer behavior is the science of studying how consumers seek value in an effort to address real needs. This book represents a collection of knowledge resulting as consumer behavior researchers go about studying consumption.

Consumer behavior, as a field of study, is a very young field. The first books focusing on consumer or buyer behavior date from the 1960s.³ Thus, compared with older disciplines, researchers have had less time to develop the body of knowledge. Therefore, each decade the accumulated body of knowledge grows significantly. Clearly, however, much uncertainty remains, and consequently, the body of accepted theory and rules of practice remains small. This is one reason why consumer behavior is so exciting to study. CB researchers continue to expand the knowledge base in the field at a relatively faster pace compared to more mature disciplines.

Like other fields of study, CB has family ties with other disciplines. Exhibit 1.3 displays the relationship

Exhibit 1.3

Relationships of CB with Other Disciplines



Source: Based on D. J. MacInnis and V. S. Folkes, "The Disciplinary Status of Consumer Behavior: A Sociology of Science Perspective on Key Controversies," *Journal of Consumer Research* 36 (April 2010): 899–914.

between CB and other disciplines. Research in various disciplines produced relevant knowledge for marketers seeking to understand consumers. The genesis of the CB field lies in business and the growing body of academic research produced by business schools in the late 20th and early 21st century.⁴ The exhibit displays the overlapping nature of CB and marketing; other fields that reciprocally contribute with CB research are also shown. A few of these disciplines share a special bond with CB, as we discuss below. CB shares particularly strong interdisciplinary connections with economics, psychology (particularly social psychology), marketing, and anthropology.

ECONOMICS AND CONSUMER BEHAVIOR

Economics is often defined as the study of production and consumption. An economic system includes production and distribution of resources, goods and services. The free enterprise system allows individuals to freely participate in the market.⁵ As the definition implies, economics involves consumption as well as production. Accordingly, marketing has origins in economics, particularly with respect to the production and distribution of goods. Therefore, consumer behavior and economics have a lot in common. However, the economist's focus on consumer behavior is generally a broad or macro perspective bounded by broad assumptions. Economic studies often involve tracking of commodity consumption by nations over different time periods. This may even involve tracking changes in consumption at different price levels, enabling price elasticity to be determined. The economist often finds data in historical sales records, otherwise known as archival data, which does not include

the data describing individual consumers' thoughts, feelings, and behaviors associated with consumption.

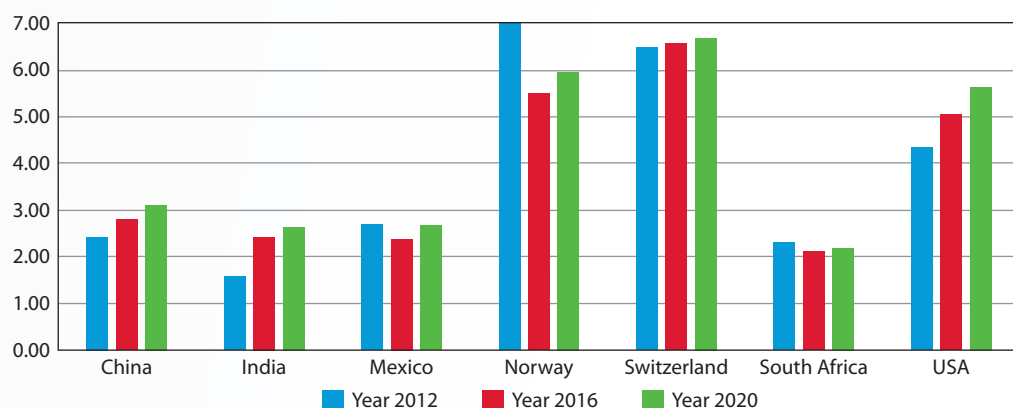
Economists' inclination to track and compare overall consumption of a specific phenomenon illustrates a macro perspective. For instance, *The Economist* journal tracks prices of Big Macs globally. The Big Mac Index compares the relative price of hamburgers country by country.⁶ The idea is to show relative purchasing power, but economists now realize that the Big Mac Index actually predicts currency fluctuations with some accuracy. A relatively low price indicates an undervalued currency. The prices represent aggregate prices paid by thousands of anonymous consumers within each country. Exhibit 1.4 displays the Big Mac Index prices for several countries for both 2014, 2016, and 2020. Large differences in the prices indicate less stable currencies. In this case, India and Norway show the biggest changes over the period. The fluctuation for Norway is likely tied to the fact that oil prices have dropped from well over \$100 per barrel in 2012 to under \$50 a barrel in 2020. Norway's economy depends heavily on the price of oil. The USA also shows a price variance that is perhaps attributable to the strong economy entering 2020.

In contrast, consumer behavior researchers generally study CB at much more of a micro level, often focusing on individual consumers rather than countries. The Big Mac Index assumes equal liking for Big Macs and does not take into account individual characteristics or cultural variables that might influence the value of a Big Mac. Most Indian consumers for instance, would not pay a penny for a Big Mac because eating beef would run counter to Hindu beliefs. CB research relaxes

economics is the study of production and consumption

Exhibit 1.4

The Big Mac Index for Purchasing Power



many assumptions of economics, such as rationality, to better understand why consumer preferences vary so much. For instance, consumer researchers study how consumers' desires for fast food are influenced by various health claims or even by the relative body shape of other individuals the consumers might see while in the fast-food restaurant.⁷ These results suggest, among other things, that a consumer who buys a "healthy" burger is likely to indulge in more side orders than a consumer buying a burger that makes no health claims.

Consumption is a value-producing process in which the marketer and the consumer interact to produce value.

PSYCHOLOGY

Psychology is the study of human reactions to their environment. Psychologists seek to explain the thoughts, feelings, and behaviors that represent human reaction. Psychology itself consists of several subdisciplines. Social

psychology and cognitive psychology, in particular, are highly relevant to consumer behavior.

psychology the study of human reactions to their environment

social psychology the study that focuses on the thoughts, feelings, and behaviors that people have as they interact with other people

cognitive psychology the study of the intricacies of mental reactions involved in information processing

neuroscience the study of the central nervous system including brain mechanisms associated with emotion

marketing the multitude of value-producing seller activities that facilitate exchanges between buyers and sellers, including production, pricing, promotion, distribution, and retailing



beornbjorn/Shutterstock.com

Social psychology focuses on the thoughts, feelings, and behaviors that people have as they interact with other people (group behavior). Consumer behavior most often takes place in some type of social setting or sometimes in any social connection in which there is a specific intention of the consumer to affect the way others view the self. Thus, social psychology and consumer behavior overlap significantly.

Cognitive psychology deals with the intricacies of mental reactions involved in information processing. Every time a consumer evaluates a product, sees an advertisement, or reacts to product consumption, information is processed. Thus, cognitive psychology is also very relevant to consumer behavior and a prominent topic throughout the text.

Today the study of cognitive psychology is assisted by developments in neuroscience. **Neuroscience**, the study of the central nervous system including brain mechanisms associated with emotion, offers potential for understanding CB by charting a consumer's physiological brain functions during the consumption process. Neuroscience researchers use sophisticated brain imaging equipment to monitor brain activity. One study, for example, suggests that female consumers' perception of aesthetic appeal generates greater left-brain activity (i.e. analytical thinking) whereas male consumers' perception of aesthetic appeal generates less left-brain activity.⁸ The study suggests that for women, a prettier product encourages thinking about the product, whereas for men, visual appeal reduces thinking about the product. Neuroscience applications addressing such questions continue to increase in number.

MARKETING

One doesn't have to look very hard to find different definitions of marketing. Many older definitions focus heavily on physical products and profitability. Even though products and profits are very important aspects of marketing, such definitions are relatively narrow. **Marketing** consists of the multitude of value-producing seller activities that facilitate *exchanges* between buyers and sellers. The value-producing activities include the production, promotion, pricing, distribution, and retailing of goods, services, ideas, and experiences, all with the potential to create value for consumers and other stakeholders.

CB and marketing are very closely related. Exchange is intimately involved in marketing and, as can be seen from Exhibit 1.2, exchange

is also central to CB. In fact, in some ways, CB involves “inverse” marketing as consumers operate at the other end of the exchange. Marketing actions are targeted at and affect consumers, while consumer actions affect marketers. A marketer without customers won’t be a marketer very long. In fact, without consumers, marketing is unnecessary.

Some experts view the CB discipline as separate and distinct from marketing. Others view CB as a subdiscipline within marketing.⁹ The details of the argument are beyond the scope of this text; however, the very fact that such an argument exists illustrates the close bond between the two. Marketing and CB share considerable relevance, and both are essential inputs to organizational success.

CONSUMER BEHAVIOR AND OTHER DISCIPLINES

Commerce increased tremendously with the industrial revolution and the coinciding political changes that fostered economic freedom in many countries. Businesses initially looked to the new field of marketing for practical advice about distribution and later sought advice on pricing, packaging, advertising, and communication. Thus, although marketing may have originally shared more in common with economics, the turn toward consumer research brought numerous psychologists into the field. Many of these psychologists became the first consumer researchers.

CB research and marketing research overlap with each other more than they do with any other discipline. Beyond this, CB research shares much in common with psychological research, particularly in terms of shared research approaches and shared theories. Consumer research is based largely on psychology, and to some extent psychology draws from consumer behavior research.

Disciplines beyond economics, psychology, and marketing also intersect with consumer behavior. **Sociology** focuses on the study of groups of people within a society. Sociology’s relevance for CB lies in the fact that consumption often takes place within group settings or is in one way or another affected by group dynamics. Consumers take value from sharing experiences with others not only because it is enjoyable, but because shared experiences can build social capital.¹⁰

Anthropology has contributed to consumer behavior research by allowing researchers to interpret the relationships between consumers and the things they purchase, the products they own, and the activities in which they participate. Anthropological consumer research often features the symbolic meanings behind

our possessions. One interesting study looks at the role of gift-giving among victims held in Nazi concentration camps and links both giving and possessing to self-identity.¹¹ Other disciplines, such as geography and the medical sciences, overlap with consumer behavior in that they draw from some of the same theories and/or research approaches.

1-2

THE WAYS IN WHICH CONSUMERS ARE TREATED

Is the customer always “king”? Look at this list of familiar service environments:

- ▶ A typical Department of Motor Vehicles (DMV) office
- ▶ The registrar’s office at a state university
- ▶ A bank lobby
- ▶ A university health clinic
- ▶ A Veterans’ Administration (VA) Clinic
- ▶ A sports bar
- ▶ A New York City fine dining establishment
- ▶ A Honolulu resort

Think about the following questions. Does a consumer receive the same degree of service at each of these places? What is the waiting environment like at each one? Is there a clean, comfortable waiting area with pleasant music? How dedicated are the employees to delivering a high-quality service experience? How likely are employees to view the customer as a nuisance? If you don’t see the point of these questions yet, contrast the waiting area at a driver’s license bureau with the elaborate lobby where you wait for check-in service (probably not very long) at a Miami Beach resort.

Some organizations can survive while treating customers badly, while others need to pamper customers just to have a chance of surviving. Consider these two questions in trying to understand why this is so:

1. How competitive is the marketing environment?
2. How dependent is the marketer on repeat business?

sociology the study of groups of people within a society, such as consumption that takes place within group settings or is affected by group behavior

anthropology the field of study involving interpretation of relationships between consumers and the things they purchase, the products they own, and the activities in which they participate



Is the customer always king?

1-2a Competition and Consumer Orientation

Where do consumers go if they don't like the service at the DMV? If the choice comes down to visiting the bureau or not driving, nearly all consumers will put up with the less-than-immaculate surroundings, long waits, and poor service that all too typically go along with getting a driver's license. Put yourself into the shoes of the service providers at the bureau. Is there



Competitive pressures motivate marketers to provide good service.

any concern about doing something that would make a customer not want to return to do business again? Is there any real incentive to provide a pleasant and valuable experience?

FEW COMPETITIVE PRESSURES?

In essence, the DMV typifies a service organization that operates in a market with practically no competitive pressure and a captive audience. In a government service like this, the answers to the two questions above are (1) not at all competitive and (2) not at all dependent on keeping customers. No matter how poor the service is, they know consumers will return to do more business when the term on their license expires or when they need to register a vehicle. The incentive for better customer service remains relatively small.

Unlike a restaurant, DMV management may not be compelled to adjust workloads to demand. DMV *customers* in many places face long lines and even wait times counted in hours, not minutes. Tennessee consumers faced long lines as the state DMV made no adjustments to staffing as the deadline to converting a traditional driver license to a "Real ID" approached.¹² Veterans waiting for care from a VA health facility sometimes wait months or years to receive care. The excessive wait times did much to fuel the recent VA scandal. Imagine a bank touting wait times of less than two hours or a sports bar saying "Come back next year!" A few states have turned to combinations of technology and private outsourcing to improve service. Some states have outsourced DMV offices to private companies. The private companies generally provide consumers with better service, and the DMV ends up with better and more accurate information about drivers.¹³ Why does the private company improve service? They are the marketer, and the city, county, or state is the customer. Just like the sports bar customer, if the public officials are unhappy with the service, they'll find another company to do the job.

MANY COMPETITIVE PRESSURES?

Now consider the customer dining in New York City. A consumer can choose from thousands of options including over 1,000 Italian restaurants alone. A diner doesn't have to put up with poor treatment. The consumer can simply go next door. While the consumer without a reservation may wait for a table at the establishments with a loyal clientele, many provide a comfortable lounge area to enjoy a drink, some music, and conversation while waiting. Here the consumer deals with firms

operating in a highly competitive market dependent on repeat business. Thus, firms are oriented toward value creation, and consumers typically receive better treatment.

Governments sometimes realize that competition in the marketplace serves to protect consumers. In the United States, many federal laws oversee commerce with an eye toward ensuring business competition. The Robinson–Patman Act, the Sherman Act, and the Clayton Act are examples of such legislation. They attempt to restrict practices such as price fixing, secret rebates, and customer coercion. European officials acted on a “right to be forgotten” as part of the European Agenda for Security intended to prohibit companies, including Google, Amazon, and Facebook, from divulging consumer information without permission. The right to be forgotten is a key part of the sweeping privacy regulations known as the **General Data Protection Regulation (GDPR)**, a regulation aimed at protecting European consumers’ privacy.¹⁴

FIRM ORIENTATIONS AND CONSUMERS

Competition eventually drives companies toward a high degree of consumer orientation. **Consumer (customer) orientation** is a way of doing business in which the actions and decision making of the institution prioritize consumer value and satisfaction above all other concerns. A consumer orientation is a key component of a firm with a market-oriented culture. **Market orientation** is an organizational culture that embodies the importance of creating value for customers among all employees. In addition to understanding customers, a market orientation stresses the need to monitor and understand competitor actions in the marketplace and the need to communicate information about customers and competitors throughout the organization. Market-oriented firms develop effective ways of listening to consumers, and these skills usually, but not always, lead to better performance.¹⁵

A market orientation represents a less narrow focus than a strategic orientation that focuses more solely on production. However, an even broader orientation comes when firms adapt **stakeholder marketing**. Under this orientation, firms recognize that more than just the buyer and seller are involved in the marketing process. In fact, primary stakeholders include customers, employees, owners (or shareholders), suppliers, and regulating agencies; secondary stakeholders include the mass media, communities, and trade organizations. Stakeholder marketing orientation recognizes that all stakeholders are involved in and/or are affected by the

firm’s marketing in some way; even secondary stakeholders can alter the value equation and have relevance for marketing strategies. Under the right market conditions, a stakeholder orientation also can be good for firm performance.¹⁶

1-2b Relationship Marketing and Consumer Behavior

Let’s go back to the list of service environments. Certainly, banks and restaurants are generally in very intense competition with rival businesses. Competitive pressures challenge businesses to get customers to repeatedly purchase the goods or services they offer. Even in a city with a population as great as New York, without repeat business each restaurant would have fewer than ten customers per night. In addition, virtually all firms see repeat customers as less costly to serve.¹⁷ For instance, business managers often need to buy a lot of advertising for new customers to learn about a restaurant, whereas old customers already know the place.

Thus, **relationship marketing** means the firm’s marketing activities aim to increase repeat business as a route to strong firm performance. Relationship marketing recognizes that customer desires are recurring and that a single purchase act may be only one touchpoint in an ongoing series of interactions with a customer. **Touchpoints** are direct contacts between the firm and a customer. Increasingly, multiple channels or ways of making this contact exist, including phone, email, text messaging, online social networking, and especially face-to-face contact. Every touchpoint, no matter the channel, should be considered as an opportunity to create

General Data Protection Regulation (GDPR)

a regulation aimed at protecting European consumers’ privacy, including a “right to be forgotten” requiring erasure of personal data.

consumer (customer) orientation a way of doing business in which the actions and decision making of the institution prioritize consumer value and satisfaction above all other concerns

market orientation an organizational culture that embodies the importance of creating value for customers among all employees

stakeholder marketing an orientation in which firms recognize that more than just the buyer and seller are involved in the marketing process, and a host of primary and secondary entities affect and are affected by the value creation process

relationship marketing the activities based on the belief that the firm’s performance is enhanced through repeat business

touchpoints the direct contacts between the firm and a customer



This consumer is encountering a touchpoint with her stylist. Are there other touchpoints taking place at the same time?

value for the customer. Like any type of relationship, a customer–marketer relationship will continue only as long as both parties see the partnership as valuable.

Marketers are increasingly realizing the value of relationship marketing. Wait staff sometimes provide business cards to customers. These customers can use the card to ask for this waiter again on the next visit or to recommend the restaurant and server to a friend. Notice that with relationship marketing, the firm and its employees are very motivated to provide an outstanding overall experience. In sum, both a competitive marketplace and a relationship marketing orientation create exchange environments where firms truly treat every customer as “king.”

1-3 THE CB FIELD'S ROLE IN BUSINESS, SOCIETY, AND FOR CONSUMERS

As mentioned earlier, multiple reasons for studying consumer behavior exist. Each perspective provides unique and interesting opportunities for study. CB, as a field of study, is important in at least three ways:

resource-advantage theory a theory that explains why companies succeed or fail; the firm goes about obtaining resources from consumers in return for the value the resources create

1. CB provides an input to business/marketing strategy.

2. CB provides a force that shapes society.
3. CB provides an input to making responsible decisions as a consumer.

1-3a Consumer Behavior and Marketing Strategy

What companies do you think of as successful? The ultimate hallmark of success for a business is long-term survival. One hundred years is a blink of an eye in the course of history. But how many companies survive at least 100 years? Exhibit 1.5 lists some famous international companies, their core business, and their age.

Only one of these companies is even 100 years old; Tesco is just entering its second century. Even though we may think about big famous companies as lasting forever, chances are some of these giants will not be around 100, 50, or perhaps even 20 years from now. So, surviving is not a trivial goal, and the companies that do survive long term do so by finding ways to continuously obtain resources from consumers in return for the value they offer. This is a basic tenet of **resource-advantage theory**, a prominent theory that explains why companies succeed or fail.¹⁸ Companies succeed by acquiring more resources from consumers and in turn using those resources to gain advantages in physical and intellectual capital. Consumer research is needed to understand what makes a consumer give up scarce resources. Ultimately, consumers give up resources in the pursuit of value.

In contrast to the companies listed in Exhibit 1.5, many companies that were thought of as innovative and can't miss never make it out of infancy. Amazon.com, founded in 1994 and now synonymous with online retailing, is ancient in terms of “dot-com” firms. Remember Pets.com? Probably not! This online pet

PetSmart has capitalized on the vast increases in pet-related spending.

Source: YouTube, LLC

Exhibit 1.5

The Short Life Span of Success?

Company	Core business	Birthdate	Place of birth
Tesco	Food Retailing	1919	London, England
Toyota	Motor Vehicles	1937	Tokyo, Japan
Target	Discount Retailing	1962	Ohio
Bose	Audio Electronics	1964	Massachusetts
Samsung	Electronic Equipment	1969	Seoul, South Korea
Microsoft	Computer Software and Systems (originally operating systems)	1975	New Mexico
Amazon.com	Retailing	1994	Washington State
Home Depot	Retail and Contractor Building Supply	1976	Georgia
FedEx	Express Delivery—Originally founded as Federal Express in 1973	2000	Tennessee
Facebook	Online Social Networking	2004	Massachusetts
Apple Inc.	Media devices and peripherals—Originally founded as Apple Computers in 1976	2007	California

supply retailer spent vastly more on Super Bowl advertising than it made in revenue and never saw its first birthday. PetSmart now dominates that market space. Similarly, flooz.com, intended to provide online currency to replace credit card payments, and quirky.com, an invention platform allowing consumers to vote on their favorite new things, failed to create sufficient value and didn't make it to adolescence.¹⁹

One company that has survived over 100 years is Abercrombie and Fitch (A&F). They were founded in the early 1890s as a store providing high-quality gear for the active hunter or fisherman. Not what you think about when you think of A&F today? A&F has morphed from a hunting-fishing apparel company into a sexy lifestyle apparel company and is now moving back toward “authentic American apparel.” Well, this move illustrates how the companies that survive long term cannot be complacent or think that consumers do not change.

WHAT DO PEOPLE BUY?

When consumers buy something, they give up resources in the form of time, money, and energy in return for whatever is being sold. Consider a customer who purchases Bose Noise Cancelling Headphones 700 with a Charging Case. What does she really get? Well, the tangibles include high-powered batteries, plastic,

integrated circuitry, leather-covered foam, and so on. These parts, or **attributes**, make up the product. No reasonable consumer would pay around \$450 for a pile of parts. An important CB premise is that consumers don't really pay for a product's physical attributes. So, what do consumers pay for? The attributes do function to enable the consumer to enjoy benefits such as noise cancellation, comfort, and high-quality audio. Also, the product's image, in this case Bose, creates a feeling within the owner. Benefits like these are valuable and represent what the customer is ultimately buying.

Marketing firms often implement poor strategies when they don't fully understand what a product really is to a customer. A **product** is not a collection of attributes, but rather, a product is a potentially valuable bundle of benefits. Theodore Levitt, one of the most famous marketing pioneers, liked to say that a customer who buys a drill is really buying holes in the wall. He emphasized the importance of the value a customer receives from a product, rather than the physical product itself. Products are just pathways to benefits and often multiple ways exist to obtain the same benefits.

attribute a part, or tangible feature, of a product that potentially delivers a benefit of consumption

product a potentially valuable bundle of benefits



Do you even know what this is??

INNOVATION

Ultimately, companies need to understand why people buy their products to recognize which other current and future products represent competitive threats. Let's look at the companies that produced slide rules (rulers used to do calculations) such as Accu-Rule. They did not go out of business because their products were flawed. Accu-Rule made great slide rules. They went out of business because they failed to innovate by offering new ways of delivering value.

Newness alone does not make an innovation. An innovation has to produce value for consumers to be successful. Over time, successful innovations exhibit all or some of these characteristics:

1. **Relative Advantage**—makes things better than before
2. **Simplicity**—all things equal, a simpler innovation is better than a complex innovation
3. **Observable**—things that are observable tend to get adopted faster
4. **Trialability**—things that can be tried with little or no risk get adopted faster
5. **Consistency**—consumers are more likely to adopt things that are congruent with existing values and knowledge

An important CB premise is that consumers don't really pay for a product's physical attributes.

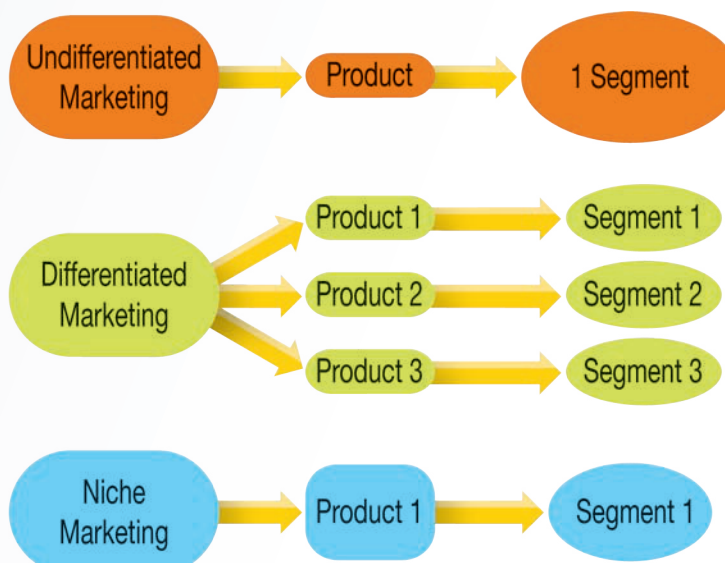
Consider our consumer with the new smartwatch from the beginning of the chapter. His liking of the new device will depend on these characteristics, but more importantly for those involved in marketing these devices, these characteristics will ultimately determine if the category represents a successful innovation.

WAYS OF DOING BUSINESS

Each company adopts a way of doing business that is epitomized in its corporate culture. Corporate cultures fall roughly into one of several categories representing different ways of doing business. Exhibit 1.6 summarizes different ways of doing business. Each way of marketing coincides with a varying degree of consumer orientation, which, as we indicated earlier, is a basic component of a market or stakeholder orientation. The ways of doing business often guide a firm's marketing practices.

Exhibit 1.6

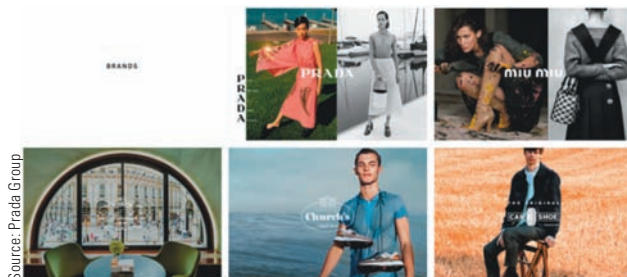
Different Ways of Doing Business



In **undifferentiated marketing**, the same basic product is offered to all customers. Mass merchandisers typify undifferentiated marketers in that they rely on selling a high volume to be successful. As such, they focus on serving very large segments in which consumers do not have specific desires (are not picky). Undifferentiated marketers generally adopt a **production orientation**, wherein innovation is geared primarily toward making the production process as efficient and economical as possible. In other words, the emphasis is on serving customers while incurring minimum costs. Walmart typifies this approach with their Supercenters and their state-of-the-art distribution network, which ships massive quantities of products to stores around the world at the lowest possible cost. The need for consumer orientation and consumer research is minimal because all consumers are treated the same.

Differentiated marketers serve multiple market segments, each with a unique product offering. A market orientation usually serves a differentiated marketer well. The emphasis here is on matching a product with a segment.

Many people are aware that Budweiser and Ultra are two of several Anheuser-Busch beer brands. Each brand has unique characteristics appealing to a different market segment (Ultra is for the weight-conscious). However, companies in other industries also create different brands to appeal to different market segments. In much the same way, Prada represents a prestige name in designer accessories (shoes, handbags, etc.), appealing to the luxury segment. Prada also operates the miu miu brand. Prada aims miu miu at women who are design- and fashion-conscious, but who may be slightly more price sensitive than the Prada shopper. Prada also offers footwear under the Church's brand (English-style shoes for men), and the Car Shoe brand (the ultimate driver's shoe).



The Prada Group Practices Differentiated Marketing

Marketers can take differentiated marketing to the extreme with a practice known as **one-to-one marketing**. Here, the company offers a unique product to each individual customer and thereby treats each customer as a segment of one. A custom home builder practices one-to-one marketing. Computer-aided information processing, design, and production have helped make this a reality on a large scale. Many media sources use consumer preferences and past browsing history to create an experience tailored specifically to that individual. Spotify automates the one-to-one marketing by allowing customers to build personalized playlists with the help of artificial intelligence fueled by the wealth of data extracted from consumer usage of Spotify on their media devices.

Firms that specialize in serving one market segment with particularly unique demand characteristics practice **niche marketing**. Niche marketers may be consumer oriented. However, some niche marketers are product oriented and produce a product that has unique appeal within a segment. For example, many companies serve the golf market one way or another, and some of them are huge differentiated marketers like Taylormade or Callaway, offering many products aimed at multiple markets. However, the Bobby Grace company specializes in one product: the putter. They only make putters and have a very small product offering of accessories beyond that. Bobby Grace markets their putters as the most technologically advanced putters because all of the company's attention is dedicated to just one club, the putter.

undifferentiated marketing a type of marketing wherein the same basic product is offered to all customers

production orientation an approach where innovation is geared primarily toward making the production process as efficient and economical as possible

differentiated marketers the firms that serve multiple market segments, each with a unique product offering

one-to-one marketing a type of marketing wherein a different product is offered for each individual customer so that each customer is treated as a segment of one

niche marketing a plan wherein a firm specializes in serving one market segment with particularly unique demand characteristics

1-3b Consumer Behavior and Society

The things that people buy and consume end up determining the type of society in which we live. Things like customs, manners, and rituals all involve consumption—value-producing activities. Certainly, not every society around the world is the same. Just think

CUSTOMER EXPERIENCES

4-Letter Words Worth Having

Why do they call it “golf?” Because all the other 4-letter words were taken! Well, are they? Let’s look at a few other 4-letter words: Bose, Lego, Mayo, USAA. What do they have in common? All are among the top brands in the U.S. Each of those organizations presents a branded experience to consumers that makes it different and unique from its competitors. Prophet is a marketing research firm that puts out a list of the most relevant brands annually. Relevant brands are “customer obsessed,” innovative, engaging, and deliver consistent customers experiences. The mere association with a



top brand name adds value to products relative to unbranded experiences. Customers gladly pay more for branded experiences because they provide more value. If we allowed a 5th letter, we’d have the #1 most relevant brand today, Apple. Small words but big value!

Source: <https://www.prophet.com/relevantbrands-2019>, Prophet Brand Relevance Index: The Brands Consumers Can’t Live Without. Accessed March 21, 2020.

about the ways we eat and the types of food people consume around the world. Additionally, when governments create laws that govern the way we buy and consume products, consumer behavior is involved as freedom is restricted. Thus, consumer behavior creates the society in which we live and serves as an important source of input to public policy in a free society.

For example, how does U.S. society treat smoking? Cigarette advertisements made up a large chunk of all TV advertising before a federal ban took effect on January 2, 1971. Popular culture glamorized smoking as a valued behavior. In the movies, cigarette smoking certainly did not harm James Bond’s image. Athletes and celebrities such as MLB’s Willie Mays, the NFL’s Frank Gifford, and even Frank Sinatra appeared in ads for brands like



In contrast today, cigarette smoking was seen as glamorous in the 20th century.

Chesterfield and Lucky Strike. At home, practically every room in the house included at least one ashtray. No Smoking sections did not exist in stores, restaurants, offices, or planes. In fact, flight attendants (then called stewardesses) on those planes walked the aisles, offering passengers “coffee, tea, or cigarettes.”

My, how things have changed! Smoking has become nearly taboo in the United States. Smoking inside any public building is practically impossible either due to laws restricting smoking or rules created by building owners prohibiting smoking. Smoking is not allowed throughout most U.S. restaurants and in most of Europe. Increasingly, consumers look upon smoking as a non-value-producing activity. Furthermore, politicians realize political advantage in creating more restrictions as consumer opinion continues to turn against the behavior. Policy makers should make such decisions with a thorough understanding of the CB issues involved.

Another current public policy issue concerns the use of mobile phones. Consider how much consumers’ widespread adoption of the mobile phone has changed, and continues to change, society. Over 96 percent of American adults own a cellphone, and nearly all of those phones are smartphones. Worldwide, more consumers (6 billion) have access to a phone than to a toilet (4.5 billion); 3.8 billion of the world’s mobile phones are smartphones.²⁰ Clearly, “smart” phone technologies represent a discontinuous innovation by altering our behaviors and communications in many ways. Imagine the impact of a smartphone on the way consumers in developing nations live where previously they had virtually no contact with the outside world.

IT'S NOT ALWAYS SMART!

Consumers and Their Phones

As discussed in the chapter, smartphone technology represents a discontinuous innovation. Discontinuous innovations change and create behaviors. In this case, the change may be best reflected by the term “smombie,” or smartphone zombie. Are you a smombie?

We love our phones, but they also are a source of aggravation—particularly to others. Restrictions on the use of phones in cars are being enacted as a matter of public safety. Some restaurants now frown on or even prohibit phone usage. Consider the following list. In your opinion, do any of these behaviors violate acceptable mobile phone etiquette?

1. Using the smartphone (texting, browsing, etc.) while involved in a face-to-face conversation with others—a phenomenon that’s come to be known as “phubbing”
2. Using a smartphone (to text, browse, or social network) when dining with others
3. Having a phone conversation at the table while dining in a nice restaurant
4. Texting, browsing, tweeting, using Instagram, or playing games under the table in class
5. Using profanity on the phone when others can overhear the conversation
6. Using the phone during a movie in a movie theater



7. Having a phone conversation in a public bathroom toilet stall
8. Texting while using the bathroom
9. Texting, emailing, browsing, social networking, etc., while driving
10. Texting, emailing, browsing, social networking, etc., while walking in public (even crossing the street) or riding a bicycle

The majority of Americans believe using a phone in a restaurant, at the movies, or in a meeting is inappropriate. And about using the phone in any manner in the bathroom . . . well, studies show that your phone is probably the dirtiest product you own!

Sources: Welch, P. (2019), “15 Ways You Are Being Rude With Your Cell Phone,” Noobie, <https://www.noobie.com/15-ways-rude-cell-phone/>. Schweitzer, S. (2017), “10 Modern Cell Phone Manners & Etiquette Tips,” Huffpost, https://www.huffpost.com/entry/10-modern-cell-phone-manners-etiquette-tips_b_59639984e4b085e766b5147c, both accessed March 21, 2020.

1-3c Consumer Behavior and Personal Growth

We face many important decisions as consumers. Among these are choices that will affect our professional careers, our quality of life, and the very fiber of our families. By this point in your life, you have already experienced many of these decisions. Some decisions are good; some are not. All consumers make dumb decisions occasionally.

Consider modern consumers’ decisions to take on debt. Credit can be a good thing, but it has its limits. According to NerdWallet, Americans owe about

\$500 billion in consumer credit card debt. Some consumers carry no credit card debt, but for those families that do, they pay an average of \$1,400 per year on credit card interest. Perhaps not surprisingly, households with children carry more credit card debt than those with no children. Many parents believe it may take 10 years to pay off their consumer debt. In recent years though, U.S. real household income has grown faster than the cost of living, enabling more households to pay off accumulated debt.²¹ Additionally, younger consumers in the United States seem to be more interested in saving than previous generations based on increases in the personal-saving rate.²²

For individuals, decisions that lead to high levels of debt do not seem to be wise, as bankruptcy, financial stress, and lower self-esteem often result. Although consumer researchers sometimes pay little attention, the way consumers allocate their resources is an important aspect of CB. Indeed, as one studies CB, one may learn how to make wiser and better choices. Here is a short list of topics to be aware of that may be relevant to making wise or not-so-wise consumer decisions:

1. **Consequences associated with poor budget allocation**
2. **The role emotions play in consumer decision making**
3. **What avenues exist to seek redress for unethical sales practices**
4. **The role of social influences on decision making, including peer pressure and social media influence**
5. **The effect of the current environment on consumer behavior**

1-4 DIFFERENT APPROACHES TO STUDYING CONSUMER BEHAVIOR

Consumer researchers have many tools and approaches with which to study CB, and researchers don't always agree on which approach is best. In reality, the consumer researcher should realize that no single best way of studying CB exists. Rather, different types of research settings may call for different approaches and the use of different tools. Thus, we provide a brief overview of two basic approaches for studying CB. The purpose is to provide the reader with an idea of how the knowledge found in this book was obtained.

interpretive research the approach that seeks to explain the inner meanings and motivations associated with specific consumption experiences

qualitative research tools the means for gathering data in a relatively unstructured and non-quantified way, including case analysis, clinical interviews, and focus group interviews

researcher dependent the data that requires a researcher's subjective opinion to interpret a meaning

1-4a Interpretive Research

One consumer's music is just noise to another consumer. What creates value in the musical experience? What does music mean and how much does the meaning shape the value of an experience? These are questions that evoke very abstract comments and thoughts from consumers. They are questions that lend themselves well to

interpretive research, especially when environmental factors like culture shape behaviors. **Interpretive research** seeks to explain the inner meanings and motivations associated with specific consumption experiences. Consumer researchers interpret these meanings through the words that consumers use to describe events or through observation of social interactions. With this approach, researchers interpret meaning rather than analyze data.

Interpretive research generally falls into the broader category of qualitative research. **Qualitative research tools** include things such as case analyses, clinical interviews, focus group interviews, and other means by which data are gathered in a relatively unstructured way. In other words, consumer respondents are usually free to respond in their own words or simply through their own behavior. The raw data is not quantified. Data of this type requires that the researcher interpret its meaning.

Results from unstructured, qualitative, data-gathering approaches are considered **researcher dependent**, because the interpretation is a matter of the researcher's opinion until/unless corroborated by other findings.

The roots of interpretive consumer research go back to the earliest days of consumer research. The focus was on identifying the motivations that lie behind all manner of consumer behavior, including mundane things such as coffee drinking or taking an aspirin, to more elaborate issues such as what "drives" one to buy a Ford versus a Chevy.²³ The motivational research era in consumer research, which lasted through the early 1960s, generally



Nina Rys/Shutterstock.com

Different types of consumer situations call for different types of research approaches.

proved disappointing in providing satisfying explanations for consumer behavior on a large scale. As a consequence, many interpretive research tools were scarcely applied for years afterwards. However, these approaches have made a recent comeback and are now commonly applied to many aspects of the field.

Interpretive researchers adopt one of several orientations. Two common interpretative orientations are phenomenology and ethnography. **Phenomenology** represents the study of consumption as a “lived experience.” The phenomenological researcher relies on casual interviews with consumers from whom the researcher has won confidence and trust. For example, a researcher might become an uber driver to learn about consumers social lives through casual conversation with the riders.

Phenomenology may be supplemented with various other ways that the consumer can tell a story. **Ethnography** has roots in anthropology and often involves analyzing the artifacts associated with consumption. An ethnographer may decide to go through trash or ask to see the inside of a consumer’s refrigerator in an effort to learn about the consumer. These approaches represent viable options for consumer researchers. More recently, ethnographic CB research takes a twist, brought on by the prominence of social networking in everyday life. **Netnography** applies ethnographic tools to study the behavior of online cultures and communities. One study involved a deep dive into the Mudder Nation online community to try to understand consumers’ willing participation in physically painful “leisure” activities.²⁴ The researchers followed social network posts for the online community to learn how pain could lead to value. Researchers believe netnography can help explore the interplay between brands, products, and belonging based on the virtual relationships played out within social media.

1-4b Quantitative Consumer Research

Which consumer group is most likely to listen to rap music? Statistical models can be applied to retail sales data to identify clusters of consumers who are more likely to be in the market for specific types of products. Sometimes, the results are so spot-on they become controversial. For instance, researchers working for Target stores used purchase data patterns to predict which customers are highly likely to be pregnant. Using this data, the consumers who fall into those groups coincidentally (or not) begin receiving promotions from the store for baby strollers, diapers, and other maternity-related items. One teen’s father went to a Target store to complain when his teenage daughter began receiving maternity-related

promotions only to have to apologize when his daughter broke the news to him.²⁵ The fact that individual customer purchases can be recorded and browsing behavior can be tracked makes this type of quantitative modeling possible.

Other types of quantitative research exist as well. Researchers employ multivariate statistical analysis, which involves examining relationships among many variables, to predict CB. Examples include: individual consumers’ profitability, the likelihood of purchasing name brands or private labels, the likelihood of trying a new product, what type of media a consumer will respond to, and much more. For instance, statistical analyses allow us to perform predictive modeling and segment consumers based on identifiable characteristics. In that way, marketing tools like email campaigns can be implemented more effectively. Data can also be correlated with outside influences such as the time of the day, temperature, chance of rain, and so forth, to suggest changes in merchandising that can affect the bottom line.

Researchers also employ quantitative measurement through surveys and very often use surveys to capture responses to some experiment that may manipulate some characteristic of an ad or product. For instance, survey responses allow numerical representation of consumers’ attitudes. Using an experimental approach, research suggests that consumers often express a more favorable attitude for a product promoted with an “amount-off” discount as opposed to a percentage discount, particularly for higher-priced products.²⁶

Quantitative research addresses questions about consumer behavior using numerical measurement and analysis tools. The measurement is usually structured, meaning that the consumer will simply choose a response from among alternatives supplied by the researcher. In other words, structured questionnaires typically involve multiple-choice questions. Alternatively, quantitative research might analyze sales data tracked via the Internet or with point-of-sale scanners.

Unlike qualitative research, the data are not dependent on researcher interpretation to the extent that the numbers are the same no matter who the

phenomenology

a qualitative approach to studying consumers that relies on interpretation of the lived experience associated with some aspect of consumption

ethnography a qualitative approach to studying consumers that relies on interpretation of artifacts to draw conclusions about consumption

netnography a branch of ethnography that studies the behavior of online cultures and communities

quantitative research the approach that addresses questions about consumer behavior using numerical measurement and analysis tools

VALUE IS DYMANIC

Can You Spare A Roll?

Those who experienced the COVID-19 crisis will likely never forget it. Perhaps the experience shed some light into how we will behave in a crisis. While a crisis might not be necessary to test the “rationale-consumer” hypothesis, we certainly observed some interesting behavior during the crisis. Faced with the emergency, consumers went out to get supplies in the early days of the crisis. What was the most sought-after item? Toilet paper!! Despite no expectation that toilet paper would stop being made or stop being shipped to retailers, consumers purchased practically every roll of toilet paper as fast as retailers could get it on the shelf for weeks. Why? Emotions likely played a big *role* here. Fear of the unknown will drive evolutionary protection



instincts. Perhaps feeling helpless during the crisis, the purchase of months of supply of toilet paper worked as therapy to calm consumers’ nerves in a nervous time when simple liberties were threatened. But, the rush to buy toilet paper shows how the value of actions, like buying toilet paper, are affected by the environment.

researcher may be. Typically, quantitative research better enables researchers to test hypotheses as compared to interpretive research. Similarly, quantitative research is more likely to stand on its own and does not require deep interpretation. For example, if consumers have an average willingness-to-pay score of \$50 for brand A and \$75 for brand B, we can objectively say that consumers

are willing to pay more for brand B. Exhibit 1.7 illustrates characteristics of qualitative and quantitative research.

1-5

CONSUMER BEHAVIOR IS DYNAMIC

Exhibit 1.7

Comparing Quantitative and Qualitative Research

Qualitative Research	Research Aspect	Quantitative Research
Discover Ideas, Used in Exploratory Research with General Research Objects	Common Purpose	Test Hypotheses or Specific Research Questions
Observe and Interpret	Approach	Measure and Test
Unstructured, Free-Forms	Data Collection Approach	Structured Response Categories Provided
Researcher Is Intimately Involved. Results Are Subjective.	Researcher Independence	Researcher Uninvolved Observer. Results Are Objective.
Small Samples—Often in Natural Settings	Samples	Large Samples to Produce Generalizable Results (Results that Apply to Other Situations)
Exploratory Research Designs	Most Often Used	Descriptive and Causal Research Designs

All one has to do is examine the differences in standards of living between today’s American consumers and those living in the years 1875, 1925, 1985, and 2020 to gain an appreciation of how CB has changed over time. As an overall statement, we can say that consumers are never completely satisfied. Actually, this is a good thing, because as companies strive to meet consumer demands, increasingly innovative products are offered, and companies grow in response to increased sales. As a result, they hire more people and raise income levels throughout the economy.

The way marketers respond to consumers is changing dramatically. Marketers have historically used advances in technology to provide consumers with greater opportunities to communicate

with companies. Today, billions of consumers around the world have 24-hour, seven-day-a-week access to markets via the Internet. Consumers do not need to wait to go to a retail store to purchase music. They can download their favorite new tunes, movies, books, games, and apps or sign-up with a subscription service while walking down the street. Here are some of the trends that are shaping the value received by consumers today.

1-5a Internationalization

When Starbucks opened its first store in 1971, the thought may not have occurred that the concept could spread to other parts of the state of Washington or even other parts of the United States. In 1996, Starbucks opened its first store outside the United States in Tokyo, Japan. Today, consumers around the world can order up a latte at one of more than 24,000 Starbucks locations in over 75 countries.²⁷ Whether you are on business in Guadalajara, Mexico; Seoul, South Korea; London, England; Shanghai, China; Nantes, France; or Oxford, MS, you can relax at a Starbucks. Almost anywhere the modern consumer travels, a familiar place to eat or drink, such as a Starbucks, a Subway, a KFC, or a McDonald's never seems far away.

Although these chains can be found worldwide, consumers are not alike everywhere these firms operate. An Outback Steakhouse in Seoul will offer *kimchi* (fermented cabbage) on the menu, something neither American nor Australian. Companies must therefore deal with geographical distances as well as cultural distances. The international focus of today's modern company places a greater demand on CB research. Each culture may interpret products and behaviors differently. The meanings these consumers perceive will determine the success or failure of the product being offered.

1-5b Technological Changes

We live in an age where technological advances seem to be coming at an ever-increasing rate. Upon closer reflection, we may realize that technology has influenced

business practices ever since the advent of industry. Certainly, many retailers felt threatened by mail-order technology that was practiced through the Sears Roebuck catalog and the telephone. In 1895, the Sears catalog contained 532 pages of products that enabled rural consumers to obtain things that would have been otherwise difficult to get.²⁸ Why would people go to a store when they could simply telephone and have products delivered to their door?

In the mid-20th century, television revolutionized consumer behavior. Not only did TV change advertising forever, but virtual shopping became a possibility. Now, the consumer could actually see a product in use on television and then make a purchase either by picking up the phone or punching buttons on a cable device. Why would someone go to a store?

A consumer now has 24/7 access to purchasing almost any type of product. The Internet has made geographical distance almost a nonissue. Additionally, the consumer can truly shop on his or her own schedule, not on a schedule determined by store hours. Communication technology has also advanced tremendously. The entire world is now truly the market for consumers in free countries. With all of this advancing technology, e-commerce accounts for approximately 12 percent of total U.S. retailing as of 2020.²⁹ That's about \$0.65 trillion out of about \$5.5 trillion in U.S. sales, excluding autos.

Shopping online can be a valuable experience, but are "virtual" shopping and "real" shopping gratifying in the same way? Amazon.com's worldwide sales topped \$300 billion in 2020. Perhaps surprisingly to some, Amazon's recent growth includes physical stores. Amazon Books is just that. Amazon 4-Star is a shop selling only products that gain a 4-star user rating or better, and Amazon Go is a place to quickly pick up goods. Amazon also has a presence in Whole Foods stores. Why real (so called *brick and mortar*) stores? Perhaps it's a way to build the brand or perhaps it's a realization that in-store customers can be quite profitable.



Source: Amazon.com, Inc.

Amazon's growth isn't all virtual.

CHANGING COMMUNICATIONS

As technology changes, so do the ways that people communicate with each other. Once upon a time, consumers' predominant form of communication was face-to-face. Interestingly, many surveys of preferred communication methods don't even list face-to-face communication. Among other sources, email appears far from dead. Consumers can easily access their email from any smart device, and email is the workhorse of modern marketing. Not only does it communicate a message, but it also facilitates data gathering.

Instagram, Facebook, Twitter, and Pinterest remain popular as digital media for reaching consumers. Branded marketing campaigns and social media influencers rely on social media to push content out to customers and potential customers. Social media influencers also try out new media channels such as TikTok, a Chinese-based video-sharing service. Here, influencers can share short music or comedy videos. In return for using the TikTok app, consumers agree to share data with TikTok that can include information about the users' contacts. TikTok remains controversial in part because of its appeal to younger consumers.³⁰

BIG DATA

Back in the days of small general stores in small towns, store owners came to know their customers extremely well. They could sometimes predict when a customer would show up, and they could fill their order from memory.

The business and the customer had an intimate connection. As electronic storage becomes simpler and cheaper, and as more real-time electronic devices are used to record information, the amount of data available for analysis grows exponentially. By the time a university sophomore finishes college, more data will have been collected than in all eternity before that time.

The term **big data** has come to be used to represent the massive amounts of data available to companies from multiple sources, which can potentially be used to predict customer

big data a term used to represent the massive amounts of data available to companies, which can potentially be used to predict customer behaviors

predictive analytics the application of statistical tools in an effort to discover patterns in data that allow prediction of consumer behavior the application of statistical tools in an effort to discover patterns in data that allow prediction of consumer behavior

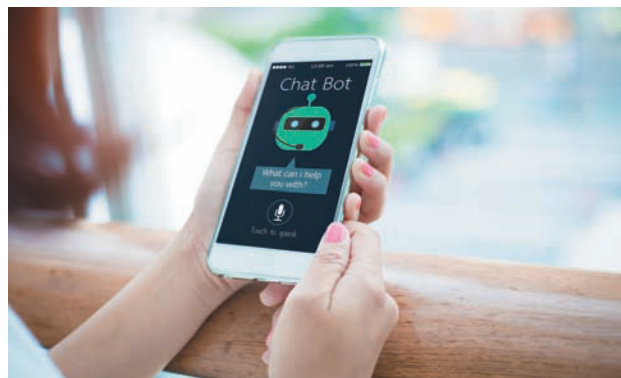
internet of things the automatic recording of data from everyday products that signal consumers patterns of behavior

machine learning the application of artificial intelligence to automate tasks otherwise performed by humans

behaviors. The data include internal records of customer behavior like scanner purchase data, survey responses, and web traffic records, as well as data from social network interactions and GPS tracking. Researchers apply statistical tools to try to discover patterns in the data that will allow better prediction. The application of these statistical tools sometimes is referred to as **predictive analytics**. One can get an idea about how predictive analytics works when purchasing something online and getting shown products that consumers “who bought this product also purchased.” The term **internet of things** refers to the fact that everyday products themselves allow data to be gathered and stored for analysis through the use of technologies like near-field communication. In fact, the data provided by some products may prove more valuable to some companies than the revenue generated by the product that sends the data.

MACHINE LEARNING

While terms like artificial intelligence and machine learning were traditionally used in engineering classes, today, they are very appropriate for use in many other applied areas, including marketing and consumer behavior. Marketers wonder, “Who should I target my social media campaign to?” “What should my email marketing campaign say?” “How can I make sure search engines recognize my brand?” While marketing employees deal with these kinds of questions in some form, they are greatly assisted by electronics and software. **Machine learning** represents the application of artificial intelligence to automate tasks that would otherwise be manually accomplished. Perhaps no areas of business have been more affected



Chatbots employ AI so consumers can have human-like conversations with machines.

by machine learning than marketing and sales.³¹ Large enterprise systems such as Eloqua and Marketo, and systems for smaller business such as HubSpot, Salesfusion, Heyday, and Act-On, automate email campaigns and social media advertising as well as search-engine optimization (SEO). Ever been browsing and received the pop-up asking if you'd like to "chat with us?" Chatbots provide automated responses to common consumer queries in an SMS message style. BestBuy and other retailers today rely heavily on chatbots to replace or enhance person-to-person communication. If you are chatting with a brand, there's a good chance there is not another human on the other end of that chat. Companies are investing millions of dollars into sales force automation and machine learning system tools.

1-5c Changing Demographics

In most of the Western world, notable demographic trends have shaped consumer behavior patterns greatly over the past quarter century or so. First, households increasingly include two primary income providers. In contrast to the stereotypical working dad and stay-at-home mom, families today often include two parents with career orientations. Second, family size is decreasing throughout most of Western culture. European families are averaging less than one child per family. As a result, the relative nature of cultures as consumer market segments is changing. Marketers around the world find it hard to ignore 1.5 billion consumers in China or the nearly 1.5 billion in India. We'll discuss demographic trends in a later chapter.

1-5d Changing and Sharing Economy

Consumers today are often more cautious about spending money and react more favorably to price-cutting policies. Private label brands (such as retail store brands like Walmart's Sam's Choice and Costco's Kirkland Signature) become more attractive alternatives as a way of saving money. Part of their growth is driven by big data analysis that suggests their profitability to retailers. Consequently, you'll find that private labels get more prominent merchandising these days as the arrangement of products on the shelves are driven by marketing analytics aimed at maximizing profitability.

Globally, including the United States, consumers display several signs of the times. Two related global consumer trends include the continued desire for greater convenience and the increased acceptability of temporary use in the form of sharing as an alternative

to owning. The term **sharing economy** is used to capture the market activity involving temporary usage for hire (rentals) as a replacement for traditional ownership or do-it-yourself jobs. When the rental transaction activity is consumer to consumer (peer to peer), the term **collaborative consumption** is often applied. Many new businesses exist to put consumer and consumer together for things other than dates! Airbnb, Uber, Takl, and Rent the Runway, offer rooms, rides, cars, and wedding dresses for temporary use on a consumer to consumer basis. Later chapters will address various reasons for the trend away from ownership, although clearly one big motivator is convenience. Social consciousness continues to trend due to satisfying the consumers' desire to feel as though they are serving some cause. Exhibit 1.8 summarizes a few global trends.

sharing economy the global consumer trend toward rental (temporary usage for hire) rather than ownership or rather than doing a task yourself

collaborative consumption the term used for a rental transaction activity that is consumer to consumer, rather than business to consumer or business to business

Exhibit 1.8

Global Consumer Trends

- ▶ Consumers selling "Shares" to other consumers—not just Uber, but all manner of sharing services including sharing what you wear as in "Girl Meets Dress"
- ▶ International Shopping—international retailers, particularly in emerging economies, offer consumers access to products from far-away places, typically through an omnichannel shopping experience
- ▶ Consumers as Marketers—many consumers become vloggers spreading videos that include their brand likes and dislikes, including those performed by social media influencers who are paid to do promote products and brands
- ▶ Cause related consumption—consumers will pay for options they see as good for the Earth and society, but it's not so simple
- ▶ Health concerns—today's consumers are more health conscious than ever before, and digital health technologies will continue to trend
- ▶ Easy over price—consumers now see convenience as king and are willing to pay for an easy life
- ▶ Nostalgia—technology provides easy access to historical personal data that triggers attachments to brands, movies, music, and games from the past

Source: <https://www.globalwebindex.com/reports/trends-2020>, accessed March 23, 2020.

2 Value and the Consumer Behavior Framework

LEARNING OBJECTIVES

After studying this chapter, the student should be able to:

- 2-1 Describe the consumer value framework, including its basic components.
- 2-2 Define consumer value and compare and contrast two key types of value.
- 2-3 Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.
- 2-4 Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.
- 2-5 Analyze consumer markets using elementary perceptual maps.
- 2-6 Justify consumers' lifetime value as an effective focus for long-term business success.

INTRODUCTION

When two people meet for the first time, one of the fastest ways to get to know one another is to share information about each other's favorite things. You might ask, "What is your favorite thing to do? What are your favorite brands? What are your favorite things to eat and to drink?" And the person may answer with, "playing poker with friends, Nike, shrimp, and craft beer." Now you know something about that person. Our consumer behavior tells who we are.

Online dating has become commonplace. Half of single consumers in America report visiting an online dating site. The choices have grown beyond match.com and Tinder.com to more targeted sites such as farmersonly.com, christianmingle.com, blackpeoplemeet.com, and plentyoffish.com, just to mention a few. All the dating sites involve personal descriptions that include physical appearance, occupation, and, as mentioned above, favorite things. Can users believe what they see in an online profile? Research suggests that lying is common in these sites. In particular, consumers like to lie about what they own and what they do in addition to embellishing their personal appearance. Common lies often involve

activities like income, weight, and traveling, as people try to portray themselves as typical of a certain lifestyle. People also choose which hobbies to list based more on how they believe this will appeal to others rather than on the way they actually spend their time. The fact that those seeking dates commonly stretch the truth about the things they spend time and money on demonstrates how important consumer choices are in shaping individual identity. Consumers view dating sites like Tinder.com as particularly untrustworthy because they are seen more as places for hookups than for relationships.¹

However, many consumers who use dating sites seek a relationship. Likewise, consumers and businesses often benefit from relationships. These relationships begin with consumer preference. Consumer preference can be varied and fickle. For example, one consumer likes beets while another can't even go near them. This book sheds light on why the things that provide so much value to certain consumers in certain times or certain situations don't really do anything for other consumers or even the same consumer at a different time or in a different situation. This chapter introduces the Consumer Value Framework and some of the core concepts that tie all of CB together and make it actionable in marketing.



Roman Samborsky/Shutterstock.com



2-1

THE CONSUMER VALUE FRAMEWORK AND ITS COMPONENTS

Consumer behavior is multifaceted. Not only does the study of consumer behavior involve multiple disciplines, but anyone who has ever made a major purchase like a house or an automobile, or, who has signed a rental lease for an apartment, knows that many factors can affect both the purchase decision and the way one feels after the purchase. This book tries to explain these sorts of phenomena, and in doing so, will provide clues as to how consumers can be better served.

2-1a The Consumer Value Framework

Given the potential complexity involved in explaining consumption, a framework for studying consumer behavior is useful. Exhibit 2.1 displays the framework used in this book. The **Consumer Value Framework (CVF)** represents consumer behavior theory, illustrating factors that shape consumption-related behaviors and ultimately determine the value associated with consumption. The different components shown with different colors roughly

correspond to the different parts of this book. However, the student of consumer behavior must recognize and accept the fact that each aspect of the CVF is related in some way to other components of the model. The arrows connecting the different components typify these connections.

2-1b Value and the CVF Components

Value is at the heart of experiencing and understanding consumer behavior. Thus, we will never get too far from value in any chapter of this book. We'll expand more on value later in this chapter and throughout the book. In the rest of this section, we present the basic components of the CVF that either contribute to or are outcomes of value.

RELATIONSHIP QUALITY

Over the past two decades or so, **Customer Relationship Management (CRM)** has become a popular catchphrase, not just in marketing

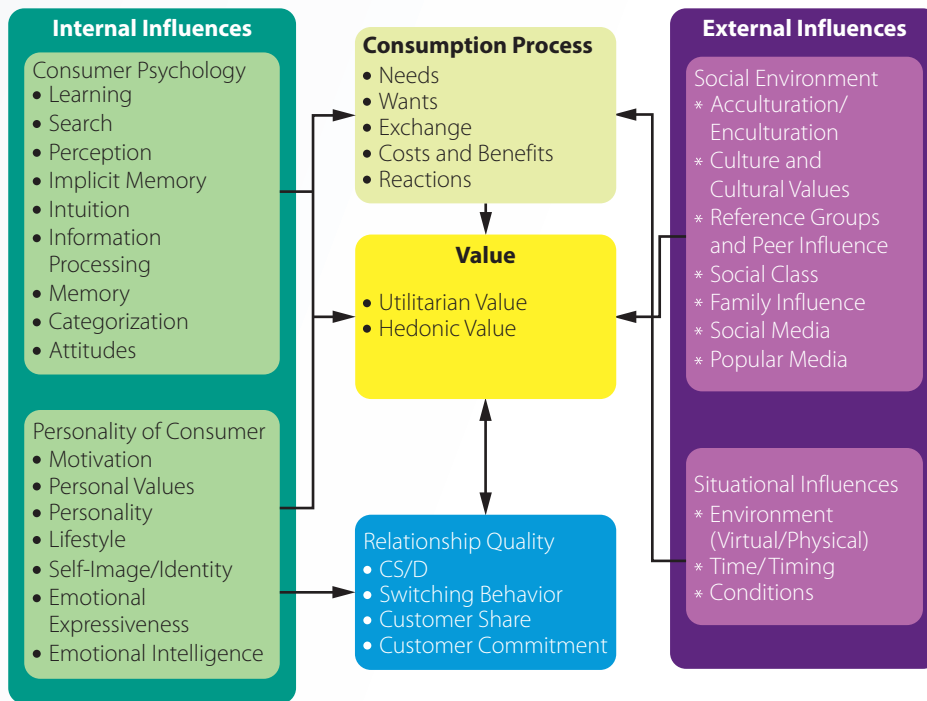
Consumer Value Framework (CVF) consumer behavior theory that illustrates factors that shape consumption-related behaviors and ultimately determine the value associated with consumption

Customer Relationship Management (CRM)

a systematic information management system that collects, maintains, and reports detailed information about customers to enable a more customer-oriented managerial approach

Exhibit 2.1

Consumer Value Framework (CVF)



A customer who experiences high value from service realizes that relationship quality is high. Over time, the consistent value delivery builds customer loyalty. Salesforce.com has grown into one of the leading Fortune 500 firms overall and one of the top 10 firms to work for, all based on the idea that data systems that build customer relationships provide win-win exchanges where both customer and business benefit. Their products include analytics tools, like Einstein, that push valuable information to a salesforce, so that salespersons can enter any meeting with a client armed with key information that points toward the types of products clients are most likely to need or desire.

but in all of business. A basic CRM premise is that customers form relationships with companies as opposed to companies conducting individual transactions with customers. A CRM system tracks detailed information about customers so marketers can make more customer-oriented decisions that hopefully lead to longer-lasting relationships.

CRM means each customer represents a potential stream of resources rather than just a single sale. **Relationship quality** reflects the connectedness between a consumer and a retailer, brand, or service provider. In practice, a high-quality relationship is typified by a consumer who feels like he or she should buy the same brand each time a need for that product arises. When relationship quality is strong between customer and company,

customers are highly receptive to brand extensions and thus the brand enjoys a near ready market for new products.² Loyal customers are more profitable than customers who consider switching brand or providers each time they make a purchase.

relationship quality the degree of connectedness between a consumer and a retailer, brand, or service provider

service an organization's efforts and resources applied toward value creation

CONSUMPTION PROCESS

Consumers must decide to do something before they can receive value. The consumption process involves deciding what is needed, what the options for exchange might be, and the inevitable reaction to consumption. The consumption process can involve a great deal of decision making and, thus, represents a consumer decision-making process and the results of service. **Service** can be thought of as the organization's efforts and resources applied toward value creation. Many factors influence this process, and these factors can be divided into different categories, such as internal and external influences.

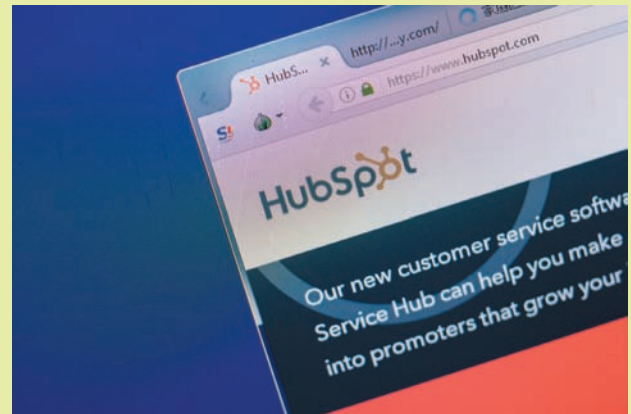
INTERNAL INFLUENCES: THE PSYCHOLOGY AND PERSONALITY OF THE CONSUMER

The Psychology of the Consumer. Most consumers can think of a place they try hard to avoid solely because of the irritating music played there. Consumers fear they may develop an *earworm*, a term that refers to the real phenomenon of a song that "gets stuck in my head." Is getting a song stuck in someone's head a good idea if you want to sell something? Repetitive rhythms

CONSUMERS AND TECHNOLOGY

A Tech Firm Has to Know Its Limitations

Professional selling today is more than just trying to make a sale. Salespeople are involved in service and sales and understand that they manage relationships with customers. Thus, they are responsible for creating value for customers, and in return, value for the firm. Today, technology aids the process of creating valuable customer experiences. The term sales stack, or sales-technology stack, refers to the suite of technological devices that assist in effective communication with customers. Tools like HubSpot, Einstein, Hootsuite, Speakeasy, and DocuSign, help the sales team manage lead generation, more efficient targeting of messages, understand what approach to take with a customer, and facilitate formalities such as signing contracts. Because few clients can perform all functions, an effective customer experience management



Sharaf Maksimov/Shutterstock.com

program requires a “stack” (like pancakes) of technology tools, not just a little black book. Customer relationships benefit when the firm applies the right sales stack!

<https://www.tenfold.com/what-is-sales-stack>, accessed March 26, 2020.

provide a mechanism that facilitates learning. Nevertheless, the effect can also be irritating, as evidenced by the fact that songs like Single Ladies (Beyoncé), Ice Ice Baby (Vanilla Ice), and, perhaps the top example, It’s a Small World (Disney), drive many consumers up the wall. Regardless, an effective earworm may communicate effectively to consumers as with the case in a Melbourne Australia campaign for rail safety.³ Questions like this involve the psychology of the consumer. In other words, the mechanisms that create such effects are **internal influences**, things that go on inside the consumer’s mind and heart or that are indeed truly a part of the consumer.

The psychology of the consumer involves both cognitive and affective processes. The term **cognition** refers to the thinking or mental processes that go on as we process and store things that can become knowledge. A child hears parents talk about smoking as a *nasty* thing to do. Smoking becomes associated with nastiness, and the child may develop a dislike of smoking. **Affect** refers to the feelings experienced during consumption activities or feelings associated with specific objects. If the child continues to receive negative information about smoking, the belief that it’s nasty may result in feelings of disgust.

Many people think of these types of things when they think of CB. Certainly, our perceptions help shape the desirability of products, which can influence decision processes and the value perceived from consuming something. Recall that value is a subjective assessment. Therefore, value is very much a matter of perception.

The Personality of the Consumer. Every consumer has certain characteristics and traits that help define him or her as an individual. We refer to these traits generally as **individual differences**. Individual differences that tangibly make one person distinct from another, which include personality and lifestyle, help determine consumer behavior. Consumer researchers focus increasingly on the self-identity of consumers. The increased attention may be driven in part by the theory that today’s teens and young adults are more

internal influences things that go on inside the mind and heart of the consumer or that are psychologically a part of the consumer

cognition thinking or mental processes that go on as we process and store things that can become knowledge

affect feelings associated with objects or activities

individual differences characteristic traits of individuals, including demographics, personality, and lifestyle

self-absorbed than previous generations. This belief is built largely on the fact that narcissism scores, which capture the amount of self-absorption found in a narcissistic personality trait, are higher among consumers in younger generations than older generations. What do you think? If this is so, how would it influence marketing?

Companies have spent vast amounts of money and time trying to harness individual differences in a way that allows consumer choice to be predicted. They do so because individual differences like these include basic motivations, which trigger consumer desires. Also, individual differences shape the value experienced by consumers and the reaction consumers have to consumption.

EXTERNAL INFLUENCES

Every consumer contains a storehouse of information internally, but in many cases some external influence triggers the consumption process or provides information necessary for a consumer to make a decision. Pam, a 20-year-old student at an urban university, decides to move to a university apartment complex with a roommate she's known since high school. The complex is typical, and they have a ground-floor flat with two reserved parking spots in the back, about 40 yards from their apartment door. They like the quiet location facing the rear of the complex. Both are content and excited about their new place. One day, Pam is surfing Slideshare.net as she has a bite to eat near her place. She takes a look at a slideshow called "What they didn't tell me." The slides contain a list of "mistakes" made by the author, a young woman with whom Pam can relate. Several slides talk about the horror of break-ins in her ground-floor flat. The author warns viewers that ground-floor apartments are not safe and to always get an apartment with a door in plain view (not rear-facing); better still, choose an apartment complex with interior apartment access only via a 24-hour doorman.

The next day, while Pam is buying a textbook online using her smartphone, she notices a link to a blog about

apartment safety. She clicks through and finds a link to a video describing a new eight-floor apartment building two miles from campus. The video provides a virtual visit and clearly displays the friendly doorman (in a security uniform) providing entry to the building and pointing the way to the elevator. She talks about her fears with her roommate,

friends, and parents. Her parents agree to pay to break the lease and tell her to find a safer place. Now she goes back online and searches for the address of the high-rise apartment complex and checks for other apartment buildings nearby. At this moment, Pam experiences what some call the "**zero moment of truth**." That is the point in time when a passive shopper becomes an active shopper and actively seeks out exchange alternatives.⁴

In this example, numerous external influences have come together to change the value equation for Pam, change the relationship with her current apartment complex, activate a need, and trigger the desire for a better place to live. **External Influences** include social, cultural, media, environmental, and temporal factors, among others. They are critical to understanding CB.

Social Environment. The **social environment** includes people and groups who help shape a consumer's everyday experiences. Some influence is personal, meaning the consumer actually knows the people; some is impersonal, coming from unknown people like celebrities; and still other influence is virtual, coming from unknown sources online or in social networks. In addition, any time a consumer chooses to do something, at least in part, to please or appeal to another consumer, the social environment plays a role in that process. Group influence is one mechanism through which social influences work. Simple choices ranging from what breakfast foods to buy to complicated decisions, such as what university to attend, all are shaped by subtle influences like acculturation and the sometimes not-so-subtle influence of family and friends.



Syda Productions/Shutterstock.com

Consumer researchers focus increasingly on the self-identity of consumers, based on the theory that today's teens and young adults are more self-absorbed than previous generations were.

external influences the social and cultural aspects of life as a consumer

zero moment of truth the point when a shopper moves from passive to active and seeks out exchange alternatives

social environment the elements that specifically deal with the way other people influence consumer decision making and value

NESPRESSO: SO EMOTIONAL

In economics, we typically think lower prices lead to greater demand. Is that the case? Think of the strongest brands that you associate with coffee. Do they sell for the lowest price? In fact, no brand in coffee has gained more strength recently than Nespresso, which sells for over \$50 per pound. But looking at the CVF, one has to consider the entire model to understand the Nespresso appeal.

The coffee makers were originally useful in creating customers for pods; however, coffee is a mere vehicle to provide customers with an emotional experience. Nespresso boutiques provide retail theater epitomizing the hedonic value experience. The hedonic value experience allows Nespresso to build and reinforce relationships with its customers. Nespresso's huge success lies not in a low price, but in emotional design delivering a total value experience—not just a cup of coffee.



Sources: Foster, J., and McLelland, M. A. (2015). "Retail Atmospherics: The Impact of a Brand-Dictated Theme," *Journal of Retailing and Consumer Services*, 22, 195–205. Wrigley, C. and R. Ramsey (2016), "Emotional Food Design: From Designing Food Products to Designing Food Systems," *International Journal of Food Design*, 1, 11–29.

Situational Influences. External influences also include situational influences. **Situational influences** are temporary factors unique to a time or place that can change the value seen in a decision and received from consumption. Situational influences include the effect

that the physical environment has on consumer behavior. For example, the presence of music in an environment may shape consumer behavior and even change buying patterns. Timing also plays an important role. Research suggests that for a short time following the purchase

of a lottery ticket, consumers are more likely to participate in impulsive shopping. More enduring temporal factors, such as the economic condition at any given time, also affect the value of things. Exhibit 2.2 shows some of the external influences on one consumer.

Exhibit 2.2

External Influences Shape Consumers' Decisions



situational influences things unique to a time or place that can affect consumer decision making and the value received from consumption

The Customer Value Framework (CVF) helps organize the remainder of this book. The CVF should be a valuable study aid, particularly given that the different theoretical areas of CB are so closely related to each other. Additionally, the CVF is a good analysis tool for solving consumer behavior business problems. Lastly, the CVF is a valuable tool for businesses that are trying to understand the way consumers respond to their product offerings. Thus, the CVF is useful in developing and implementing marketing strategy.

2-2 VALUE AND ITS TWO BASIC TYPES

The heart of the Consumer Value Framework, and *the* core concept of CB, is value. **Value** is a personal assessment of the *net worth* a consumer obtains from an activity. From a marketing perspective, the firm serves consumers well when consumers realize value from activities involving interactions with the firm or its products. Value is what consumers ultimately pursue, because valuable actions address motivations that manifest themselves in needs and desires. In this sense, value captures how much gratification a consumer receives from consumption. In return, the firm receives value from consumers as they make purchases.

Most consumers would not list a convenience store as their favorite place to shop. Consumers see the selection as small, the prices high, and the service minimal. Yet consumers return repeatedly because, as their name implies, convenience is the key to value in this setting. Consumers will actually repeat behavior for which they have previously experienced low satisfaction. Walmart stores do not have a relatively high consumer satisfaction index, yet many customers repeatedly visit Walmart. Walmart delivers value, as we will see in a later chapter. In contrast to these examples, contriving a situation where

consumers are not seeking value is virtually impossible. In fact, everything we do in life we do in pursuit of value.

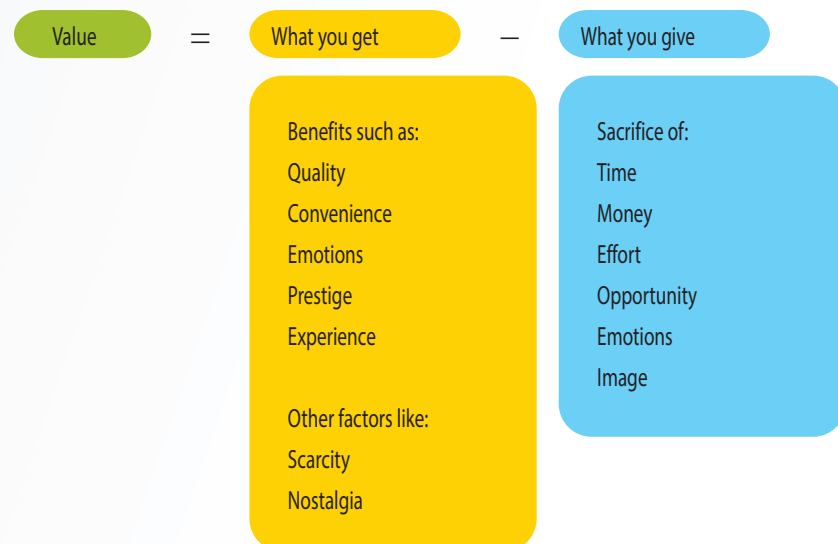
2-2a The Value Equation

Exhibit 2.3 reflects some components of value and how a consumer might put these together to determine the overall worth of something—or its value. Worth to a consumer is actually a function of much more than price. Value can be modeled by playing the “what you get” from product consumption against the “what you have to give” to get the product. The “what you get” includes all sorts of benefits or positive consequences of consumption. The “what you give” includes sacrifices or the negative consequences of consumption. Opportunity costs play a role. For instance, if a student goes out with friends on a weeknight, he may be giving up the opportunity to attend a class. In major decisions, like where to attend college, purchasing a smartphone, or buying a home, one can easily see that the entire CVF is involved. However, even in simpler situations, all the components of the CVF are subtly in play. Thinking back to the chapter opening: when someone lies on an online dating site, they are attempting to distort the value equation from reality. In other words, they are advertising more value than can likely be delivered.

Later in the book, a chapter is devoted to further describing value and other related concepts, including

Exhibit 2.3

The Value Equation



value a personal assessment of the net worth obtained from an activity

expectations, satisfaction, and quality. However, because value is an essential part of consumer behavior, a basic overview is provided in this chapter. While theoretically one could probably break down value into many very specific types, a very useful value typology can be developed using only two types. Thus, we distinguish *utilitarian* value from *hedonic* value.

2-2b Utilitarian Value

Activities and objects that lead to high utilitarian value do so because they help the consumer accomplish some task. **Utilitarian value** is gratification derived from something that helps the consumer solve problems or accomplish tasks. When consumers buy something in pursuit of utilitarian value, they can typically provide a clearly rational explanation for the purchase. For instance, when a consumer calls a plumber, she undoubtedly has a problem like a stopped-up toilet. The consumer purchases the plumbing services because they accomplish something. In this case, the services accomplish the end of getting a toilet working. Actions that provide utilitarian value are worthwhile because they provide a means to an end.⁵ The actions provide value because the object or activity allows something else good to happen or be accomplished. Search engines provide value as a means of providing the end of finding potentially useful information. Cellular service likewise is valuable because it enables mobile phone communication and other functions like texting, online gaming, and internet access.

2-2c Hedonic Value

The second type of value is referred to in CB as hedonic value. **Hedonic value** is the immediate gratification that comes from experiencing some activity. Seldom does one go to a horror film or play PlayerUnknown's Battlegrounds (PUBG) in an effort to get a job done. With hedonic value, the value is provided entirely by the actual experience and emotions associated with consumption, not because some other end is or will be accomplished.

Conceptually, hedonic value differs from utilitarian value in several ways. First, hedonic value is an end in and of itself rather than a means to an end. Second, hedonic



Watching a movie with the family? What are the gets and gives that demonstrate value from the movie experience?

value is very emotional and subjective in nature. Third, when a consumer does something to obtain hedonic value, the action can sometimes be very difficult to explain objectively.

Rather than being viewed as opposites, the two types of values are not mutually exclusive. In other words, the same act of consumption can provide both utilitarian value and hedonic value. Dining in a place like the Hard Rock Café is an event. One doesn't have to go to Hard Rock to eat, but dining there is a lot of fun—an experience. However, the Hard Rock consumer also accomplishes the task of having something to eat—getting nourished. In fact, the very best consumer experiences are those that provide both high utilitarian value and high hedonic value.

What are your favorite movies of all time? Exhibit 2.4 shows the top 10 grossing movies of all time.⁶ Is anything surprising about the list? All are rated G, PG, or PG-13. Not even a single R rating appears among the top 10, even though Hollywood produces more R-rated movies than any other rating. Maybe Hollywood doesn't understand all the ways a movie provides value. With a family film, parents can take the kids to the movie and accomplish

utilitarian value the gratification derived because something helps a consumer solve a problem or accomplish some task

hedonic value the value derived from the immediate gratification that comes from some activity

Exhibit 2.4

All-Time Box Office Sales Movies

Rank	Movie	Latest Release Year	Total Sales (Millions)	% USA Sales
1	Avengers: Endgame	2019	\$2,800	31%
2	Avatar	2009	\$2,790	27%
3	Titanic	1997	\$2,200	30%
4	Star Wars: Episode VII	2015	\$2,100	45%
5	Avengers: Infinity War	2018	\$2,050	33%
6	Jurassic World	2015	\$1,670	39%
7	The Lion King	2019	\$1,660	33%
8	The Avengers	2012	\$1,500	41%
9	Furious 7	2015	\$1,500	23%
10	Frozen II	2019	\$1,450	33%

Source: https://www.boxofficemojo.com/chart/www_top_lifetime_gross/?area=XWW

the job of keeping the kids happy while at the same time enjoying the movie themselves. In this way, movies like these provide high value and the value translates into business success for the studios.

Exhibit 2.5 illustrates the value propositions of example brands. Marketers can do well by concentrating on providing one type of value or the other. In the best-case scenario, they provide high levels of both. Amazon retail epitomizes a brand that does well by concentrating on providing utilitarian value to its customers. Amazon Prime customers enjoy free delivery

Exhibit 2.5

Value Propositions Involve Combinations of Value

		Utilitarian Value	
		Low	High
Hedonic Value	Low	Sears	Amazon
	High	Netflix	Trader Joe's

in a short time period. Netflix is all about entertainment. The term bingeing epitomizes the Netflix experience as consumers become captivated with serials and lose all sense of the world around them. Netflix entertains and as a consequence, provides hedonic value.

It's easy to start thinking about utilitarian and hedonic value as opposites, but one does not exclude the other. In fact, some brands and experiences offer high or low levels of both. Many may find their smart devices typify high utilitarian and high hedonic value. Trader Joe's offers a narrow assortment of high-quality grocery products in an upbeat atmosphere. Compared to many other retailers, Trader Joe's pays employees well and provides them a relatively high degree of flexibility with respect to job duties and work schedules. In return, they want employees to be happy at work so that the mood of the atmosphere transfers to Trader Joe customers. The decision of just how to deliver value becomes an important marketing strategy question.



High utilitarian and high hedonic value help build brand success.

Firms that offer low utilitarian and low hedonic value typically are failing. Sears was the recognized as the most successful retailer in the United States into the 1980s, but, it struggled mightily in the digital era. Currently, Sears is a shell of its former self and has sold off some of its famous private-label brands like Craftsman and Kenmore. Thus, Sears is in the unfortunate position of offering low levels of both utilitarian and hedonic value.

2-3 MARKETING STRATEGY AND CONSUMER VALUE

One way that a company can enhance the chance of long-run survival is to have an effective marketing strategy. To an army general, a strategy provides a way of winning a military conflict. Generally, a **strategy** is a planned way of doing something to accomplish some goal.

2-3a Marketing Strategy

If strategy is a way of doing something, given the purpose of business, a **marketing strategy** is the way a company goes about creating value for customers. The strategy also should provide an effective way of dealing with both competition and eventual technological obsolescence, by making sure the firm's offerings deliver value in a way that competitors cannot duplicate easily and in a way not defined only in terms of the tangible product offered.

A complete understanding of the value consumers seek is needed to effectively develop and implement a strategy. The market is filled with competing Internet service providers (ISPs). CenturyLink, C-Spire, Comcast, Cox, and AT&T are major ISP players. While they obviously compete with each other in certain markets, each also competes less obviously with relatively unknown companies working toward a solution that bypasses ISPs. If the internet becomes easily accessible via satellite or other technology, why would one need an ISP? Couple this with the fact that Skype, Zoom, WhatsApp, among others, provide free real-time voice and video communication, and more and more consumers rely on YouTube, Apple, and Netflix for entertainment; some of these ISPs, cable companies, or phone companies could be in their final years. Each firm needs to understand what benefit they truly provide. A communication company may be a better firm way to define a firm than to define as an ISP or a phone company.

Each firm needs to understand what benefit they truly provide.

When companies define themselves in terms of products like phones, cable TV, or even internet service, they often fail to realize how they truly serve customers. When firms fail to realize how their products provide value, they run the risk of developing **marketing myopia**, defined as a condition in which a company views itself competing in a product business rather than in a value- or benefits-producing business.⁷ Thus, when technology makes a good or service obsolete, the myopic business goes out of business. In contrast, the company that focuses on value creation builds innovative solutions around consumer needs and wants, not the physical product. It is interesting to contemplate what business famous brands like Apple, Google, and Facebook are really in. Do they know? If Walt Disney had defined Disney Inc. as a cartoon company in the 1940s, where would Disney be today? Perhaps we only need to consider its positioning today relative to Looney Tunes to begin to understand marketing myopia.

Strategies exist at several different levels. Exhibit 2.6 demonstrates this point. Basically, **corporate strategy** deals with how the firm will be defined and sets general goals. This strategy is usually associated with a specific corporate culture, which provides an operating orientation for the company. Marketing strategy then follows. Different business units within the firm may have different marketing strategies. In describing how value is created, the strategies tell why customers will choose to buy products or services from a company.

Strategies must eventually be implemented. Implementation deals with operational management. In marketing, this level includes activities known as **tactics**. **Marketing tactics**, which involve price, promotion, product,

strategy a planned way of doing something to accomplish some goal

marketing strategy the way a company goes about creating value for customers

marketing tactics the ways marketing strategy is implemented; involves price, promotion, product, and distribution decisions

corporate strategy the way a firm is defined and its general goals

marketing myopia a common condition in which a shortsighted company views itself in a product business rather than in a value- or benefits-producing business

Exhibit 2.6

Business Strategy Exists at Different Levels



and distribution decisions, are ways marketing management is implemented. Together, marketing strategy and marketing tactics should maximize the total value received by a company's customers.

2-3b Total Value Concept

Products are multifaceted and can provide value in many ways. Consider the market for athletic shoes. Different brands of athletic shoes appear very similar. A running shoe from Nike appears to be made from much the same materials and in much the same manner as a running shoe from Adidas or New Balance. Take a look at the prices and one finds that they have shoes at the same price points, too. However, the market share for the competing brands is nowhere near the same.

Exhibit 2.7 displays the approximate relative market share for the top athletic shoe companies.⁸ If all the products are much the same and sell for about the same prices, then they should have comparable market share. Yet, that's not nearly the case. Nike dominates with more than 1/3 of the total market (about \$22B/annually). Adidas has just over half of the share of Nike, and Puma, New Balance, Under Armour, lag far behind. Nike is more than a rubber sole with leather

augmented product the actual physical product purchased plus any services such as installation and warranties necessary to use the product and obtain its benefits

and nylon uppers and laces: the swoosh matters. Nike does it. A couple of interesting facts that may be more than coincidental:

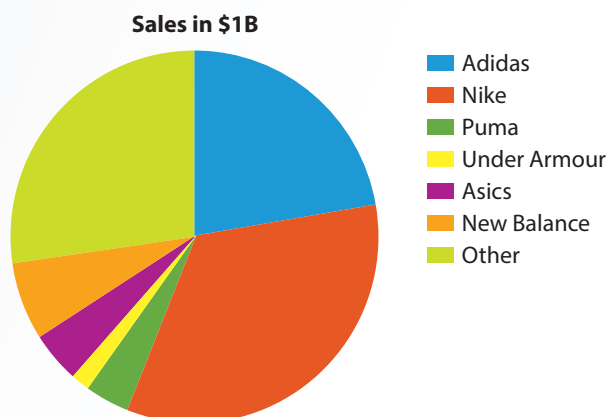
- ▶ Nike's advertising budget is twice the size of its nearest competitor.
- ▶ Nike's revenue is boosted by premium shoes tied to famous athletes like Rory McIlroy, Roger Federer, Zion Williams, and Angela Davis. Nike also pays United States Universities like Ohio State for exclusive rights to provide shoes to its athletes.
- ▶ Among consumers who run more than ten miles per week, New Balance has a share comparable to Nike.

Do these facts shed some light on the way these brands' shoes provide value to the consumer? Probably so. Is the Nike image, fueled by massive amounts of advertising and celebrity tie-ins, as important to the serious runner as it is to the mass market?

While we associate airlines with transportation, they have other ways of providing value. While discount airlines may charge for all sorts of extras, many full-service airlines still offer things like complimentary food and drink and individual electronic entertainment systems for playing games, watching movies, or creating a playlist. Airlines also offer their preferred customers perks like flight lounges, with comfortable workspaces, food, drinks, and sometimes even a place to shower. The term **augmented product** means the original product plus the extra things needed to increase the value from consumption.

Exhibit 2.7

Market Share for Athletic Shoes



Nike is more than a rubber sole with leather and nylon uppers and laces: the swoosh matters.

Thus, every product's value proposition is made up of the basic benefits, plus the augmented product, plus the "feel" benefits. A company must try to understand all the ways a product offers value to its customers. The **total value concept** is practiced when companies operate with the understanding that products provide value in multiple ways. Many products and brands, for instance, provide some benefits that produce utilitarian value and some that provide hedonic value. This value, in turn, helps instill a brand's meaning in the consumer psyche.

2-3c The Total Value Concept Illustrated

Let's consider a consumer who purchases a Ferrari Portofino. Does the consumer buy the car for its near 600 horsepower, twin-turbo V-8 engine, carbon-ceramic brakes, bright colors, or dual-clutch seven-speed gear box? No, the consumer buys the car because of the total value offered. What does the Ferrari Portofino value proposition offer?

1. **Transportation.** In other words, the Ferrari solves the job of getting a consumer from point A to point B. This is one way the Ferrari provides value—utilitarian value in this case.
2. **The Ferrari service plan.** A Ferrari needs TLC. Ferrari offers a three-year warranty, which means for at least three years, the problem of repairing the Ferrari is solved—utilitarian value is added.
3. **The feelings associated with driving the car.** The car can go from 0 to 60 mph in three seconds. At a top speed of over 200 mph, the car can exceed the speed limit, but we know consumers always obey the speed limit—right? The excitement, that is the Ferrari driving experience, provides hedonic value.
4. **The positive feelings that go along with ownership.** The Ferrari owner will certainly take

pride in the car and may also believe that social status comes from being seen as a Ferrari owner. He can even impress friends with a drive on the Pacific Coast Highway.

5. **The feelings of status and pride that come with ownership.** A Ferrari jacket and cap help make the statement, "I'm a Ferrari owner." The realization of ownership provides a hedonic value.
6. **The negative feelings that go along with ownership.** Hopefully, our Ferrari owner is independently wealthy. At a price tag of about US\$250,000, the car loan could be the size of a modest mortgage—not including insurance. If the Ferrari is a financial strain, then worry will result when the owner thinks about the car. Friends may have also suggested that Ferraris are unreliable. All of these feelings may detract from the hedonic value offered by the car.

The total value proposition includes the basic benefits, the augmented product, plus the feel benefits.

Altogether, most readers would certainly like to drive the Ferrari, but probably would not care to pay the high price. Thus, the Ferrari does not offer enough benefits for us to make the necessary sacrifice. If the idea of a driverless car is appealing to you, then you are looking for a different value proposition than the one offered by Ferrari.

2-3d Value Is Co-Created

Alone, a marketer can only propose a way of creating value to consumers. In other words, the marketer cannot create value alone. Rather, consumers add resources in the form of knowledge and skills to do their own part in the consumption process. The marketer's offering does not create value directly, but rather consumption

total value concept the business practice wherein companies operate with the understanding that products provide value in multiple ways



How does the Ferrari provide value? If you understand this, you understand the total value concept.

involves **value co-creation**.⁹ The marketer serves its customer by making potentially beneficial outcomes of consumption available, but the customer plays a role in whether or not the offering's attributes actually do prove beneficial, and therefore valuable. The consumer and marketer, as a true service provider, are active in turning the offer into value. For example, a 24-hour fitness center serves customers by making workout facilities available any time of day. However, the consumer can only realize value from the offer by paying for this service and applying diligence, skill, and effort to a workout regime.

In many instances, a bad consumption experience is not entirely the fault of the business. The consumer plays a role in the value equation as well.

value co-creation the realization that a consumer is necessary and must play a part in producing the value

liquid consumption captures the notion that today's consumer extract value more from immediacy and virtual connections than from ownership or networks of family and friends

marketing mix the combination of product, pricing, promotion, and distribution strategies used to implement a marketing strategy

target market the identified segment or segments of a market that a company serves

market segmentation the separation of a market into groups based on the different demand curves associated with each group

2-3e Liquid Consumption

The sharing economy and social media present other ways that consumers extract value from use. One's self-image becomes influenced by things beyond tangible consumption into the virtual world. The term **liquid consumption** captures the notion that today's consumers extract value more from immediacy and



With liquid consumption, social media followers contribute to a sense of self-worth.

virtual connections than from ownership or networks of family and friends.¹⁰ Thus, a network of friends on social media can help satisfy self-esteem in a way that we formerly thought that material objects led to esteem. Thus, consistent with the total value consumption, the notion of liquid consumption implies that value from consumption can be deep and complex.

2-4

MARKET CHARACTERISTICS: MARKET SEGMENTS AND PRODUCT DIFFERENTIATION

Marketing management involves managing the marketing mix and deciding to whom the effort will be directed. The **marketing mix** is simply the combination of product, pricing, promotion, and distribution strategies used to position some product offering or brand in the marketplace. The marketing mix represents the way a marketing strategy is implemented within a given market or exchange environment. Marketers often use the term **target market** to signify which market segment a company will serve with a specific marketing mix. Thus, target marketing requires that managers identify and understand market segments. But what exactly is market segmentation?

2-4a Market Segmentation

Market segmentation is the separation of a market into groups based on the different demand curves associated with each group. Market segmentation is a marketplace condition; numerous segments exist in some markets, but very few segments may exist in others. We

can think of the total quantity of a product sold as a simple mathematical function (f) like this:¹¹

$$Q = f(p, w, x, \dots z)$$

where Q = total quantity sold, p = price, and w , x , and z are other characteristics of the particular product. The function means that as price and the other characteristics are varied, the quantity demanded changes.

For example, as the price of smartwatches decreases, the quantity sold increases; in other words, there is a negative relationship between price and quantity sold. Negative relationships occur when as one variable increases the other decreases. This type of relationship represents the typical price-quantity relationship commonly depicted in basic economics courses. As the length of the warranty increases (w in this case), more tablets are sold. Thus, if we limit the demand equation to two characteristics (price p and warranty w in this case), the equation representing demand for smartwatches overall might be:

$$Q = -3p + 2w$$

The numbers, or coefficients, preceding p and w , respectively, for each group represent the sensitivity of each segment to each characteristic. The greater the magnitude (absolute value) of the number, the more sensitive that group is to a change in that characteristic. In economics, **elasticity** is a term used to represent market sensitivity to changes in price or other characteristics.¹² This equation suggests that consumers are more sensitive to price than warranty, as indicated in this case by the respective coefficients, -3 for price and $+2$ for warranty.

However, this overall demand “curve” may not accurately reflect any particular consumer. Instead, the market may really consist of two groups of consumers that produce this particular demand curve when aggregated. In other words, the two groups may be of equal size and be represented by equations that look something like this:

$$q_1 = 21p + 3w$$

$$q_2 = 25p + 1w$$

In this case, q_1 and q_2 represent the quantity that would be sold in groups one and two, respectively. Group one is relatively more sensitive to the warranty ($|3| > |1|$), and group two is relatively more sensitive to price ($|25| > |21|$). If we put all the segments together, we get total demand once again:

$$Q = q_1 + q_2$$

Thus, a market for any product is really the sum of the demand existing in individual groups or segments of consumers. The fast-food market may consist of many segments including a group most interested in low price, a group most interested in food quality, a group most interested in convenience, and perhaps a group that is not extremely sensitive to any of these characteristics. In this sense, market segmentation is not really a marketing tactic because the segments are created by consumers through their unique preferences. Market segmentation is critically important to effective marketing, though, and the marketing researcher’s job becomes identifying segments and describing the segments’ members based on characteristics such as age, income, geography, and lifestyle.

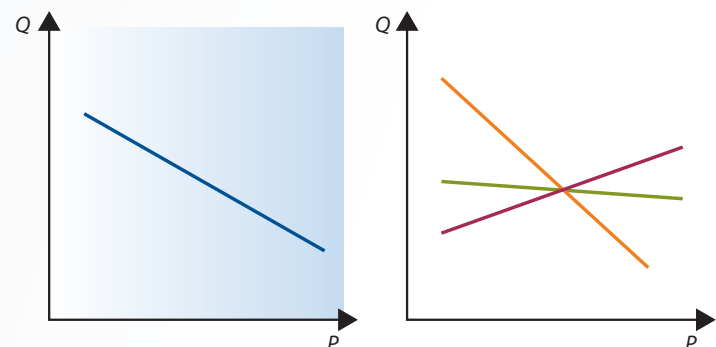
Exhibit 2.8 depicts the market segmentation process. For simplicity, we consider the quantity sold as a function of price alone. The frame on the left depicts overall quantity demanded. Typically, as price goes up (moves right on the x -axis), the quantity sold goes down, meaning price is negatively related to quantity. The frame on the right breaks this market into three segments:

1. The orange line depicts a segment that is highly sensitive to price. Changes in price correspond to relatively large changes in sales. In this particular case, price increases reduce the quantity demanded.
2. The green line represents a segment also sensitive to price, so that higher prices are demanded

elasticity the degree of sensitivity a consumer has to changes in some product characteristic

Exhibit 2.8

Total Market Sales and Sales within Market Segments



less, but this segment is not nearly as sensitive as the first segment. Changes in price are not associated with as large of a change in quantity sold.

3. The violet line turns out to be perhaps most interesting. Here, when price goes up, the quantity sold actually goes up, too. Thus, the group is sensitive to price, but actually buys more at a higher price than at a lower price.

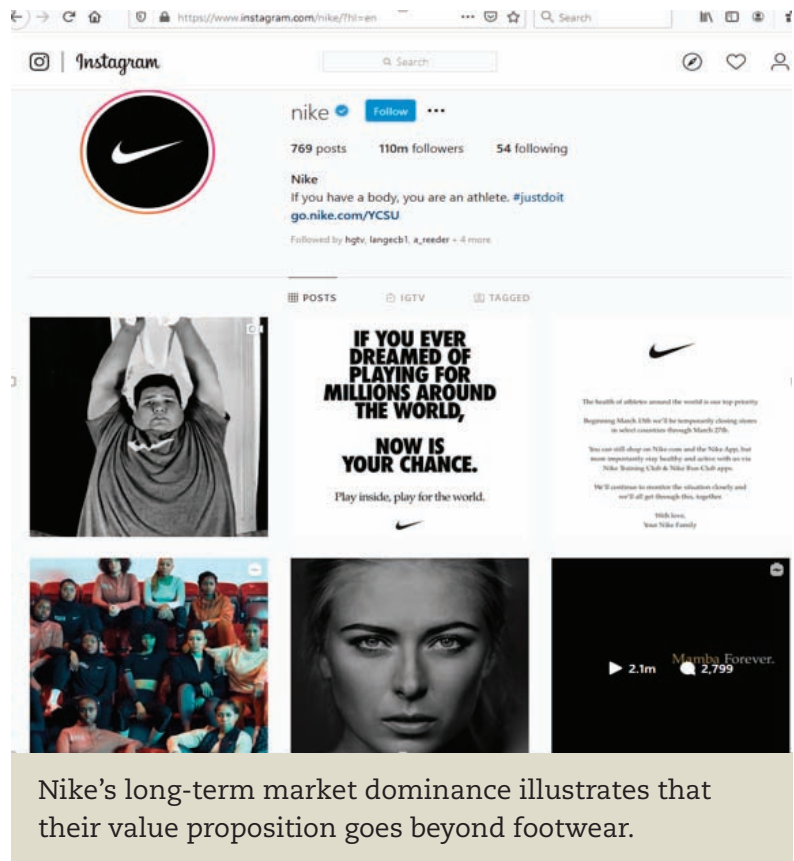
Although a positive relationship between price and quantity may seem unusual, **backward (or upward) sloping demand**, a term used in economics to refer to this situation, is hardly rare. When one considers product category demand, a market segment for many products will feature a positive price-to-quantity demanded relationship. For instance, how much perfume with a brand name of Très Cher could be sold in a gallon container for \$2? Probably not very much. However, Chanel No. 5 is highly demanded at about \$250 an ounce.

Earlier, we discussed the athletic shoe market in the context of the total value concept, and how higher-priced brands were the best sellers. If we think of a change in price as the difference in price between the bargain brands and Nike, most consumers seem to prefer higher-priced shoes. At the very least, athletic shoe consumers appear insensitive to price. Although this may seem inconsistent with “rational” economics, consumer behavior theory offers an explanation. Name-brand products like Nike are indeed worth more, meaning they are more valuable, than bargain-brand shoes. The added value comes not just from the tangible characteristics of the shoes, but also from the feelings that come along with knowledge of the brand.

backward (upward) sloping demand a positive relationship between price and quantity

product differentiation marketplace condition in which consumers do not view all competing products as identical to one another

Added value comes not just from the tangible characteristics of products, but also from the feelings that come along with knowledge of the brand



Nike's long-term market dominance illustrates that their value proposition goes beyond footwear.

Market segments are associated with unique value equations just as they are associated with unique demand equations. Thus, if each segment is offered a product that closely matches its particular sensitivities, all segments can receive high value. This brings us to product differentiation.

2-4b Product Differentiation

Product differentiation is a marketplace condition in which consumers do not view all competing products as identical to one another. We refer to commodities very often as products that are indistinguishable

across brands and/or manufacturers—that is, no matter who produced them or where they were produced. Regular gasoline approaches a commodity status, but even here, a few consumers will regard certain brands as unique. In contrast, consumers looking for companionship do not see all online dating sites as the same. While all of the sites offer potential

utilitarian value in the form of putting users together, they differ in terms of how they do so, in pricing, and in how potential dates communicate with each other. Some offer to narrow the market based on offering services ostensibly to those only of a certain age group, ethnicity, religion, or lifestyle. Thus, farmersonly.com brings together “country” folks. Narrowing the market adds utilitarian value. Others make the communication process more interesting by offering online flirting or winking. Some services, like Tinder, are rated highly for being able to offer casual hookups. Naturally, certain segments, each aligned with various demographic and or lifestyle profiles, gravitate toward the online dating site most suited to them. In the same way, most markets are characterized by product differentiation and market segmentation.

2-5

ANALYZING MARKETS WITH PERCEPTUAL MAPS

Product differentiation becomes the basis for **product positioning**. Positioning refers to the way a product is perceived by a consumer and can be represented by the number and types of characteristics that consumers perceive. A standard marketing tool is a perceptual map.

2-5a Perceptual Maps

Marketing analysts use **perceptual maps** to graphically depict the positioning of competing products. When marketing analysts examine perceptual maps, they can identify competitors, identify opportunities for doing more business, and diagnose potential problems in the marketing mix. For instance, the analyst may realize that by changing the amount of some product characteristic, they can move closer to some segment’s ideal point, and thus increase the competitiveness of the product. Alternatively, a new business may choose to position a product in a way that leaves it facing little direct competition. This can be done by “locating” the product as far away from other brands as possible.

Cirque de Soleil followed a marketing strategy that positioned its offering far away from other circuses by eliminating tents and circus animals (moving into arenas and auditoriums), raising prices (a ticket far above the normal circus ticket), reducing the number of acts, and creating themes for acrobatic shows. In doing so, they created what marketing analysts refer to as a blue



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ocean.¹³ A **blue ocean strategy** seeks to position a firm so far away from competitors that, when successful, the firm creates an industry of its own by finding an uncontested market space where, at least for a time, it isolates itself from competitors.

2-5b Illustrating a Perceptual Map

Exhibit 2.9 illustrates a perceptual map. Perceptual mapping is used throughout this book as a way to link differences in consumer behavior to changes in marketing strategy or tactics. In this case, the perceptual map depicts consumer beliefs about tourist attractions in New Orleans, Louisiana. Each attraction is listed in a small rectangle.

The researcher identified and collected consumer perceptions of the ten tourist destinations and of the **ideal points**, meaning the combination of tourist destination characteristics providing the most value among the five most prominent consumer segments: Adventure Seekers, Culture Explorers, Relaxers, Knowledge Seekers, and Thrill Seekers.¹⁴ Colored ovals indicate these segments centered on each segment’s ideal point. The *x*- and *y*-axes of this plane represent important dimensions that consumers use to separate competitors on specific characteristics. Here, the *x*-axis identifies product offerings based on the spectrum of how relaxing to invigorating consumers view each. The *y*-axis

product positioning the way a product is perceived by a consumer

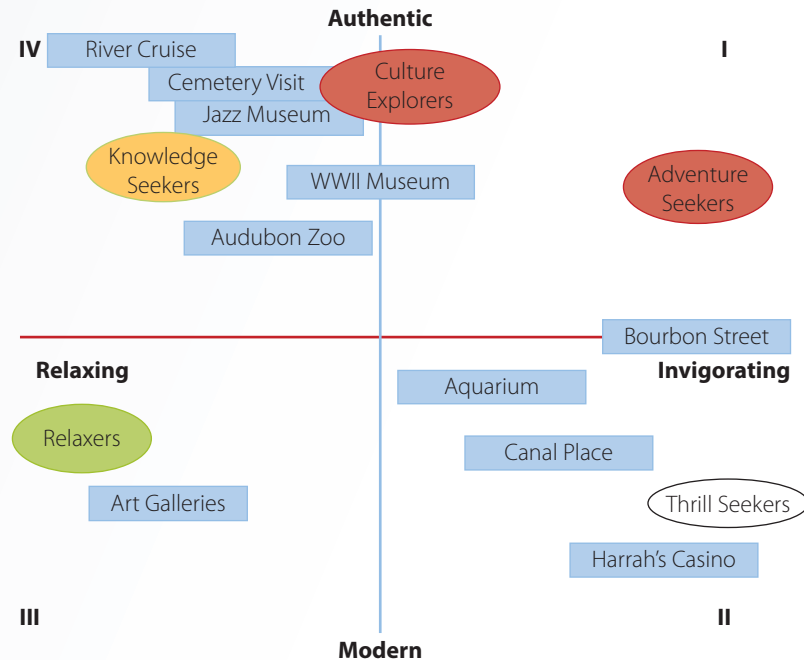
perceptual map the tool used to graphically depict the positioning of competing products

blue ocean strategy positioning a firm far away from competitors’ positions so that it creates an industry of its own and, at least for a time, isolates itself from competitors

ideal point combination of product characteristics that provide the most value to an individual consumer or market segment

Exhibit 2.9

A Perceptual Map for Alternative Tourist Attractions



4. The city's numerous art galleries offer the Relaxer segment an attractive option.
5. The Adventure Seeker segment appears underserved, with no option prominent in quadrant I.

The marketing analyst draws several conclusions based on these observations:

1. The highest demand positioning is in quadrant IV (highly authentic, relaxing). The city's overall image as rich in heritage and relatively laid-back—"The Big Easy" being one of the many nicknames—helps attract consumers looking for these types of experiences.

separates product offerings based on the spectrum of how relatively modern versus authentic consumers view each. The perceptual map allows several key observations.

1. The competition among attractions viewed as highly authentic and relaxing is intense. Consumers regard the Mississippi River Cruises, a visit to the Jazz Heritage Museum, a cemetery visit, and the Audubon Zoo as possessing these characteristics as shown in quadrant IV of the perceptual map. The World War II Museum also competes with these attractions, viewed as a moderately authentic, moderately invigorating attraction.
2. Two segments, Culture Explorers and Knowledge Seekers, possess ideal points near the five segments mentioned above.
3. Harrah's Casino offers an option for the thrill-seeking market with its position as highly exciting,

An entrepreneur wishing to open another major tourist attraction positioned in this way may see the large number of potential customers desiring this positioning as an opportunity. However, the downside to this positioning is the large number of entrenched competitors. In general, competing directly with large, entrenched competitors usually requires a large amount of resources.

2. An opportunity may exist in quadrant I. Here, major competition for the adventure-seeking market appears absent. The advantage of positioning a new business away from the competitors is that it takes fewer resources to get started because the major competitors are not likely to see the new offering as a threat. Here, the opportunity for rustic, overnight stays in the swamplands that surround New Orleans may provide an attractive offering for this segment. The success of such an offering depends on a steady stream of Adventure Seekers coming to New Orleans.

Perceptual maps are widely used to plot the way consumers view competitors in an industry. As illustrated in the example, they are very useful for spotting

opportunities in the marketplace, allowing a business to better understand exactly whom they compete with, and identifying what-if situations by examining what would happen if they changed an offering by raising or lowering characteristics. Very commonly, brands analyze themselves on a perceptual map with price and quality as the dimensions. If a firm lowers price or raises quality, their competition may well change in response. Perceptual mapping is used in practically every competitive industry, including the nonprofit sector. The simple two-dimensional graphics give the user an easy way to analyze a market. Similarly, the search for Blue Ocean strategies often relies on

Businesses are constantly using consumer behavior to make better strategic and operational decisions.

plotting a **strategy canvas**, which often involves more than two dimensions in the search for uncontested market space.

2-5c Using Consumer Behavior Theory in Marketing Strategy

Businesses are constantly using consumer behavior to make better strategic and operational marketing decisions. We will focus considerably on using consumer behavior in business decision making throughout this book. Students, and practicing managers for that matter, sometimes struggle with the application aspect of CB. In other words, how do we translate knowledge of the CVF into more effective analyses and decision making? Checklists can be a powerful aid to decision making as a way to develop more creative, thoughtful, and logically sound marketing strategy and tactics. Exhibit 2.10 displays a checklist inspired by the CVF framework—the CB idea checklist.

strategy canvas a perceptual mapping technique involving more than two dimensions used to identify uncontested market space (i.e., a Blue Ocean positioning)

SOCIAL OPPORTUNITIES

Facebook is not even 20 years old. Yet, it and other social media corporations have grown into huge competitive enterprises competing for customers with differing value propositions. Facebook is relatively popular among older consumers (aged 30 and over) relative to Instagram (more popular for younger consumers). Compared to Facebook, Instagram's visual nature is seen as simpler and more relevant in terms of connecting with friends. Further, Instagram is seen as more secure given Facebook's issues with security. Thus, consumers sensitive to privacy issues may see less value in Facebook. Interestingly, however, although consumer surveys report dissatisfaction with Facebook over security issues, the relative share among the major social media firms remains unchanged since 2018. Now, we'll see what effect TikTok has in a few years as its enhanced video format appears to offer great value

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to adolescent and teen market segments who are the consumers of tomorrow and keen on the short video format.

Sources: Pew Research (2019), Share of U.S. Adults Using Social Media, Including Facebook, is Mostly Unchanged since 2018, Fact Tank, (April 10), 1-9. Mims, C. (2019), TikTok is the Latest Reason Teens are Addicted to Their Phones, Wall Street Journal, (April 27), <https://www.wsj.com/articles/tiktok-is-the-latest-reason-teens-are-addicted-to-their-phones-11556337610?mod=searchresults&page=1&pos=4>, accessed March 31, 2020.

Exhibit 2.10

The CB Idea Checklist

Question	Idea
What specific consumer needs and desires are involved? ▶ Is a specific product(s) involved in this situation? ▶ Can something else provide the same value or address the same need or desire?	
How is the product positioned (types and amounts of value intended)? ▶ How is our position superior to competitors? ▶ How can we get closer to desirable ideal points? ▶ How is our position inferior to competitors? ▶ How can we isolate ourselves from competition and identify uncontested market space (a Blue Ocean)?	
How does the consumer actually receive value from this company? ▶ In the current situation, has value been diminished? Can value be enhanced? ▶ Can the product be modified to enhance value? ▶ Can the company introduce a new product to enhance value? ▶ Can the company add services to improve value for consumers? ▶ Can communication technology be improved? ▶ Can the company invite customer engagement through social media? ▶ Is a competitor in a better position to provide superior value? ▶ If so, how?	
Where is this product consumed? ▶ Can value be enhanced by changing the consumption setting? ▶ When do consumers avoid consuming this product? ▶ Can new uses be discovered in different settings?	
Who? Is buying the product? 1. Individual consumers 2. Groups of consumers (families) 3. Business consumers ▶ Is not buying the product? ▶ Is most engaged with the Brand? ▶ Is least engaged with the Brand?	
Why should a consumer ... ▶ Buy this product? ▶ Avoid this product?	
When do consumers ... ▶ Find the product most valuable? ▶ Find the product least valuable?	
What are the key CVF elements involved in understanding the consumption process in this case?	
Is additional consumer research needed? ▶ Will the information be worth what it would cost to obtain it? ▶ What type of research would be required?	

VALUE TODAY AND TOMORROW— CUSTOMER LIFETIME VALUE

Earlier, we defined marketing as value-producing activities that facilitate exchange. In other words, marketing makes exchange more likely. Exchange is far from a one-way street. Consumers enter an exchange seeking value, and so do marketers. The value the company receives from exchange may be slightly easier to explain than the value that a consumer receives. Obviously, when a consumer spends money for a product, the company receives economic resources in the form of revenue that the company then uses to pay employees, cover costs, and help the firm grow. The company may also receive additional benefits if the consumer becomes a loyal customer who is an advocate for the firm's products.

Thus, not every customer is equally valuable to a firm. Firms increasingly want to know the customer lifetime value associated with a customer or customer segment.¹⁵ **Customer Lifetime Value (CLV)** represents the approximate worth of a customer to a company in economic terms. Put another way, CLV is the overall, long-term profitability of an individual consumer. Although there is no generally accepted formula for the CLV, the basic idea is simple:

$$CLV = npv(\text{sales} - \text{costs}) + npv(\text{equity})$$

The customer lifetime value is equal to the net present value (*npv*) of the stream of profits over a customer's lifetime, plus the worth attributed to the equity a good customer can bring in the form of positive engagement activities including positive referrals and positive word-of-mouth behaviors. Consider a consumer shopping twice weekly at IKEA (see www.ikea.com). On average, this IKEA customer spends \$200 per week, or \$10,400 per year. If we assume a 5 percent operating margin, he yields IKEA a *net* \$520 per year. Even ignoring any potential positive engagement, the consumer is worth about \$9,000 to IKEA today, assuming a 30-year life span, and a 4 percent annual interest rate.

Interestingly, until recently, IKEA did not record customer-level data. Now, when Ikea undertakes a strategic marketing initiative, its impact on CLV is a key metric. For instance, IKEA's use of digital catalogs as a complement to the website and direct marketing is justified by the effect on CLV.¹⁶ In contrast, other firms, from convenience stores to Harrah's Casinos, have elaborate systems for tracking individual customer behavior and targeting these consumers with individualized promotions and products. Tracking systems allow Harrah's to practice one-to-one marketing in a real sense and to identify segments of consumers containing a high proportion of very valuable customers. For instance, one retailer found that high CLV customers tend to have the following characteristics:¹⁷

- | | |
|----------------------|-----------------------|
| ▶ Female | ▶ \$90,000 income |
| ▶ 30–50 years of age | ▶ Loyalty card holder |
| ▶ Married | |

In contrast, the low CLV customers tended to have quite different characteristics:

- | | |
|----------------------|---|
| ▶ Male | ▶ Less than \$70,000 income |
| ▶ 24–44 years of age | ▶ Single channel shopper (meaning only Internet or only stores) |
| ▶ Single | |

Thus, marketers can maximize the value they receive from exchange by concentrating their marketing efforts on consumers with high CLVs. Recently, bargain-conscious fashion consumers have latched on to closeout and reseller retailers like poshmark.com and the realreal.com to be fashionable at a low price. The challenge for the retailers is to build a value-added brand name as a way of sustaining their initial success.

Customer Lifetime Value (CLV) the approximate worth of a customer to a company in economic terms; overall profitability of an individual consumer