FIFTH EDITION

MARKETING MANAGEMENT

DAWN IACOBUCCI

CENGAGE Learning

Marketing Management, Fifth Edition
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Part 4 Capstone

PREFACE

There are several really good marketing management texts, yet this text was created because the Cengage sales force recognized an opportunity. Existing texts present numerous lists of factors to consider in a marketing decision but offer little guidance on how the factors, lists and multiple decisions all fit together.

In this book, an overarching Marketing Framework, used in every chapter, shows how all the pieces fit together. So, for example, when facing a decision about pricing, readers must consider how pricing will impact a strategic element like positioning or a customer reaction like loyalty and word of mouth. This book is practical, no-nonsense, and relatively short, to further heighten its utility. Everyone is busy these days, so it's refreshing when a writer gets to the point. After this relatively quick read, MBAs and EMBAs should be able to speak sensibly about marketing issues and contribute to their organizations.

Chapter Organization

The form of each chapter is very straightforward: The chapter's concept is introduced by describing what it is and why marketers do it, and the rest of the chapter shows how to do it well. This what-why-and-how structure is intended to be extremely useful to MBA and EMBA students, who will quickly understand the basic concepts, e.g., what is segmentation and why is it useful in marketing and business? The details are in the execution, so the how is the focus of the body of the chapter.

Key Features

Each chapter opens with a managerial checklist of questions that MBA and EMBA students will be able to answer after reading the chapter. Throughout each chapter, boxes present brief illustrations of concepts in action in the real world or elaborations on concepts raised in the text, also drawing examples from the real business world. Chapters close with a Managerial Recap that highlights the main points of the chapter and reviews the opening checklist of questions. Chapters are also summarized in outline form, including the key terms introduced throughout the chapter. There are discussion questions to ponder, as well as video resources to serve as points for still further discussion. Each chapter contains a Mini-Case that succinctly illustrates key concepts.

MindTap

The 5th edition of Marketing Management offers two exciting alternative teaching formats. Instructors can choose between either a hybrid print and digital offering or a version that provides completely integrated online delivery through a platform called MindTap. MindTap is a fully online, highly personalized learning experience built upon authoritative content. By combining readings, multimedia, activities, and assessments into a singular Learning Path, MindTap guides students through their course with ease while promoting engagement. Instructors personalize the Learning Path by customizing Cengage Learning resources and adding their own content via apps that integrate into the MindTap framework seamlessly. Instructors are also able to incorporate the online component of Consumer Behavior into a traditional Learning Management System (e.g. Blackboard, Canvas, D2L, etc.) providing a way to manage assignments, quizzes and tests throughout the semester

Instructor Resources

Web resources for the book at www.cengagebrain.com provide the latest information in marketing management. The Instructor's Manual, Test Bank authored in Cognero, and PowerPoint slides can be found there.

Acknowledgments

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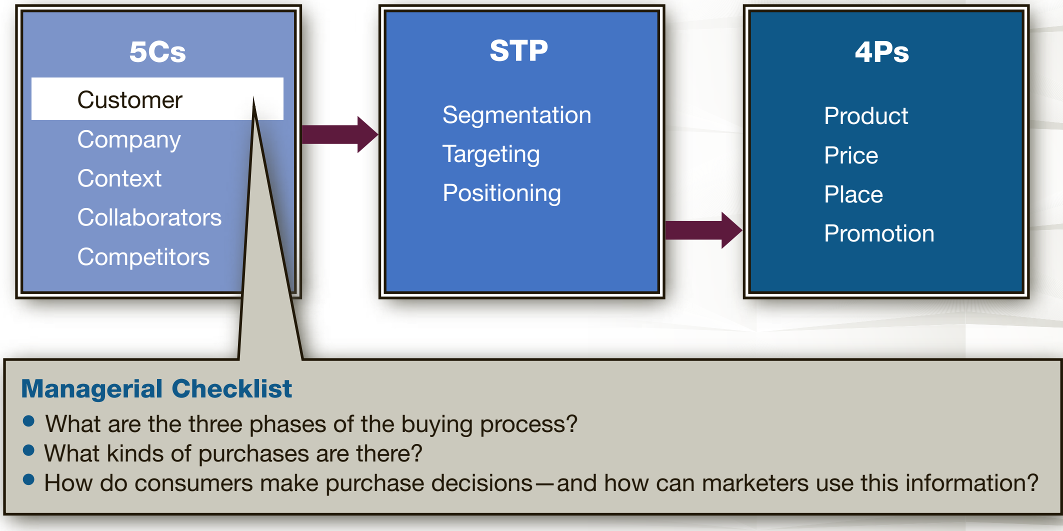
DAWN IACOBUCCI is the Ingram Professor of Marketing at the Owen Graduate School of Management, Vanderbilt University (since 2007). She has been Senior Associate Dean at Vanderbilt (2008-2010), and a professor of marketing at Kellogg (Northwestern University, 1987-2004), Arizona (2001-2002), and Wharton (Pennsylvania, 2004 to 2007). She received her M.S. in Statistics, and M.A. and Ph.D. in Quantitative Psychology from the University of Illinois at Urbana-Champaign. Her research focuses on modeling social networks and geeky high-dimensional analyses. She has published in *Journal of Marketing, Journal of Marketing Research, Harvard Business Review, Journal of Consumer Psychology, International Journal of Research in Marketing, Marketing Science, Journal of Service Research, Psychometrika, Psychological Bulletin,* and *Social Networks*. Iacobucci teaches Marketing Management and Marketing Models to Executives, MBA and undergraduate students and multivariate statistics and methodological topics to Ph.D. students. She has been editor of both *Journal of Consumer Research* and *Journal of Consumer Psychology*. She edited *Kellogg on Marketing*, she is author of *Mediation Analysis*, and co-author on Gilbert Churchill's leading text, *Marketing Research*.

1 WHY IS MARKETING MANAGEMENT IMPORTANT?



1-1 DEFINING MARKETING

Ask the average person, "What is marketing?" and they might say:

- "Marketing is sales and advertising."
- "Marketers make people buy stuff they don't need and can't afford."
- "Marketers are the people who call you while you're trying to eat dinner."

Unfortunately those comments are probably all deserved. The marketing profession, like any other, has its issues. But in this book we'll take a more enlightened view.

This chapter begins with an overview of marketing concepts and terms. We'll see the importance of marketing in today's corporation. We'll then present the Marketing Framework that structures the book and gives you a systematic way to think about marketing, and we'll define all the terms in the framework: 5Cs, STP, and 4Ps.

1-2 MARKETING IS AN EXCHANGE RELATIONSHIP

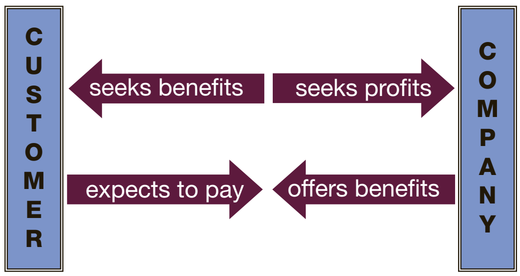
Marketing is defined as an exchange between a firm and its customers.[1] Figure 1.1 shows the customer wants something from the firm, and the firm wants something from the customer. Marketers try to figure out what customers want and how to provide it profitably.

Ideally, this can be a nice, symbiotic relationship. Customers don't mind paying for their purchases—and sometimes they pay a lot—if they really want what they're about to buy. Companies like taking in profits, of course, but great companies really do care about their customers. If we're lucky, the exchange depicted in Figure 1.1 is an ongoing exchange between the customer and the company, strengthening the tie between them.

> *Marketing oversees the customer-brand exchange.*

As a lifelong customer, you are already somewhat familiar with marketing from the consumer side. But on the job, you'll need to understand marketing from the firm's point of view. Throughout this book, you'll see both perspectives. In particular, you'll see all the issues that marketers deal with as they try to deliver something of value to their customers, while trying to derive value from them.

Figure 1.1
Marketing is an Exchange



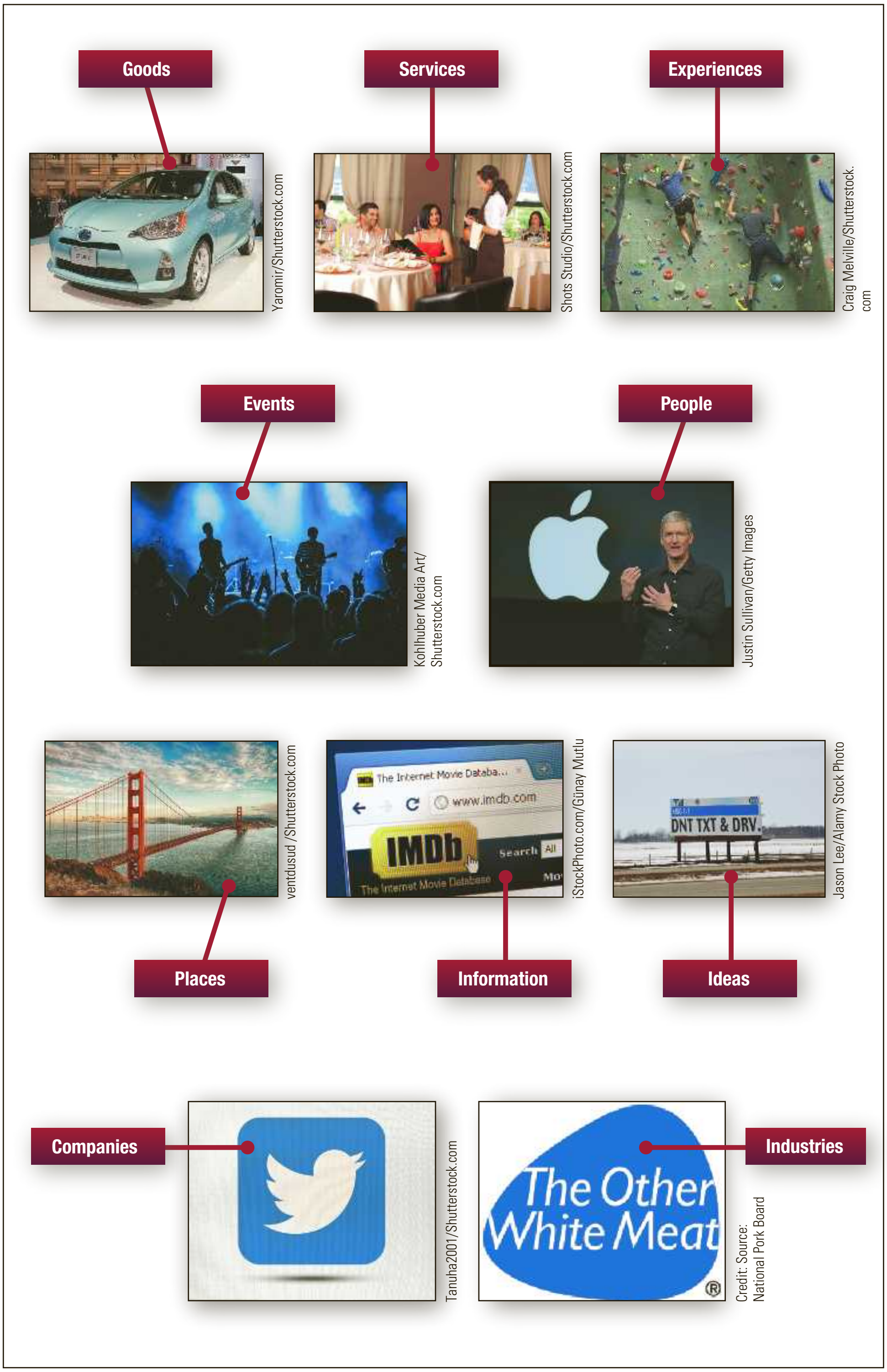
1-2a **Marketing is Everywhere**

Figure 1.2 illustrates that you can market just about anything. Marketing managers sell simple, tangible goods such as soap or shampoo, as well as high-end luxury goods such as Chanel handbags. Other marketing managers work in services, such as haircuts, airlines, hotels, or department stores. Marketers oversee experiences like theme parks or events like theater and concerts. Marketers help entertainers, athletes, politicians, and other celebrities with their images in their respective "marketplaces" (fans, agents, intelligentsia, opinion). Tourist bureaus have marketers who advertise the selling points of their city's or country's unique features. Information providers use marketing because they want customers to think they're the best (and thereby maximize their ad revenue). Marketers at nonprofits and government agencies work on "causes" (e.g., encouraging organ donation or drinking responsibly). Industries market themselves (think of the beef or milk ads). Naturally, companies use marketing for their brands and themselves. And you can market yourself, e.g., to a job interviewer or potential amour. These goals may look different, but marketing can be used beneficially in all these situations.

1-3 **WHY IS MARKETING MANAGEMENT IMPORTANT?**

Marketers have evolved beyond being merely product or production focused, where the company mind-set is, "Let's build a better mouse trap." We know that approach doesn't work. There's no point in just cranking out better gadgets unless the customers want them

Figure 1.2
What Can We "Market"?



CUSTOMERS' PERSPECTIVE

Marketing can seem intuitive because we're all consumers. But we're not always the target customer for the brands we're building. As a Brand Manager or CEO, don't forget to put yourself in the shoes of your customers every once in a while, to see your brand from their perspective. When you do, you'll understand their wants and needs better. That alone will give you an advantage over your competitors!

because the gadgets won't sell. However, there are still pockets of marketing naïveté in a number of industries. For example, some museums believe they don't need marketing. They think people should appreciate their exhibits, and, if they don't, it's because the public is ignorant. Perhaps the general public is indeed relatively unsophisticated culturally, but marketing can be used to educate the public.

We're also more advanced than the old sales-oriented days when the action in the marketplace was, "Let's make a deal." This mentality still exists in places like drug companies, which push their sales forces to impress physicians. But usually sales dynamics occur where the product is perceived to be a commodity. In contrast, marketers should be good at communicating product distinctions. As much as direct-to-consumer pharma ads annoy physicians, they attest to the power of marketing. The ads result in patients asking their doctors for particular brand names.

These days we live in a truly customer-oriented and customer-empowered marketing world. Marketing is even said to be evidence of evolved markets—that an industry or country has moved beyond production and sales and seeks true relationships with its customers. Marketers seek to identify their customers' needs and wants, and they try to formulate attractive solutions. Marketing can make customers happier, thereby making companies more profitable. Throughout the book, you'll see how.

1-3a Marketing and Customer Satisfaction is Everyone's Responsibility

Many management gurus believe that marketing has succeeded so well that it isn't just a "function" in an organization anymore. Marketing is more of a philosophy—a way to think about business. The marketing orientation should permeate the organization.

- Accounting and finance need to acknowledge the importance of marketing. Why? Because their CEOs do. Thinking about customers is unimportant only if you're a monopoly, and even then, you won't be one for long.
- Salespeople understand marketing immediately. They're the front line, interfacing with the customer. They want to push their firm's stuff, but they're thrilled when their company actually makes stuff that customers want. Then their jobs are so much easier.
- R&D people tend to understand the marketing spirit, too. They're hired because they're technically sophisticated, but they get jazzed when their inventions become popular. It doesn't take much marketing research to test concepts or prototypes and to veer an R&D path one way or another.

One of the factors stressing marketers these days is the pressure to show results. It's fair to hold any part of the corporation accountable, and results may be measured for a number of marketing activities. The Chief Financial Officer (CFO) who wants to see that a recent coupon promotion lifted sales can get reasonably good estimates from the Chief Marketing Officer (CMO) about effectiveness, e.g., the percentage sales increase attributable to the coupon introduction. The Chief Operating Officer (COO) can also get good estimates of whether a recent direct mail campaign to target customers has been effective in encouraging frequent buyers to go directly to the Web for purchasing.

However, it's important not to go overboard in the effort to quantify. For example, how does one assess the value of a good segmentation study? If segments are poorly defined, any

TENGKU BAHAR/Staff/AFP/Getty Images

Marketing speaks to customers wherever they are.

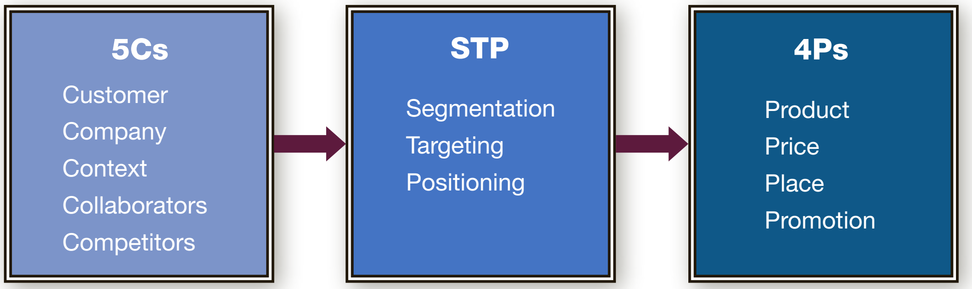
subsequent marketing efforts would be completely off, so a good segmentation scheme is invaluable. Advertising is also a little tricky. Non-marketers have the misconception that advertising is supposed to bump up sales. It can, and that bump is easily measured. But really great advertising isn't intended for a short-term effect on sales. Great advertising is intended to enhance brand image, a goal that is relatively longer term and thus more difficult to measure.

In addition to quantifying the effectiveness of marketing programs, marketers are motivated to translate their efforts into dollars for another reason: to have a "seat at the table." Marketers want to make sure that the CMO carries as much weight in the firm as the CEO or CFO or COO. They all speak finance, so the marketer is frequently motivated to translate progress into financial terms. Fortunately, technology and data are increasingly enabling more opportunities for the marketer to make such assessments. For example, a good customer relationship management (CRM) program allows marketers to run a field study to assess the impact of a new promotion, and tracking Web data allows marketers to determine the product combinations that are most attractive to customers.

1-4 THE "MARKETING FRAMEWORK": 5CS, STP, AND THE 4PS

Figure 1.3 provides the marketing management framework. Marketing is captured by the 5Cs, STP, and the 4Ps. The 5Cs are customer, company, context, collaborators, and competitors. The 5Cs force a businessperson to systematically frame the general analysis of the entire business situation. Figure 1.1 shows that the *customer* and *company* are the central players in the marketing exchange. The *context* includes the backdrop of macro-environmental factors: How is our economy and that of our suppliers doing? What legal constraints do we face, and are these changing? What cultural differences do our global segments manifest? The *collaborators* and *competitors* are the companies and people we work with vs. those we compete against (though drawing the line is sometimes difficult in today's interconnected world).

Figure 1.3
Marketing Management Framework: 5Cs, STP, 4Ps



STP stands for segmentation, targeting, and positioning. A company or a brand may want to be all things to all people, but most are not. It's best to identify groups, or *segments*, of customers who share similar needs and wants. Once we understand the different segments' preferences, we're in a position to identify the segment we should *target* with our marketing efforts. We then begin to develop a relationship with that target segment by *positioning* our product to them in the marketplace, via the 4Ps.

The 4Ps are product, price, promotion, and place. A marketer is responsible for creating a *product* (goods or services) that customers need or want, for setting the appropriate *price* for the product, for *promoting* the product via advertising and sales promotions to help customers understand the product's benefits and value, and finally for making the product available for purchase in easily accessed *places*.[2]

Marketing management oversees the 5Cs, STP, and 4Ps with the goal of enhancing the marketing exchange (of goods, services, payment, ideas and information, etc.) between a customer base and a firm. It all sounds easy! Group your customers, and figure out which group to target. Then create a position in the marketplace by means of the features of the product, its price, communications and promotions, and distribution choices. Ah, but don't dismiss marketing as only common sense; after all, consider how few companies do it well!

If marketing is an exchange, then, just like an interaction between two people, a company has its best chance at keeping its customers happy if it is in close communication with them. The company that does its marketing research and really listens to its customers will be able to deliver goods and services that delight those customers. The best marketers put themselves in the place of their customers: What are they like? What do they want? How can we play a role in their lives? In this book, we'll elaborate on these themes. If you get overloaded while reading this book, you can step back and remember this: You'll always be a step ahead of your competition if you simply think about your customers! All marketing strategy derives from that.

To elaborate on marketing strategy and develop a particular marketing plan, start with a situation analysis, and sketch answers to the following questions:

- *Customers:* Who are they? What are they like? Do we want to draw different customers?
- *Company:* What are our strengths and weaknesses? What customer benefits can we provide?
- *Context:* What is happening in our industry that might reshape our future business?
- *Collaborators:* Can we address our customers' needs while strengthening our business-to-business (B2B) partnerships?
- *Competitors:* Who are the competitors we must consider? What are their likely actions and reactions?

With that background analysis, proceed to strategic marketing planning via STP:

- *Segmentation:* Customers aren't all the same; find out their various preferences, needs, and resources.
- *Targeting:* Pursue the group of customers that makes the most sense for our company.
- *Positioning:* Communicate our product's benefits clearly to the intended target customers.

Similarly, marketing tactics to execute the intended positioning derive from a customer focus:

- *Product:* Will customers want what our company is prepared to produce?
- *Price:* Will customers pay what we'd like to charge?
- *Place:* Where and how will customers purchase our market offering?
- *Promotion:* What can we tell our customers or do for them to entice them to purchase?

That doesn't sound too difficult, right? But customers' preferences change. And the competition is also dynamic; who they are changes as well as what they offer your customers. Factors that are out of your control change as well. For example, as marketing manager or CMO, you won't have control over whether your company is merged with another whose image seems inconsistent with your brand, but you'll have to deal with it. Further, the legal environment in this country is different from that in another's, and each is always in flux. Many such contingencies call for modifying marketing plans. So the inputs keep changing. (But if marketing weren't challenging, it wouldn't be as fun!)

> *Good marketing makes any company better!*

As Figure 1.3 indicates, if we keep an ongoing read on the 5Cs, it will make us better informed as we approach the STP task. These background indicators will apprise us of which qualities of a customer base are likely to be relevant as we identify segments. The P of positioning in STP is done via all 4Ps. Thus the 5Cs, STP, and 4Ps operate interdependently. Optimal business solutions (in real life or in class case discussions) should reflect a working knowledge of all of these elements, and their connections; as a contextual factor changes, what is the predicted impact on distribution channels? As a collaborator shifts its demands, what will that do to our pricing structure? As our company sells off a nonperforming function, what impact might that have on our positioning and customer satisfaction? The plot thickens!

1-4a Book Layout

Marketing is involved in designing products that customers will enjoy, pricing them appropriately, making them available for purchase at easy points of access in the marketplace, and advertising the products' benefits to customers. Throughout this book, we'll assume that we're talking about customers all over the world. This internationalism is already true for most big firms, and it will be true even for small entrepreneurs via the Internet or once they succeed and grow. We'll also assume the omnipresence of the Internet and always consider it a factor in data intake or in customer channels of interactions with the company. In addition to aiming for global citizenship and recognizing the Internet as essential as air, we will offer fresh, fun examples throughout the book, such as Vegas and Ferrari, instead of laundry detergent.

ethics

Ethics: Have a Heart

It is a good thought exercise to consider any dilemma from 2 perspectives:

1) Outcomes
   a) An outcome orientation is called consequentialism or teleological ethics (fancy words to impress an interviewer).
   b) This perspective believes that "the end justifies the means."
   c) As a manager, you'd ask, "What should I do to produce the most good (or the least harm)?"
2) Processes
   a) An orientation toward fair process is called deontological ethics.
   b) The idea is that the process must be fair, regardless of the outcome that might results.
   c) Managers suggest an action as the right one to take according to a principle, such as human rights (e.g., fair pay) or environmental sustenance (e.g., green packaging).

Throughout the book, we'll encounter several classes of ethical issues: don't price discriminate, don't target uninformed groups, don't advertise deceptively, etc.

If you want an additional challenge, assess a scenario from multiple viewpoints. For example, deontologically, we might say, "We never price discriminate!" Teleologically, we might say, "To maximize value to our shareholders, we should charge different prices to different customer segments." See? The plot thickens!

This book will train you to think like a marketer. You'll see that great marketing is not a soft discipline, it's not an art, nor is it simply intuitive. Great marketing is based on sound, logical—economic and psychological—laws of human and organizational behavior. You will learn the scientific and rigorous way to think about marketing issues, so that, in the future, when your situation looks nothing like the ones you've talked about in school, you'll know how to proceed in finding your optimal solution. (*Hint:* Keep the framework close at hand!)

1-4b Learning from the Marketing Framework

There are two key features to how the material is organized in this book. First, MBA and executive students learning marketing management typically want to see a framework depicting how all the marketing pieces come together to form the whole picture. To give you the big picture as well as to provide you with the in-depth details, Figure 1.3 kicks off every chapter with a Managerial Checklist of questions and issues that the reader can expect to understand better at the close of the chapter. Those questions are revisited at the end of the chapter in a list format called Managerial Recap. The chapters are mapped onto the framework as depicted in Figure 1.4.

You'll become very familiar with this marketing management framework. You will see the 5Cs, STP, and 4Ps over and over again, so you'll pick them up nearly by osmosis.

We want to make great marketing part of your DNA. You'll know that any marketing strategy and planning must begin with the 5Cs assessment and then a strategic look at STP, before turning to the strategies and tactics of the 4Ps.

When you're . . .

- Working on a case for class,
- Or trying to answer an interviewer intelligently,
- Or trying to impress your boss at work,
- Or trying to launch your own business.

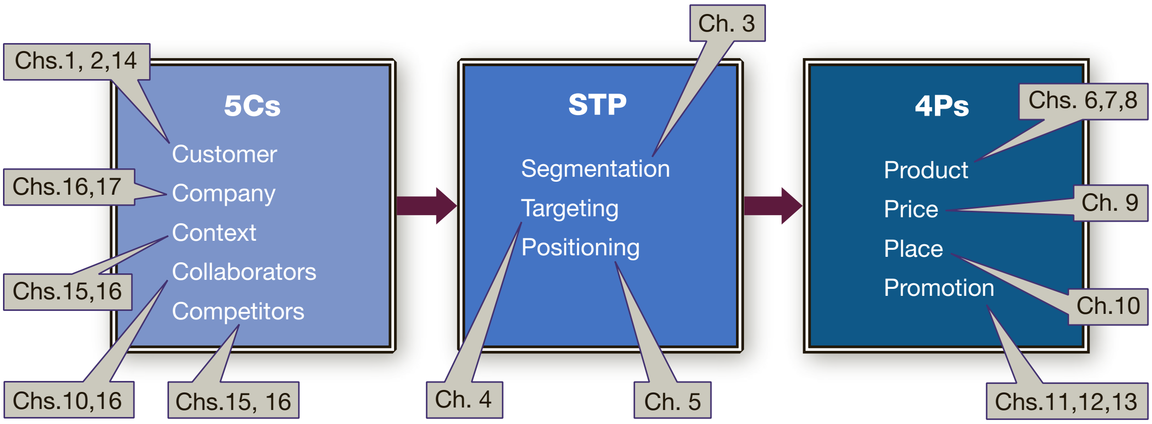


Figure 1.4
Chapters Mapped to Marketing Framework

You'll see the framework in your head. It will remind you of everything that needs to be addressed and how all the pieces fit together. The framework will make you process these marketing questions very thoughtfully and systematically.

1-4c The Flow in Each Chapter: What? Why? How?

The presentation scheme we've adopted in this book is that each chapter covers the What, Why, and How. Specifically,

- What is the topic in this chapter?
- Why does it matter?
- How do I do this? Show me what to do so that I can be successful!

Between the marketing framework and the practical flow of the chapters, you'll gain a strong, clear knowledge of marketing both at the strategic, conceptual level and at the tactical, hands-on level. Both levels of insight will help ensure your success throughout your career, whether you're a marketer, a brand manager, an advertising exec, a CMO, or a well-informed financial analyst, CEO, or world guru.

MANAGERIAL RECAP

Marketing can make customers happier and therefore companies more profitable. Marketing will enhance your career, and marketing can make the world a better place. Honest!

- Marketing is about trying to find out what customers would like, providing it to them, and doing so profitably.
- Ideally, marketing facilitates a relationship between customers and a company.
- Just about anything can be marketed.
- The overarching marketing management framework—5Cs, STP, 4Ps—will structure the book and help you to think methodically about the big picture of marketing.
- Don't forget! Stay focused on your customer! If you can remain customer-centric, you'll be five steps ahead of the competition.

Chapter Outline in Key Terms and Concepts

1. Defining marketing
2. Marketing is an exchange relationship
   a. Marketing is everywhere
3. Why is marketing management important?
   a. Marketing and customer satisfaction is everyone's responsibility
4. The marketing framework: 5Cs, STP, and the 4Ps
   a. Book layout
   b. Learning from the marketing framework
   c. The flow in each chapter: What? Why? How?
5. Managerial recap

Chapter Discussion Questions

1. Before reading this chapter or beginning class, what did you expect marketing to be? Ask a family member, classmate, or coworker what they think marketing is. See whether you can persuade them that marketing enhances a mutually beneficial exchange between a customer and a company.
2. What are examples of brands and companies you like? Why do you think you like them? What is a brand you can't stand? Why not?
3. Think about a recent time when you bought something or tried to do so and you were treated poorly as a customer. What was the essential problem? If you ran the company, what would you do to ensure happier and more loyal customers?
4. List three brands you're loyal to. List three things you tend to buy on sale. How are the product categories represented on these two lists different for you?
5. What social problem do you think is the world's biggest? Wars? Global warming? Resource imbalances? How could you start to solve a big social problem through marketing?

Video Exercise: Southwest Airlines (13:55)

The Southwest Airlines brand is that of a low-fare carrier with the highest level of customer service—and with fun added into the flying experience. Southwest Airlines strives to provide its customers with a total product experience that includes check-in, boarding, flying, and baggage claim experiences. In providing this total product experience, the airline strives to fully meet the needs, wants, and desires of its customers. Southwest regularly surveys its customers regarding all components of the product experience in order to foster continuous improvement. Southwest also conducts extensive quantitative and qualitative research to better understand customers' needs, as well as to explore possible product experiences that the company might offer in the future. Southwest operates on the premise that having new products is what makes a company successful over time. Thus, while maintaining its commitment to low fares, excellent customer service, and fun, Southwest seeks to identify product experiences that different market segments would like to have. The company then builds those experiences into the ticket price structure rather than charging customers with numerous add-ons. Taking this approach enables Southwest Airlines to better tailor its total product experience to the wants, needs, and desires of its different market segments.

Video Discussion Questions

1. Describe the marketing exchange relationship between Southwest Airlines and its customers.
2. Describe the 5Cs of the marketing framework as they pertain to Southwest Airlines.
3. How does Southwest Airlines' approach to providing a total product experience capture the marketing framework elements of STP (segmentation, targeting, and positioning) and the 4Ps (product, price, place, and promotion)?

MINI-CASE

How to Design an Attractive Wearable

A large electronics manufacturer wishes to issue a new "wearable." The company wants to design it such that it will make money with the purchase of the unit, of course, but that it will also make money as its customers use it. In addition, the company would like to capture data about the customers' profiles, in terms of their activities, spending patterns, etc.

Wearables vary in many ways, and initially, the brand management team proposed to issue a design that looked like a small smartphone, to be worn on the user's wrist. Given the still relative novelty of such units, they thought they'd charge on the high end, about $100, maybe even instituting a small annual fee. To get supplementary data, they thought they'd issue periodic surveys, about once a quarter, via the unit or via e-mail.

The youngest marketer, newest to the team asked, "Well, that's good for us, but how is it attractive to our customers? Why would they want this unit—when there are plenty of others out there?" One old manager shot out a withering look. Well, that'll teach the young person to speak up in the meeting. But the senior-most manager spoke up and said, "Well, you're right, we're only looking at it from our point of view. What would this wearable look like that our customers would want—and that can be profitable to us?"

What would help these marketers? What steps could they take to design a wearable that would be both optimally appealing to its customers (and perhaps attract new customers), as well as optimally profitable?

A wearable could vary on many parameters, such as whether it would be worn on the wrist like a watch, or as an earbud like music headphones or smartphone speakers, or as an add-on unit to glasses. Early prototypes suggested that while earbuds or eyeglass designs were good at capturing GPS, they weren't as versatile in supporting multiple apps, and they weren't as precise as exercise (step) counters (for example, the head didn't move as distinctly as the user's wrist while walking). That is what led the brand managers to ask the designers to create a wrist-wearable.

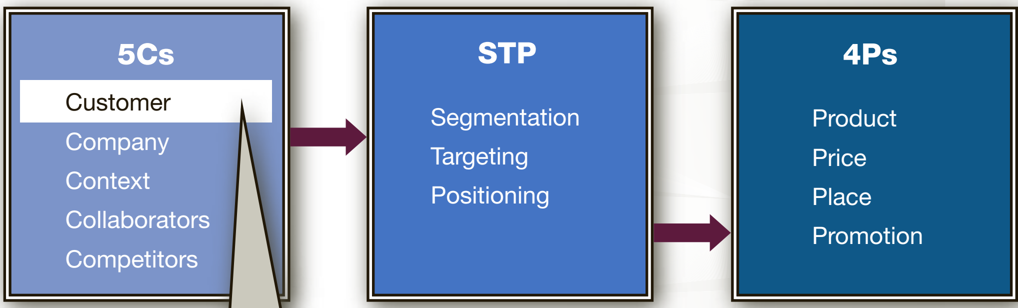
Even so, there were many possibilities: Should the unit look like a small smartphone or like a nice classic wristwatch in design? Should the apps be accessed by touch only or should the apps also be voice-activated? Should there be an annual licensing fee? Should they allow co-branding with affiliations (e.g., a professional sports team or one's college alma mater)? Which features should be recommended as the unit is designed?

This electronics firm has little experience in marketing research as well, so the older managers were uncertain as to how to proceed. One mentioned a focus group, another suggested an ethnography, and a third mentioned surveys. The information that is sought, as well as the method by which the information would be obtained, are both to be determined. Naturally, the company wants to roll out the new wearable as soon as possible, so while the research project could be well-funded, they would face time pressure and would have to be judicious in their choice of research avenues.

Case Discussion Questions

1. Are the old managers right? A lot of other wearables focus on counting steps or enabling apps. Is that what this group should design, so as to be seen as a legitimate competitor and not confuse customers, or should they design something different to be seen as innovative?
2. Are the people in the room a good proxy for their customers? Are the young managers a better proxy than the older managers?
3. What additional information would be helpful to strengthen a recommendation?
4. How would that information best be obtained?

CUSTOMER BEHAVIOR 2



Managerial Checklist

- What are the three phases of the buying process?
- What kinds of purchases are there?
- How do consumers make purchase decisions—and how can marketers use this information?

There is some subjectivity in marketing (and in business generally), but there are also many known, reliable patterns that comprise the science of consumer behavior. Most of this chapter talks about these effects and how managers can use this knowledge wisely. To prepare, we first consider the three major phases that consumers go through when making any purchase. Next, we'll see the different kinds of purchases that consumers make. Then we'll drill down and see what makes consumers tick.

2-1 THREE PHASES OF THE PURCHASE PROCESS

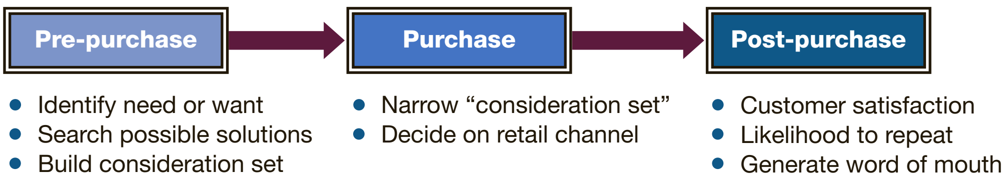
Customers go through predictable stages in making a purchase. In the pre-purchase phase, the customer identifies that something is lacking—there is a need or a desire to be satisfied. Critics sometimes say that marketers create desires in people that they didn't already have. There is some truth in that (e.g., "Is your breath fresh?" "Do you own the coolest running shoes?"), but even without marketers, people really do need and want all kinds of things. Then the hunt begins. Buyers search for information about products and brands that may be suitable.

For example, a newly minted MBA student has multiple wants: new clothes, a car, a condo and furnishings, a list of restaurants in a new city to take clients or visiting friends, a new dentist, a drycleaner, etc. Such consumers might search for alternative solutions by going online or asking friends. They might evaluate alternatives by reading *Consumer Reports* or going to BizRate.com. By comparison, a newly promoted business executive might want a corporate jet. Possible vendors would need to be investigated, and alternatives could be evaluated by soliciting and entertaining bids. While the objects and details of these two purchases may look different, they both entail a variety of pre-purchase activities.

During the purchase phase itself, the consumer is creating a consideration set that includes all the brands that are deemed potential candidates for purchase and that excludes the brands that have been rejected.[1] The MBA student may limit the car search to include only hybrids. The condos considered would be only those within a certain price range. The restaurants selected might be only those with menus that can be previewed online. Analogous considerations factor into the executive's jet quandary: What attributes are important? What attributes must I have or not have? What attributes don't I care about and therefore will not pay high prices for?

The final stage is the customer evaluation post-purchase. Buyers assess their purchase and the purchase process, posing such questions as: Am I satisfied as a customer? Will I buy this brand again? Will I tell my friends what a great brand I've found? Figure 2.1 shows the complete process, from seeing that there is a need, to choosing and buying something expected to be a solution to the need, and finally, to assessing one's satisfaction with that purchase. For example, imagine running to an interview and the strap on your messenger bag breaks. You're able to grasp the bag before it hits the ground and possibly shakes up your tablet. However, obviously you realize you need a new messenger bag. You go online and order a new bag. When it arrives, you like the looks, the protective inner sleeve for your tablet, it has a few new features you like, and you had thought the price was pretty reasonable. You're pleased that the bag achieved its mission.

Figure 2.1
The Purchase Process



B2B Buying Center Roles

In B2B, big, expensive, purchases can be complicated because it's not just one person making the decision. Each purchase involves a half dozen or so roles in a buying center:

- *The Initiator:* An administrative assistant who notices that one of the printers in the office is frequently breaking down.
- *The User:* Every staff member who tries to use that printer.
- *The Influencer:* The IT guy who says, "Well, Brand X is cheaper, but Brand Y is cooler."
- *The Buyer:* The head administrative person whose responsibilities are to facilitate supplies but also to answer to . . .
- *The Gatekeeper:* A conservative accountant type whose job it is to tighten purse strings.

A decision to buy a new printer is complicated by the fact that each of these roles seeks slightly different attributes. Some care only about price, others want great features, and still others may appreciate wiggle room in negotiating delivery dates or follow-up customer service.

The buying process is consistent whether the buyer is a consumer or a business. Consumer buying is easy to relate to. It involves people buying something for themselves or their households, and we are those people. A business customer is an agent buying something on behalf of an organization. The agent can be an administrative assistant deciding to use UPS or FedEx, or the agent can be a group of people, representing different aspects of the organization (accounting, operations, etc.), comprising a collective buying center. All purchases, business-to-consumer (B2C) or business-to-business (B2B), go through the three stages, but the amount of time spent in any stage depends in part on what is being bought. For example, sometimes the pre-purchase phase is extensive, and sometimes it is very quick. So let's consider some classes of purchases.[2]

2-2 DIFFERENT KINDS OF PURCHASES

Marketers distinguish between types of purchases. For consumers, a convenience item is a fairly mindless purchase of "staples" (standard, frequently-consumed goods, such as bread or gas) or an impulse purchase (such as candy or magazines that are available near grocery checkouts). There are also shopping purchases, which require some thought or planning, as when using OpenTable to find a restaurant before heading out of town. Finally, there are specialty purchases such as a car or new laptop. These purchases are occasional, they are often more expensive than other types of purchases, and as a result they require more thought.

For B2B customers, the terms are different from consumer buying, but the ideas are analogous. A purchase can be a straight rebuy, such as when the office copier needs toner and the office manager buys the usual brand. Another purchase may be a modified rebuy, such as when the copier lease comes up and there is a desire to consider a different vendor. Last, there is the new buy. For example, perhaps the company is considering buying teleconferencing equipment for the first time, and it is not yet well-understood what attributes to consider.

As Figure 2.2 indicates, what differentiates these purchases is not the product itself. The distinction is more in the minds of the customers and in their involvement with the brand and product category. For example, the purchase of the same product—an energy drink—can be convenience when shoppers mindlessly put their usual brand in their grocery cart; it can be a shopping purchase when customers see a new offering that they consider trying; and it can be a specialty purchase when customers see an expensive brand that promises antioxidants, which they choose to read up on before making a purchase.

Figure 2.2

Types of Purchases in B2C & B2B Is a Matter of Customer Involvement

← Customer Involvement →

	Low	Medium	High
B2C	Convenience	Shopping	Specialty
B2B	Straight rebuy	Modified rebuy	New buy
Action	"Add to Cart" or "Click to buy"	Needs some thought	Needs research and serious thought

Consumers purchase convenience items—or business customers a straight rebuy—in a fairly mindless manner. It's the proverbial no-brainer. Buyers won't spend much time thinking about brands or attributes because they just don't care enough to do so. The challenge for marketers is to break that thought pattern (not that it's very thoughtful!)—to shake up the consumer with news of their brand and break through that white noise clutter.

For items that customers care more about, they'll expend some time and effort prior to the purchase, seeking out more information to be a smart shopper and to obtain good value. For even higher customer involvement, as in specialty purchases or new buys, the customers are more engaged. A great deal of effort is put into researching the best brands, quality, and price. The marketer's challenge is to convince the buyer that their brand is the best choice.

Types of B2B Customers

B2B customers are often classified according to what they sell:

- Installations (e.g., equipment for new factories)
- Accessories (e.g., computers to help run the office)
- Raw materials (e.g., lumber, plastics)
- Components (processed items that are components in a later finished product)
- Business services (e.g., insurance, legal, consulting)

Ultimately, the most important classification is how much the buying business cares about the purchase. Then we'll know whether they care primarily about quality or price.

The category that a brand and target segment is in will suggest the appropriate marketing activities that we'll select from in the chapters that follow. For example, for lower-involvement purchases, we can expect customers to be somewhat more price sensitive. They'll pay more when they buy things they really like or want (e.g., a cool laptop) or that they expect to be of high quality (e.g., a great restaurant) or that is important to them (e.g., health care for their parents).

Consider the implications for loyalty programs. The marketer can create such programs regardless of the level of customer engagement, but they'd take different forms, e.g., price discounts for low-involvement purchases vs. brand communities and events for high-involvement products and brands. Customer satisfaction can be fine for low-involvement purchases, but customers won't generate word of mouth; they don't care enough. In contrast, for high-involvement purchases, strong followers and satisfied customers can be zealots and brand ambassadors.

Consider the implications for channels of distribution. Low-involvement products need to be widely available so that the customer can pick them up without thinking. High-involvement products will be sought out by more customer activity.

> *"Marketing satisfies (and creates) consumers' needs and wants."*

Finally, consider the implications for promotions. For low-involvement products, the marketer just hopes to cut through the noise and clutter—getting customers' attention only long enough to register the brand name in the mind of the customer for sheer familiarity. With high-involvement purchases, customers are hungry for information, and marketers can provide much more.

Anatomy of a Grocery Store

© Ron Buskirk/Alamy Limited

In the produce section similar items are close together (for example, fruits and vegetables).

© Richard B. Levine/Newscom

The dairy section contains milk, which is the most commonly purchased item. Because of this, it is located in an area of the store that requires the customer to travel through the store, increasing the likelihood of impulse purchases.

© Richard B. Levine/Newscom

In grocery stores, consumers form consideration sets (and then choose brands) as a function of brand recognition (brand recall helps when searching online). Retailers also place specific brands where they can be seen by specific customers, such as brands aimed at children shelved at eye level to toddlers seated in shopping carts.

© Jeff Greenberg / Alamy Limited

Complementary items are close (chips and dip).

© Karlheinz Schindler/dpa/Landov Media

Checkout counters provide the store the opportunity to capture customer information through the use of loyalty cards, and bar codes can provide a wealth of data that can be mined to provide insights into customer purchasing decisions.

Layout is designed to facilitate the shopper. Upon entering, the shopper has a choice of selecting a traditional shopping cart, a smaller basket, or shopping carts designed for shoppers with children. For physically challenged shoppers, motorized shopping carts are often provided.

© David R. Frazier/DanitaDelimont.com "Danita Delimont Photography"/Newscom

The end of each aisle and the area at the checkout lanes are likely to hold high-profit items or grouped items (such as marshmallows, chocolate bars, and graham crackers for s'mores) designed to inspire impulse buys. Sometimes those aisle-ends are used to promote sale items. "People are 30% more likely to buy items on the end of the aisle versus in the middle of the aisle—often because we think what's at the end is a better deal," says Brian Wansink of Cornell University and author of *Mindless Eating*.

So how do customers learn about brands and make choices? In the rest of the chapter, we'll look at how customers think and how marketing can have an impact on their decisions and choices.

2-3 THE MARKETING SCIENCE OF CUSTOMER BEHAVIOR

Consumers are human beings and, as such, are sometimes simple and predictable, but often rather complex. In this section, we'll delve into consumer psychology, examining sensation and perception, learning and memory, motivation, attitudes, and decision making.

2-3a Sensation and Perception

When marketers formulate positioning statements or produce perceptual maps, they presuppose a complicated system through which consumers sense and perceive their environment. An enormous wave of sensory stimulation washes over and through us every day. We are selective in our attention, choosing to consider certain stimuli and effectively screening out others. For example, if we are in the market for a car, we'll watch TV ads for cars. If we're not in the market for a car, we barely "see" the TV ads for cars. We know that consumer involvement creates a state of heightened motivation to learn more about a purchase or to pay attention to advertisement. The human organism is very efficient at adapting to the multitude of stimuli, helping us focus and block out what we deem to be irrelevant.

Let's consider how marketers can use information through each of the senses. Visual stimuli are obviously important to marketers. Ads show products, product design, print information, imagery visualization to facilitate desirable lifestyles, etc. Even simple colors imbue brand associations and can be integral to some brand identities:

- Toothpaste packaging is dominated by whites and blues, implying freshness, cleanliness, water, etc.
- Tiffany's aqua blue boxes have saved many a marriage.
- Dell's blue is deeper and darker than Tiffany's, and also trademarked.

Marketers frequently use color to convey information. There are color wheels to guide the brand manager considering a new logo or packaging. For example, blue seems to connote dependability and is used widely (American Express, Ford, Intel). Red tends to imply passion, as in the excitement of breaking news (CNN) or sporting events (ESPN). Green often implies environmental sustainability (although judge for yourself whether that applies to the green in BP, or whether it's relevant to H&R Block).

The symbolism of colors also varies across cultures, so it is important for a brand manager responsible for a global multinational brand to test the color's meaning in its major markets. In the U.S., brides wear white because it symbolizes purity (like newly fallen snow). In India, red conveys purity. In the U.S., red conveys danger and passion; a bride in red would be . . . unusual. In Western civilizations, purple has traditionally denoted royalty; but in Thailand, it's the color of mourning. Mourners in Egypt wear yellow, yet yellow implies courage in Japan and the opposite, cowardice, in the U.S. There are a zillion colors and many cultures. Imagine the challenge for a brand manager in selecting packaging or logo designs for global multinational brands.

Brand Colors

White	Apple, Wikipedia, Honda
Yellow	Hertz, Shell, National Geographic
Orange	Crush, Fanta, Harley-Davidson
Red	Coca-Cola, CNN, Kellogg's, Target
Purple	Hallmark, Yahoo
Blue	AT&T, Dell, HP, IBM, Tiffany's
Green	BP, John Deere, Starbucks
Brown	M&M's, UPS
Black	Channel, Gucci, Prada

Hearing is also important to marketers. Research shows that when retailers play background music that is energetic, with a quick tempo, customers spend more. There are other aural brand associations:

- iPhone vs. Samsung vs. T-Mobile vs. AT&T ringtones
- United Airlines' frequent use of Gershwin's *Rhapsody in Blue* in their ads
- Fancy Feast television commercials feature a high-pitched "ding, ding" (a fork clinking against fine crystal) implying that the food is special, and therefore worth its higher price.

Car and motorcycle enthusiasts know that manufacturers are meticulous in delivering distinctive sounds, and, as a result, consumers have come to learn the sounds, expect them, and pay for them. A high-end Honda motorcycle runs about mid-$20k, whereas a Harley-Davidson runs in the high $30k. Obviously, the sound is not the only difference between the two bikes, but if the Harley didn't sound like a Harley, a biker won't fork over the extra $15k. Similarly, a Porsche 911 turbo at $150k is no clunker, but Ferrari's engineers create a symphony of car sounds and charge $250k. Again, even acknowledging other differences, sound is nevertheless a part of the purchase decision.

A third sense is smell. Think of how many times you've walked through a shopping mall and felt carried away on the wafting scent of a Cinnabon store or an Auntie Anne's pretzel store in the food court. Strong perfume scents are a large part of the Bath & Body Works or The Body Shop stores' ambience. Scent can also be alluded to, drawing on the consumer's memory, as when Folger's coffee commercials depict a person being awakened by the aroma of brewing coffee.

A fourth sense is taste. A classic marketing exercise is to run blind taste tests in order to declare that one's own product is superior to the market leader, or that a "me-too" brand is liked as well as a market leader. These tests can be dramatic and compelling. They are also interesting to marketers because they clearly distinguish the power of the brand from the product itself. For example, most people swear they can identify a Pepsi vs. a Coke, and yet many people actually cannot. Try it on your friends.

A fifth sense is touch. The predominant means of conveying brand imagery through touch is when marketers create well designed products, compared to products intended to be positioned for value. For example, design can mean good ergonomics, as in good kitchen knives, wrist-friendly mice or keyboards, good office chairs, etc. Design can also mean clean lines, simplicity, and beauty, such as the products that Apple creates. Finally, design can also certainly mean a sensual experience, like leather interior options in cars, compared to their less expensive, less touchable alternatives.

Finally, a discussion about sensation and perception wouldn't be complete without mention of so-called subliminal advertising. The idea is that an ad can be shown very quickly, on TV, online, or in the movies, so that it doesn't quite meet the threshold of liminal recognition and consciousness, and therefore it is said to be subliminal. Yet somehow the vision is captured subconsciously, and marketers hope the message will compel action (e.g., buy more popcorn). Print ads depend not on brief time exposure but on ambiguity. If you think companies don't do this anymore, take a look at the logo for the Chicago White Sox baseball team (at whitesox.com) in Figure 2.3. What does it spell?

While marketers have debunked the notion that subliminal advertising works, they nevertheless conduct a great deal of research in areas called "mere exposure" and "perceptual fluency." Neither of these effects is subliminal, per se, but they share a certain subtlety. For example, mere exposure, as its name suggests, says that, though you might not think the billboard you drive past every day is having a persuasive effect on you, it is. Marketers know that repeated exposures to a brand name brings familiarity, and with familiarity comes a comfortable, positive feeling. Thus, brands advertised on billboards or that keep appearing in sidebar ads online are familiar and would probably rate fairly positively.

Figure 2.3
Subliminal Ad

Staff/MCT/Newscom

Perceptual fluency is also a subtle phenomenon. When consumers thumb through a magazine or click through websites, they are probably paying most of their attention to the content of the message. However, other information is being expressed. Colors and fonts can make a message seem more professional, more emotional, more contemporary, more gothic. Those cues make an impression as well. The cues are liminal but subtle, and they are part of the brand.

2-3b Learning, Memory, and Emotions

All those sensory and perceptual impressions can become brand associations. To say that consumers have brand associations means that, in their memory, they have stored certain attributes attached to the brand. When the brand is mentioned, those associations are brought to mind. Learning is the process by which associations get past the sensory and perception stages into short-term memory and then, with repetition and elaboration, into long-term memory. There are several theories about learning, but two are so fundamental and pervasive that every marketer should know them.

The first way that people learn is through classical conditioning. This type of learning is so well known and integrated into our culture that most people have heard of the demonstrations by Ivan Pavlov of his salivating dogs. The learning goes through stages:

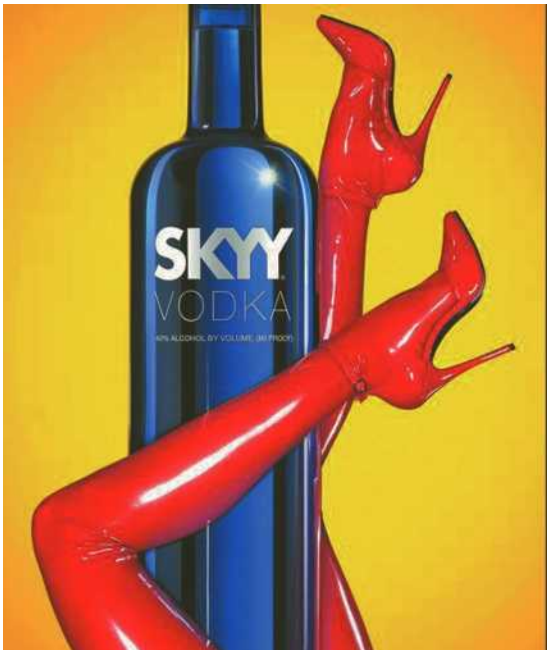
- *Stage 1:* A food bowl placed in front of a dog naturally elicits its drool.
- *Stage 2:* A bell rung in front of the dog initially elicits no response.
- *Stage 3:* A bell rung while a food bowl is simultaneously placed in front of the dog elicits drool.
- *Stage 4:* With time, bell rung in front of the dog elicits drool. The dog has come to learn that the bell is associated with food.

Perhaps you're thinking, "But that's just a dog." Indeed. However, consider Figure 2.4. It's common to hear that "sex sells," but why or how does it work? The process is this:

- *Stage 1:* A babe (male or female) elicits drool.
- *Stage 2:* Some brand or product initially elicits no response.
- *Stage 3:* That brand or product in a picture with aforementioned babe elicits drool.
- *Stage 4:* With time, the brand itself elicits drool.

That might sound a little far-fetched, but that's the learning process. Consider more neutral stimuli, such as the logos in Figure 2.5. At their introduction, these abstract symbols convey no information and function much like the bell in Pavlov's lab. With time, while logos might not elicit drool, consumers come to learn and associate these fairly similar looking symbols with their unique brands.

It's also worth noting, in this ever changing world, that sometimes companies want to shed negative associations, and they change their names and logos to do so. For example, in recent years, Blackwater became Xe, Philip Morris became Altria, ValuJet became AirTran, and Andersen Consulting became Accenture. The hope is that the slate has been wiped clean, so that fresh associations might become attached to the new company names and logos.



Source: SKYY Vodka

Figure 2.4

Sex Sells Due to Classical Conditioning

Michael Dechev/Shutterstock.com

360b/Shutterstock.com

©Leonard Zhukovsky/Shutterstock.com

Figure 2.5

Logos Gain Meaning Through Classical Conditioning

A fun use of classical conditioning is jingles. It takes only a few exposures before people learn the catchy lyrics. Consider these jingles; it's hard to resist finishing them, and it's hard to stop thinking about them:

- M'mm m'mm good . . .
- Gimme a break, gimme a break, break me off a piece of that . . .
- Plop, plop, fizz, fizz . . .
- Oh, I wish I were an Oscar . . .
- I'd like to buy the world a . . .
- Sometimes you feel like a nut; . . .

And the master of all jingles:

- Two all-beef patties . . .

The second way that people learn is through operant conditioning. This type of learning is also so well known that most people have heard of Skinner boxes. B. F. Skinner studied pigeons pecking at a target, or rats pressing a bar, to receive food pellets. The pigeon learns the desired behavior by being rewarded. The behavior is said to be positively reinforced.

Skinner boxes are programmed to reward the pigeon every time it pecks, or only after every fourth peck, or only at 20 after the hour, etc. When the bird is rewarded every time or every fourth time, the reinforcement schedule is said to be on a fixed ratio reinforcement schedule. When the bird is rewarded on average every fourth time (so perhaps after two pecks, then after six pecks, then after four, etc.), the reinforcement schedule is said to be on a variable ratio. This difference matters because the unpredictability of the variability drives the birds (and humans) a little nuts. In the same amount of time, say 30 minutes, the bird will peck a lot more on the variable, rather than on the fixed, ratio schedule.

So what? Well, consider loyalty programs. Marketers reward consumers who carry their loyalty cards by giving them every 10th coffee free, for example. If marketers want their consumers to purchase even more frequently and ring up more sales, they would design a variable ratio reinforcement program. Each coffee card could have a scratch-off number indicating that the customer would receive a free coffee after, say, seven coffees. The next card might say five or 15, etc.

With current programs, the customer's behavior is very predictable. With a variable program, the customer would be excited about the seven because it means a free coffee is coming much faster than after 10. Even when they scratch off and get a higher number, like 15, they'll still recall that they have had smaller numbers in the past. So the sooner they get to 15 and redeem this card, the sooner they'll get another card, perhaps with a smaller number.

There are also reinforcement schedules based on duration lapses, but these are not implemented in marketing as frequently. One famous exception, however, is the policy by Southwest Airlines that allows passengers to obtain their boarding pass classification 24 hours prior to the flight, but no sooner. Passengers who wait too long get less desirable status, so many fliers find themselves poised over their keyboard to press the right letters at just the right time. Keyboard pressing is not that different from pigeons pecking.

As any student knows, a big factor in learning and memory is motivation. Thus, we consider it next.

2-3c **Motivation**

Figure 2.6 depicts psychologist Abraham Maslow's hierarchy of needs. We have to meet basic needs—have food on the table and a roof overhead—before we think about buying

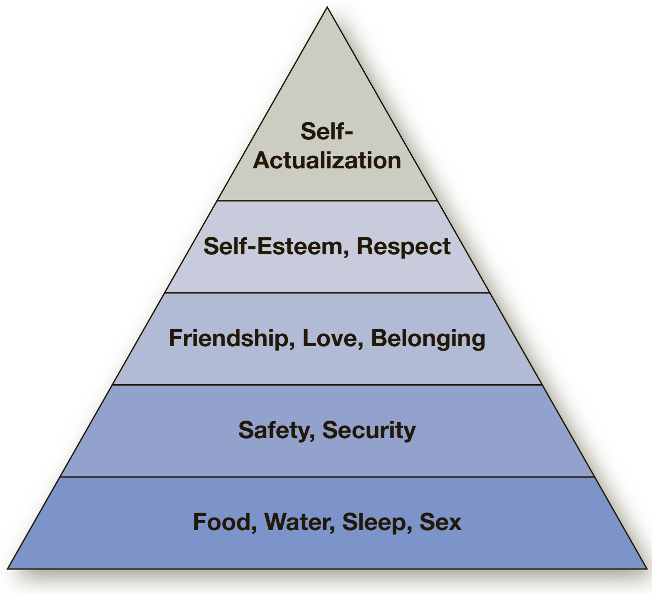


Figure 2.6
Maslow's Hierarchy of Needs

nice clothes. Once we have met our basic needs, we are driven by more abstract motivations, such as love and esteem, qualities that begin to define humanity. At the peak of this pyramid is the phrase, self-actualization, an achievement of our ideal self, with no needs, no excessive wants, no jealousies, etc.

One way that marketers use this hierarchy is by identifying their product with a certain level of needs. They use imagery to appeal to those motivations. For example, the VW crash ads appeal to our need for safety. Similarly, the entire Volvo brand is positioned for safety. Beyond cars, other examples involve different kinds of security. For example, in B2B, they used to say, "You won't get fired for buying IBM." Even though IBM was often the most expensive choice, buyers knew that the quality would be good, so any risk-averse buyer would feel security in having chosen a good brand.

Many of us are fortunate enough that our simpler needs are met, so a great number of brands are positioned to heighten a consumer's sense of belonging or, at the next level, social acceptance and respect. Belonging can be signaled by explicitly affiliative products, such as team logos, or by conspicuously branded products, as in certain men's athletic shoes or women's handbags. Belonging can also be more subtle; many ads appeal to a person's concern with fitting in with the norm. For example, when you start a new job, are you wearing the right clothing? If all your friends drive a hybrid, will they accept you and your SUV? And so on.

At the higher level, the acceptance, by self (esteem) and others (respect) is often signaled by marketers by pointing a consumer to an aspiration group. You might be a business school student right now, but ads will show you the clothes, restaurants, and cars that the most successful CEOs wear, dine in, and drive. The implication is that you should begin to shape your preferences accordingly so that, when you achieve that CEO status, your purchases will exhibit good taste.

Another way that marketers have used this hierarchy is to offer an extended brand line that encourages a customer to reach ever higher in the pyramid. For example, Mercedes makes their entry-level C-Class for the driver who wants the brand but cannot afford much. Mercedes hopes that drivers will like the C-Class and, when they're ready, trade it in for an E-, then S-, then CL-Class. This product range is a simple manifestation of customer relationship management.

Yet another way that the hierarchy is used is when brand managers think about positioning their brands as high in the pyramid as possible. Walmart makes basic sneakers that satisfy simple needs at the bottom of the hierarchy. However, stronger brands like New Balance can charge more, not just because the product may be somewhat better but because the consumer wants to believe that the shoes will make them better—better athletes, more fit, more attractive, better people. The basic Walmart sneaker probably can't be positioned too high in the pyramid, but it would behoove any other sneaker maker to strive for imagery as high in the hierarchy as possible.

Beyond the Maslow pyramid, there are other ways to distinguish needs and motivations. Many consumer psychologists speak of utilitarian vs. hedonic products in fulfilling needs and wants. A consumer might need a new interviewing suit but want the Armani threads.

Consumer psychologists also point to the motives that co-exist in all of us, for conformity vs. individuality. One need may be more salient than another throughout a person's life, or over an array of situations. If conformity is winning, the consumer buys a popular brand; if individuality is more important, then the consumer finds an atypical, quirky brand. Luckily, in most product categories, there are large brand assortments; hence, either need may usually be satisfied.

A final means of distinguishing consumer motivations is whether they are risk seeking or risk averse. In some product categories, consumers may be very knowledgeable, opinion leaders, and ready to try the newest that the market has to offer (the latest music, fashion, etc.). In other product categories, those same persons may be more risk averse for a variety of reasons, including caring less about the category or not having the expertise to make choices confidently. For these purchases, the consumers would be more conservative, trying to prevent a bad purchase, rather than striving for a good purchase.

Predicting the Weather and Brand Choice

We can't even predict the weather very well, so why would we expect to be able to predict consumer purchasing?

Weather is simple compared to human decision making and purchasing. It's comprised of very few components: wind, water, dirt particles, gravity, and temperature. Yet the best we tend to say is, "Tomorrow's weather will look something like today's." Similarly, we make the fewest marketing forecast mistakes if we say, "You'll buy the same brand of toothpaste this time as you did last time."

Consider the factors that enter into a toothpaste purchase: What did mom buy? What's on sale? What flavor do I like? Do I need a small tube for travel or a big tube for home? Do I want a whitener? Are my teeth sensitive? Do I want to try something new? Do I have a coupon? Am I buying this for myself or someone else? Do I need floss because that brand is bundled with a container of floss? It's complicated!

Yet marketers have sophisticated research techniques to enhance predictions and answers to questions such as whether this customer is likely to be a brand switcher, sensitive to a price discount, affected by recent advertising, etc. Methods to gather information from customers are discussed throughout this book and in particular are concentrated in Ch. 15 on marketing research.

Eenie, Meanie, Jelly Beanie

In their article, "Active Choice: A Method to Motivate Behavior Change," Professors Punam Keller and Bari Harlam studied different kinds of so-called opting behaviors:

1. Opt-in: Check this box if you wish a reminder to . . .
2. Opt-out: Check this box if you do not wish a reminder to . . .

Options 1 and 2 did okay, but the setup that was much more effective was:

3. Check one: I will remind myself to . . . vs.
   Yes, please send me a reminder to . . .

Getting reminders is very important to engaging in a variety of behaviors, such as getting flu shots, signing an organ donation card, or enrolling in a company's 401k program.

2-3d Attitudes and Decision Making

Marketers want to understand how consumers think and what motivates them so that they might persuade the consumers to have positive regard for a particular brand and see it as superior to all others, at least for their needs. Attitudes and decision making affect the extent to which consumers will buy a brand, repeatedly purchase it, become loyal, and recommend it to others. If we're really lucky, our brand fans will prefer our brand so much that they'd even be price insensitive if we had to, or wished to, raise prices. So if we seek to enhance attitudes about brands and encourage particular brand choices, let's begin with two questions: What are attitudes? What does the decision making process look like?

Attitudes are conceptualized as a mix of beliefs and importance weights. Beliefs are opinions, such as BMWs are fast, they're nice to look at, they're expensive, etc. Importance weights are things like, "I don't care much about whether my car is fast, but I would like it to be attractive" or "I care about the cost." People can differ on both their beliefs and importance weights. Some people might say that BMWs aren't that attractive or expensive relative to other cars. Some people might not care how much a car costs but care very much about speed.

Importance weights are like the concept of customer involvement. It is an important truism in marketing, with its natural implications, that, in any purchase category, customers can be classified according to how much they care about the given purchase. For the things consumers care about, they spend more time learning about the options and brands, and they're usually willing to pay more for excellence. For the things consumers care less about, they spend less time investigating, and it's likely that they won't want to pay much.

The job of marketers is to play with both components of attitudes—beliefs and importance weights. Marketers seek to make the beliefs in an attribute or benefit more positive and to make the attributes on which the brand dominates other brands seem even more important. The beliefs and importance weights are modified or strengthened through learning and memory and by appealing to consumer motivations that the brand purportedly satisfies.

Attitudes contribute to decision making and brand choice. In some product categories, there aren't that many choices, so brands can be compared fairly readily. In categories with a lot of choices, consumers usually proceed through two stages. In the first, quick stage, they decide which brands should be considered in more detail vs. those that don't make the cut to be in the consideration set. The second stage is relatively prolonged, during which consumers compare the brands in the set to make a purchase choice.

The first stage is thought to be conducted quickly by non-compensatory mechanisms. "Non-compensatory" means that some attributes are very important. If the brand has them, then it may be considered further; otherwise, the brand is precluded. Even if the brand excels at something else, that other excellent attribute does not compensate for the lack of the first, important quality. For example, if a consumer is set on buying a hybrid car, then that's the first attribute that reduces the set—cars that are not hybrids are cut from further consideration. Whichever brands make the cut on this first dimension continue to be considered. The consumer proceeds lexicographically, selecting the attribute or dimension that is next most important, etc. That subset of brands is compared on the next most important attribute and so on until the set is reduced to only a few brands.

Once the consideration set has been reduced to a manageable number, consumers switch gears and use a compensatory model. This model uses a costs and benefits logic, whereby excellence on one attribute can make up for the fact that the brand is not so great in some other ways. One such model is that of averages, e.g., if a brand is strong on attribute A and only so-so on B, it may dominate a brand that is average on both attributes A and B.

A lot of online sites allow consumers to select from a number of brands or models to enable side-by-side comparisons. This information sorting helps consumers see which brands are best on the attributes they care most about. The algorithms request that consumers first select the brands to be compared. This stage mimics the non-compensatory stage in reducing the number of possible brands to a more manageable number for further consideration. The online comparators facilitate the second, compensatory stage, in that the attributes are lined up for easy viewing. A brand choice is made, and the decision process is completed.

Cross-Cultural Consumer Behavior

When multi-national companies launch brands internationally, they face the global-local decision. Should the brand be a unitary, global entity, the same in every market, or should it be tailored for the tastes and preferences for local customers. Those who argue for a single global brand say that there needs to be brand consistency across markets to keep a brand strong and its image clear, and to allow some financial and operational efficiencies. Those who argue for tailored offerings say that customers will be more favorably inclined to build a connection to a product that is more meaningful to them. The essence of this strategic decision will be revisited throughout the book, but in this chapter, the main concern is an understanding of consumers.

There may be ways to leverage some similarities across some countries and cultures so that a company can enjoy some efficiencies and not have to reinvent a truly unique brand for every marketplace. Many researchers have studied the similarities and differences among many countries, but perhaps the best-known framework is that of Geert Hofstede. He uses 5 dimensions to differentiate countries:

1. "Power distance": clear delineation between those who have power and those who do not. High power distance cultures are typically very hierarchical, such as Brazil, England, Japan, Portugal, and many Latin, Asian, and African countries. Low power distance cultures are more egalitarian, such as Israel, New Zealand, Norway, and the U.S.

2. Cultures also vary along the continuum from "individualism," in which people mostly look out for themselves, to "collectivism," in which people's identities and esteem are rooted in the groups to which they belong—their families, their companies, their country, etc. Does a person tend to think in terms of "I" or "we"? Individualistic countries include the U.S. and Canada, Australia and New Zealand, England, France, and Germany. Collectivistic cultures dominate Asia, Latin America, and Africa.
3. Countries and cultures differ on whether they are characterized as "masculine," focused on achievement, success, and assertiveness or "feminine," and more focused on modesty, caring for others, and enhancing the quality of life. Masculine countries include China, Hungary, Italy, Mexico, the U.K., and the U.S. Feminine countries include Chile, Denmark, Finland, the Netherlands, Portugal, and Sweden.
4. "Uncertainty avoidance" is the extent to which people are uncomfortable by ambiguity and therefore try to resolve such situations, usually by imposing rules and structure. Countries with high uncertainty avoidance are: Belgium, France, Germany, Greece, Italy, Portugal, and Spain. Countries with relatively more tolerance for ambiguity are: Denmark, Ireland, Poland, Sweden, the U.K., and the U.S.
5. "Long-term orientation" is the extent to which people of the culture look to long-term traditions and look to and save for the future compared to short-term orientation which is a focus on achieving quick results. Countries that are longer-term oriented are China, Hong Kong, Japan, compared to shorter-term oriented U.K., U.S., and Latin American countries.

These differences have clear marketing implications. For example:

- The marketer can expect more conspicuous consumption, in masculine countries, in which achievement is celebrated, thus helping Cartier, Rolex, and Philippe Patek be judicious in the marketing dollars they allocate across countries.
- Similarly, in high power distance countries, such as Brazil or Japan, people tend to dress up, a bit formally, to show respect and to reflect their own position. By comparison, people in low power distance countries will dress more casually. It's no accident that "casual Friday" was invented in the U.S.

2-3e How Do Cultural Differences Affect Consumers' Behavior?

In addition to individual differences in how consumers respond to ads and brands, there are also predictable sociocultural effects. We'll consider two examples: social class and age.

Some societies have clearer class distinctions than others, but gradations in socioeconomic standing are discernible even in relatively classless societies. People tend to be more comfortable with others in comparable standing.

Social class is a construct that is more complicated than just economic access to resources. Income is important, but so is family background (e.g., old money vs. nouveau riche) and career paths (e.g., some allowance for social mobility). Old-monied people seek exclusivity in their brands, to affirm their special standing in society. They are alarmed by the mass-class movement, in which designers of high-end luxury goods produce far less expensive lines (albeit not of the same quality) to allow access by us peasants.

In contrast, nouveaus try to make purchases to attain their status, the purchases being the so-called status symbols. They indulge in conspicuous consumption, e.g., buying goods with garish, loud branding that shows the world they've made it. Obviously, designing products, brands, and marketing communications for these two different groups calls for different approaches.

Age cohorts also produce reliable, predictable shopping patterns. Some patterns are obvious, following the household composition and income availability. Young people first buy furniture and kitchenware, entertainment and travel, and large screen TVs. They proceed to the stage of buying diapers and toys and minivans. Soon there is college to pay for, then maybe travel, and, soon, health care. All highly predictable.

Age groups are particularly important when they are large in size. The infamous baby boomer group is beginning to retire. Older people are traditionally ignored by advertisers who like to feature youth, but the deep wallets of baby boomers will soon force companies to pay attention. Cruises will sell, whereas sophomoric movie comedies might decline.

The baby boomer generation was always societal minded, so we might expect to see large-scale altruism and record levels of infusions of resources into nonprofits. In an odd contradiction, this generation was also dubbed "the me generation," and indeed sales of Viagra and cosmetic surgeries have also begun inching upward.

Social class and age cohort are among the various sociocultural factors that impinge on how buyers form impressions and preferences, collect information, form opinions, and make brand choices. Gender matters: Men and women are socialized differently, they think about products differently, and they shop differently.

Finally, ethnicity and country culture provide different perspectives, and they can be very interesting (and complicated). We'll see examples throughout the book. Be forewarned: It is difficult to provide generalizations without devolving into stereotypes, so note there are always exceptions. To foreshadow a few observations now:

- Wealthy Chinese like their consumption conspicuous. Due to their purchases, Louis Vuitton has found its busy season has moved to late-January and early-February, just before Chinese New Year (from traditional 4th quarter peaks, attributable to Christmas shopping).
- Danes are fond of luxury goods, and their society is so egalitarian that they believe luxury goods should be accessible to all.
- European brands tend to dominate the high end, due not just to a perception or cultural heritage but also to structural industry differences, such as:
    - Fine craftsmanship in watches built in Switzerland,
    - Fashion or exotic cars designed in Italy, or
    - Supply chains such as extensive fields of flowers or vineyards for perfumeries or vintners in France.

MANAGERIAL RECAP

Keep the buyer in mind, whether you deal with consumers or business customers. Marketing managers can be nimble and adaptive to industry changes if they have a basic understanding of consumer behavior:[3]

- There are three major phases of consumption: pre-purchase, purchase, and post-purchase.
- There are three major classes of purchases: For B2C, these are called convenience, shopping, specialty; for B2B, these are called straight rebuy, modified rebuy, and new buy. The difference among the three has to do with customer involvement.
- How do consumers think?
    - They begin with sensing and perceiving information, which may be learned and stored in memory.
    - Motivations help marketers understand what consumers are seeking to satisfy with their purchases.
    - Attitudes and decision making are subject to influence by good information as well as biases.
    - Finally, social norms, such as generational preferences or choices based on wealth, define us as well.

Chapter Outline in Key Terms and Concepts

1. The three phases of the purchase process
2. There are different kinds of purchases
3. The psychological science of customer behavior
    a. Sensation and perception
    b. Learning, memory, and emotions
    c. Motivation
    d. Attitudes and decision making
4. Managerial recap

Chapter Discussion Questions

1. If consumers are being deluged by sensory overstimulation, what can a marketer do to cut through the clutter?
2. Using the principles of classical conditioning or operant conditioning, design a marketing program for a nonprofit or for a political candidate.
3. What should ads say to help brands make the first (non-compensatory) cut in decision making and be included in a consumer's consideration set? What should ads say to help a brand be chosen, once in the set?
4. Run a taste test. Compare Pepsi vs. Coke, or bottled water vs. tap, or an expensive bottle of wine vs. the boxed stuff. Note participants' level of knowledge and surprise.
5. New businesses are frequently launched as a means to address a current glitch in the industry. Pick an industry and identify a typical customer problem. What changes could you make to enter that industry and enhance customer satisfaction (and be profitable)?
6. Go online and find the average length of a "lifetime" for purchases in the categories of: houses, cars, gym memberships, baby diapers, birth control pills, and Viagra prescriptions.

Video Exercise: Scholfield Honda (5:48)

The video features Roger Scholfield, owner and general manager of Scholfield Honda in Wichita, Kansas, and several of his employees describing the characteristics and profiles of the dealership's customers. With respect to purchases of both new and used vehicles, customers tend to be very interested in vehicles that are fuel-efficient and environmentally friendly. The video focuses on describing the key characteristics of customers who are interested in and knowledgeable about hybrid or alternative fuel vehicles. Factors such as the customer's age, level of education, attitudes, and needs are explored. Scholfield acknowledges that prospective customers often comparison-shop at other dealerships—and he says that he welcomes such buyer behavior. He believes that his dealership has a competitive advantage over other dealerships because of the friendly atmosphere and exceptional service people receiveat Scholfield Honda. Appealing to customer's needs, desires, attitudes, and beliefs enables Scholfield Honda to attract and retain customers.

Video Discussion Questions

1. Using the purchase process (i.e., pre-purchase, purchase, and post-purchase), analyze the customer information provided by the owner and employees of Scholfield Honda.
2. Chapter 2 identifies three types of purchase decisions for consumers. Describe the type of purchase decision that characterizes the buying behavior of the customers of Scholfield Honda.
3. What attitudes and needs seem to be influential in people deciding to patronize Scholfield Honda?

MINI-CASE

Insight into Consumer Decision Making for 3-D TV

Various media equip consumers to make side-by-side comparisons of brands' relative strengths (e.g., *Consumer Reports*, bizrate.com, etc.). These comparisons are not acclaimed from the manufacturer, but a third party, so they're perceived as objective and neutral. The table below (based on reviews at cnet.com) compares 3-D televisions on a number of criteria. The attribute of "crosstalk" (in the table) is not a good thing—it's the ghost-like double images that shadow some 3-D objects, depending on the technology; hence, less is better. All the TVs are about 65" currently. The 3-D glasses must be purchased with each TV (the technology is proprietary within firm and TV, so the Panasonic glasses won't work with the LG TV, for example). The glasses run about $150 a pair.

Sometimes customers know just what they want: a particular brand, or a particular feature. Sometimes their thought processes are little more meandering. Some consumers are rather systematic decision makers, such as when they follow a procedure that will eliminate some alternatives by some criteria. Use the table below to simulate the thought processes of a consumer.

Brand	Panasonic	LG	Sony	Samsung
Model	TC-PVT25	PX950	XBR-HX909	UNC8000
Technology	Plasma	Plasma	LCD	LCD
Price	$2,479	$1,850	$2,497	$2,999
Least crosstalk	☺☺☺☺	☺☺☺☺	☺☺	😐
Clear color	☺☺	☺☺☺	😐	😐
Clear, deep black	☺☺☺	☺☺	😐	😐
3-D from angle	😐	😐	☹☹	😐
Flicker	😐	😐	☹☹	😐
3-D glasses	Ugly and uncomfortable	Rechargeable via USB	Comfortable, good peripheral	Light to wear

Case Discussion Questions

Imagine you were a consumer thinking about buying a 3-D TV.

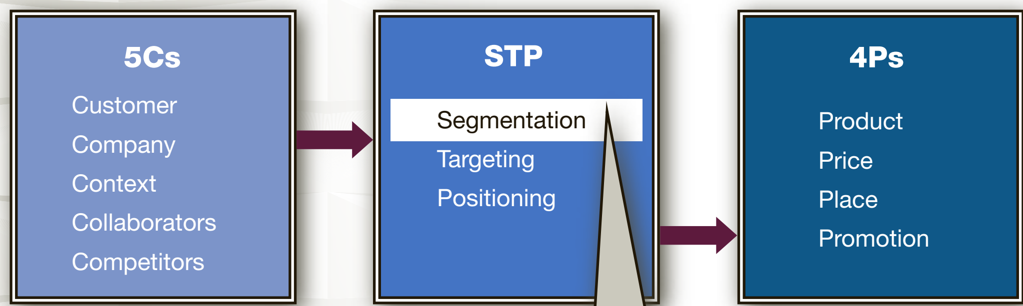
1. First, quickly at a glance, what TV do you think you would buy?
2. On what criteria do you think you based that decision?

Try these decision making processes, see what brand results for each, and see how confident you feel about the resulting brand suggested from each approach:

3. What attribute do you find least informative? Eliminate that row. Continue to do so until a clear brand winner emerges.
4. Which brand of TV would seem to be riskiest to buy? Eliminate it. Continue until an obvious choice results.
5. If you made a price-based decision, would you be happy?
6. How would your final brand choice define you?

Which of these criteria wouldn't have concerned you? How similar was this thought process to your natural analysis? How can you find out if your consumers think along these lines?

3 SEGMENTATION



Managerial Checklist

- Why do marketers think about segmentation?
- What are segments?
- What kinds of customer knowledge can be used to identify segments?
- How do you know a good "marketing segmentation" when you see one?

3-1 WHY SEGMENT?

Think about the last time you went to a movie with a couple of your friends.[1] Afterward, when you talked about the movie, how did people respond? Was everyone in complete agreement about whether they liked the movie? Did everyone agree on the acting or special effects or music? Probably not. Even among our friends, who tend to be similar to us, tastes and opinions vary. No one is right or wrong (well, okay, you were right, and your friends were wrong); it's just a matter of differences in preferences and attitudes.

Psychologists would say that people have different motivations. Recall from Chapter 2 Maslow's hierarchy from biological needs to more abstract ones. Consumers purchase products to fulfill their needs. For example, consumers who are price conscious make purchase decisions using value as a primary attribute, whereas consumers with high needs for social approval purchase brands with much less of a concern for price.

"A company can't be all things to all customers. It must choose a segment to serve."

Economists talk about this differently. They call it "imperfect competition"; that is, consumers have unique needs and desires, so collectively a marketplace of consumers is heterogeneous. Differences in perceptions and preferences require that different products be provided to satisfy the different segments' needs. When a large, heterogeneous market is segmented into smaller, homogeneous markets, a company can focus on meeting the demands of one or two of these groups and create something that is closer to what the customers want.

In marketing, we deal with all these customer differences through segmentation. An entrepreneur might create a new gadget, or a brand manager a new line extension, or a consultant a new piece of software, and each might hope that the whole world will like and buy their market offerings. But it won't happen. And it's not smart marketing to go after the whole market. Why not?

- How could you provide a product that has high enough quality to satisfy premium customers and yet is priced low enough for price-sensitive customers?
- How could you afford to place your advertisement in the disparate media that different customers enjoy, (e.g., online, in teen or car or cooking magazines, on network television, etc.)? How many versions of the ad could you afford to create to communicate effectively to those different audiences?
- How could you develop a brand image that appeals to the masses seeking comfort in conformity and simultaneously appeal to fashion setters mavericks or other customers who seek to express their individualism? The goals are incompatible.

Instead of trying to appeal to the entire marketplace, the smart marketer and smart company will try to find out what different kinds of customers might like, and decide which groups they can serve best. That strategy begins with market segmentation.

3-2 WHAT ARE MARKET SEGMENTS?

A market segment is a group of customers who share similar inclinations toward a brand. On a continuum from mass marketing to one-to-one marketing, market segmentation is in the middle (see Figure 3.1).

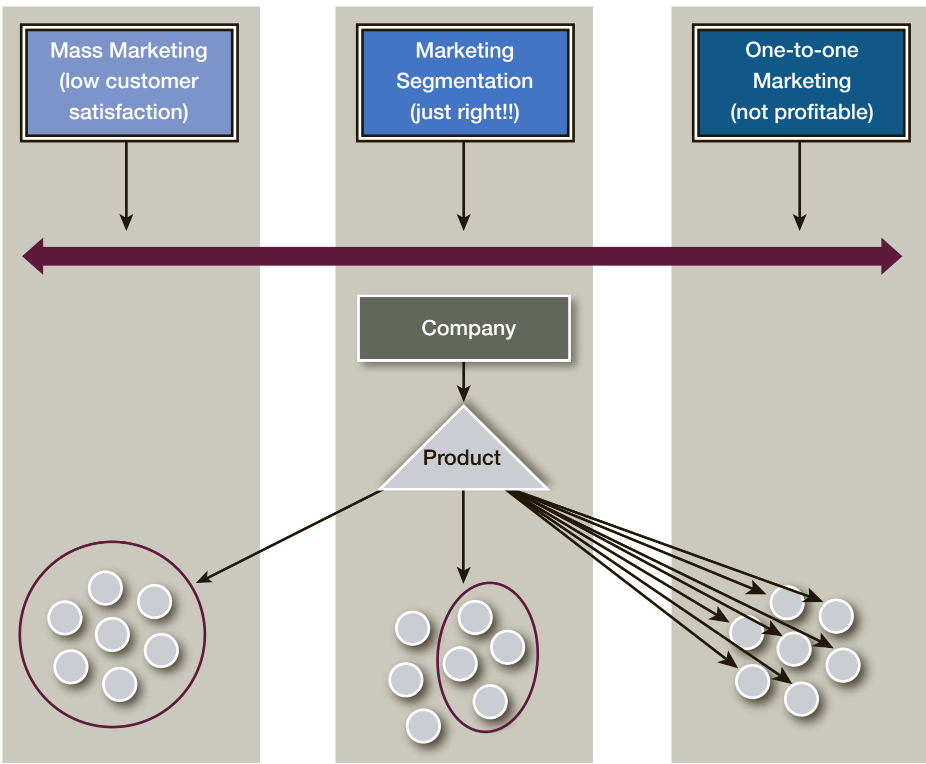


Figure 3.1
Marketing Segmentation: Groups of Customers

Mass marketing means that all customers are treated the same. This approach might sound attractive because it simplifies the business (i.e., only one product needs to be offered), but it is usually unrealistic (because customers differ). Think of a simple commodity product like flour. We should be able to mass market flour; flour's flour, right? *Au contraire, Pierre.* There is all purpose flour, unbleached flour, wheat flour, brown rice flour, buckwheat flour, organic soy flour, whole grain oat flour, self-rising flour, flower power, etc. Different types of flour are available to meet the distinct needs of the flour-using segments.

At the other extreme, *one-to-one marketing* means that each customer serves as his or her own segment. This approach sounds appealing from the customer's point of view because the product would be tailored specially for each person's idiosyncratic desires. Some manufacturers of computers and cars are experimenting with letting customers design their own models. Are these companies truly offering one-to-one tailored products? Not really. Dell's website may seem to do so, but users are allowed to choose only from short lists of features. Nevertheless, even those variations result in a large number of combinations, such that one person's computer seems rather different from another's. The result approaches one-to-one marketing.

Some companies tried mass customization but rolled it back because it was not cost-effective or because it was difficult to exert quality control. Yet increasingly technology offers the benefits of scales of economy. Financial services don't need to have set rates; instead, they can vary depending on a customer's portfolio. Coupons that are printed at grocery checkouts are a function of items the customer just purchased. Ads that pop up on many websites are eerily responsive to what the surfer has been typing.

Potayto, Potahto

Identical products can be positioned differently to different segments. For example, the same baby diaper can appeal to parents:

- thinking about their baby's comfort.
- who want to avoid messes.
- who want to be green.

Yet it's the same product.

A. Comfy B. Absorbent C. Carbon neutral

Or, in another product category, consider the razors that men and women use. Gillette produces "Venus Divine" for women and "Fusion ProGlide" for men. The razors have the same number of blades, but the XX version is pink, and the XY version is black. Are these products the same or different?

Between these two extremes is the typical concept of *segmentation*. The marketplace is thought of as being comprised of several segments, each of which is more (or less) favorable to your brand. The segments that like your brand might not be the customers you want, but that is a marketing issue of targeting and (re)positioning, topics to be addressed in subsequent chapters.

As the contrasts of mass and one-to-one marketing illustrate, segments become more heterogeneous as they increase in size. As a result, they are more difficult to satisfy with the same product (the problem with mass). The goal of homogeneity in customers' likes or dislikes is more likely to be achieved as the segment size gets smaller, but if the segment is too small, it might not be profitable (the problem with one-to-one).[2] So we need to understand how to find optimal, serviceable segmentation schemes.

Niche marketing is a type of segmentation in which the company strategically focuses, targeting a smaller market, with particular needs that the company can serve well. In Figure 3.1, niches would fall between the one-to-one and segment strategies. Niches might be small segments, but they can be very profitable.

3-3 WHAT INFORMATION SERVES AS BASES FOR SEGMENTATION?

3-3a Demographic

All kinds of information about customers have been used in segmenting markets (see Figure 3.2). Some customer attributes are easily identified. For example, in many product categories, a company produces two varieties, one for men and one for women,

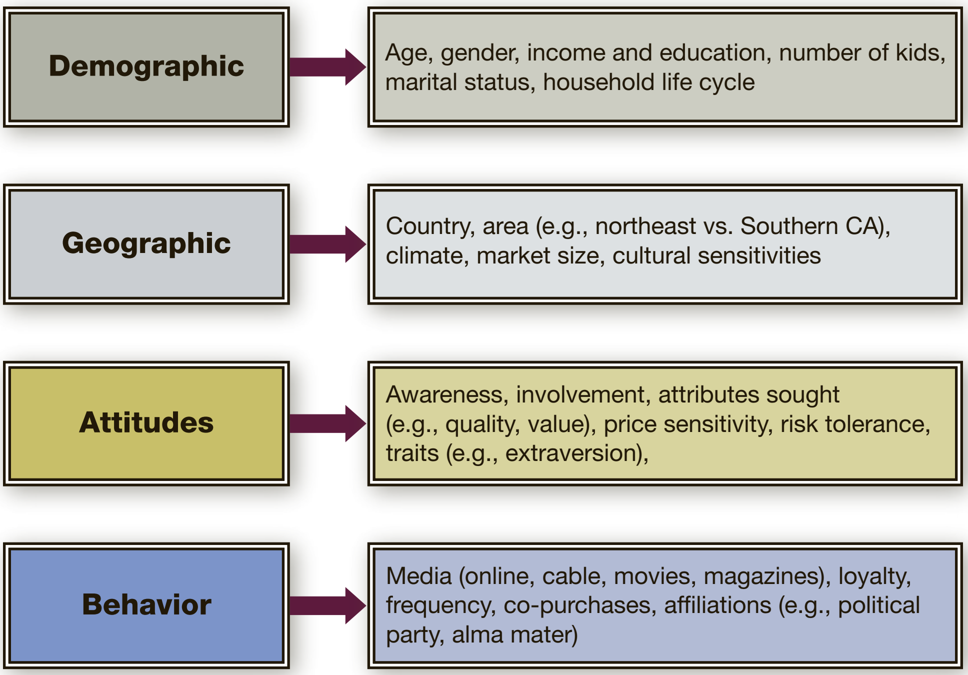


Figure 3.2
Bases for Segmenting in B2C

such as razors, vitamins, running shoes, and television channels. Sometimes the products are constructed differently, e.g., four blades on razors for shaving those he-man whiskers vs. a razor shaped to fit in the palm of a woman's hand to facilitate shaving sensitive areas. Sometimes the product formulations are identical, but the perceptual factors differ in the marketing appeals. Alternatively, a company might focus on serving only the men's or the women's market.

Other easily identified demographic qualities of customers include their *age, household composition*, and *stage in the life cycle*. Spending is quite predictable:

- Young adults are interested in music and entertainment technologies.
- Young couples buy furniture and vacations together.
- Families start financial planning to support their kids' college educations.
- Older couples that are empty nesters start dreaming of spending their greater discretionary income on travel and hobbies.
- Still older people investigate health care options and charitable giving.

We constantly hear so much about the baby boomers (in the U.S. and worldwide) because this group of customers is so huge that it affects the sales of nearly every product category. A note to the budding entrepreneur: Make something that older people like or need because boomers are heading in that direction.

Two additional demographic characteristics frequently used in segmentation studies are *education*, which helps shape consumer preferences (e.g., opera vs. opry), and *income*, which facilitates certain consumer choices (e.g., Four Seasons vs. Motel 6). You've heard it said that time is money, but, in fact, time seems to be negatively correlated with money. Families with higher household incomes hire more service workers (e.g., lawn care, nannies) to help with their daily needs because of their time drought.

Ethnicity is clearly important. In the U.S., the African-American and Hispanic-American populations each number more than 40 million, and Asian-Americans are at about 12 million. Any one of these groups is sizable enough to influence a market.

Many more demographic variables have been used in segmenting consumer markets. Any variable has potential depending on its relevance to the product category. While demographics have an advantage of being clear and easy to recognize, they sometimes border on being simplistic stereotypes. Think of your male friends: Are they all alike in the clothes they wear, the cars they drive, the foods they eat? No. Ditto for your female friends. Analogously, some older people are uncomfortable with technologies like the Internet, but, counter to the stereotype, others are online and very savvy. So what sense would it make to segment the market into men and women or into older and younger people if there are at least as many differences within the groups as between the groups? The marketer seeks the men who like their product and the women who like their product. So some quality other than gender is driving whether men or women like the product, and that's the quality that we need to find and use as the segmenting variable.

3-3b **Geographic**

Geographic distinctions among customers have also been used to segment markets. For example, given societal differences, international tourist destinations can wreak havoc with logistics, e.g., while Brits and Germans tend to be orderly in queuing, customers from many other *countries and cultures* are less so. There can be cultural differences within a country, e.g., a spicy salsa in the U.S. Southwest is very hot, whereas it is formulated milder for wimpier customer palates in the Northeast. *Urban* living affords certain elements

	25–44 years old	45–64 years old
Affluent	**"Kids & Cul-de-sacs"** • Kids • Suburban • Upper middle income • Home owners • College grads	**"Money & Brains"** • Maybe kids • Urban • Upper income • Home owners • Graduate plus
Less so	**"Family Thrifts"** • Kids • Urban, small city • Lower middle income • Renters • Some college	**"Mobility Blues"** • No kids • Urban, small city • Lower income • Renters • Some college

Figure 3.3
Prizm Segment Samples

of entertainment, and smaller town living is different. *Climate* offers still another consideration; snow-blowers tend to sell better in the North than in the South, whereas the reverse is true for chlorine.

When geographic and demographic information are combined, the segmentation schemes can be even smarter. A service called Prizm posits that MBAs who live in New York have a lot more in common with their counterparts in London, São Paulo, and Tokyo, for example, than they do with their neighbors in New York who are relatively less educated or wealthy. Figure 3.3 shows several segments, with their distinctive labels and profiles.

3-3c **Psychological**

It would be ideal to get inside the heads and hearts of our customers: What do they want? Do they know? Could they be persuaded to like our brand? Could we change our brand to match their interests better?

Psychological traits vary in terms of how much insight they lend to issues of marketing and brands:

- For example, while men and women show many consumption differences, they can be quite similar in consuming certain product categories, such as cereals or cell phones.
- Or, for example, do extraverts and introverts differ in their purchases? Perhaps some purchases may vary, e.g., vibrant colors of clothing or tendencies to throw dinner parties vs. attend book club readings. But do they differ in the pets they own, in the restaurants they frequent, or in the investments they buy?

It would be more useful to the marketer to understand the psychological and lifestyle choices that are relevant to the brands the marketer is pitching. For example, if we know consumers are avid readers, sports nuts, or wine aficionados, we know something more about what they enjoy, their social orientation, and the categories of purchases they'd be easily enticed to make. We can cross-sell Kindles or iPads to the reader, season ticket packages and large-screen TVs to the athlete, and expensive refrigerators and trips to Argentina to the wine connoisseur.

A popular tool for segmenting using psychographic data is called VALS. The idea is that the attitudes people hold and their value systems determine their orientations toward certain product categories and brands. For example, so-called strivers are people who are trendy and fashionable in order to impress others, and they are often impulsive buyers. Marketing managers would study their customers to understand what they value, and then the managers would be able to communicate more persuasively to those customers. For example, VALS has been used to identify potential customers for cosmetic surgery: Who would be interested? Who could afford it? Why would they want it? All of this shapes the advertising.

Naturally, customers vary in their marketing-oriented attitudes. Hobbies are examples of purchase categories in which customers vary in their level of expertise (some newbies, others experienced and sophisticated). Customers vary in their levels of involvement with the purchase category (how near and dear it is to their hearts). If customers are known for their expertise and involvement in a category, and if they've demonstrated a willingness to share information and give advice, they will be perceived by others as opinion leaders, innovators, or market mavens and would be ideal persons for the marketer to identify as people likely to generate word of mouth. Some customers are early adopters, caring about new developments in their category, seeking out new products. Other customers either care less about that category, or they are more risk averse, and they wait for someone else to try the new gadget or get the kinks out of the beta testing before they purchase the item for themselves.

All the qualities that marketers care about may be mapped onto segments in any product category. For any purchase, a segment of customers will seek premium purchases, another will be brand conscious, and another will be price sensitive. And, of course, just to provide us with a challenge, a customer who seeks quality benefits in one category (e.g., clothing) might be price sensitive in another (e.g., travel).

In addition to understanding who customers are and what kinds of activities they enjoy, it is also important to gauge who customers wish to become. These aspirations help us predict the new categories they will enter. For example, when a person picks up a how-to book (e.g., remodeling), they will likely buy more such books before moving on to learn a new skill. Someone enrolling in beginner's tennis lessons will start noticing brands and attributes of tennis equipment and start gearing up. One reason celebrity spokespeople are thought to be effective is that ordinary people aspire to be like the celebrity, in whatever

VALS

VALS segments people based on three motivations: ideals, achievement, and self-expression (www.strategicbusinessinsights.com/vals):

- *Ideals* people are guided by knowledge and principles. These consumers buy the newest laptop technology, were first to adopt e-readers, do extensive information searches comparing all the brands before they buy just about anything.
- *Achievement* consumers buy products and services that demonstrate success to others. They drive sexy, expensive cars, and they carry, wear, and drink high-end brands.
- *Self-expression* people desire social or physical activity, variety, and risk. These consumers are the first to go bungee jumping, heli-skiing, or any other extreme sport (and accompanying gear), and they can be brand-fickle.

manner that is achievable—if not in the celebrity's full lifestyle, then perhaps in the hairstyle or brand of sunglasses.

3-3d **Behavioral**

Beyond attitudes, psychographics, and lifestyles, marketers would like to know what customers purchase, not just what they report they intend to purchase. Grocery scanner data are an example of compiled behaviors. A customer might report to be eating healthy foods, but evidence of their M&M purchases would belie their good intentions.

Behaviors are important in and of themselves (e.g., to help us make predictions regarding future purchasing). In addition, watching what consumers do tells us something about who they are. Attitudes are not directly observable, but we can use behaviors to infer attitudes and psychological states. For example, people have preferences for movie genres, and marketers know it. Thus, when we go to an action movie, we'll see previews for other action movies, and when we go to a romantic comedy, the previews are a different batch.

One behavioral segment of great importance to the marketer is the current user of the focal brand. It is relatively easy to communicate to this group, as messages on soup packaging or direct marketing on a favorite website. The type depends on the level of relationship the company has with its customers. Current users have already shown an affinity for the brand. Some current users may be high maintenance, but most will be worth trying to keep satisfied.

In contrast, it is more challenging to identify, obtain information on, and woo customers who are currently using a competitor's brand or who aren't even purchasers in the category altogether. The first group asks: Why should I switch, why is your brand better than what I'm familiar with and relatively happy with? The second groups asks: Why do I want to buy this at all? In addition, when given the choice, customers vary in their preferred means of contact and access—shopping online or through catalogs or at the malls.

Within the current or competitor's user groups, there also exist variations on the extent of loyalty or of the ease with which customers may be lost and gained, as well as frequency of usage, which can have impact not only on revenues but also on logistics costs. You've heard of 80:20, meaning 80% (or so) of your sales come from 20% (or so) of your customers. You've also heard the rules of thumb about how "It costs six times more to

Social Media Segments

Forrester has found 7 segments of social media users:

1. Creators produce lots of media for everyone to see—posting blogs, or uploading videos, sharing lots of online content.
2. Conversationalists update their status on social networking sites and are heavy users of Twitter.
3. Critics respond to others' postings, write product reviews, may contribute to wikis.
4. Collectors gather and organize info for themselves and ship it out to others, e.g., via RSS feeds.
5. Joiners are active members of multiple social networking websites.
6. Spectators read blogs, watch others' videos, read others' product reviews and ratings.
7. Inactives are just not into it.

acquire a new customer, compared with retaining a loyal customer." Thus, these behavioral tendencies—frequency, loyalty, etc.—are worth knowing, so we'd like to be able to identify frequent users.

Marketers also study patterns of co-purchasing; skis, for example, are purchased or rented with boots, snowsuits, lift tickets, hotel rooms, and spiked cocoa. An increasingly popular means of using co-purchasing patterns to generate cross-selling suggestions are Internet recommendation agents. Providers like Amazon examine what you've bought (and clicked on to view), and they make suggestions by comparing your data with what other customers have bought. For example, given that many customers buy mysteries by two writers, Whodunnit and Thebutler, then, when you buy a book by one, you'll be recommended a book by the other.

3-3e **B2B**

While we have been focusing on categories of segmentation data that are particularly useful for consumers, marketers segmenting their business clients most frequently use size. Size can be defined in a number of ways: company sales, market share, number of employees, client's share of provider's business, etc. Businesses plan for, and interact differently with, their larger clients than with their smaller ones. They assign more client service personnel and extend more relationship management efforts because the big customers are worth it; larger clients tend to be profitable ones.

> *"Segments can be formed from any kind of data, from age to Zip code."*

However, size does not always correlate with future growth potential or with costs associated with high-maintenance clients, who might not be worth retaining regardless of the size of their orders. So, as shown in Figure 3.4, there are other bases for segmenting business customers. Note the close analogies with the consumer concepts.

The primary distinction between segmenting businesses and consumers is that the data sources tend to be different. There aren't scanner data prevalent for businesses, for example. On the other hand, the number of businesses who comprise one's customer base will be far fewer than the potentially millions of consumers. In addition, there tends to be good corporate knowledge about business customers, in part because such transactions typically rely on a sales force, so there is a knowledgeable front-line interacting with the business customer.

Figure 3.4
Segmenting Consumers & Business

Segmenting Consumers

- *Demographic* (e.g., age, gender, income and education, household life cycle, #kids, marital status)
- *Geographic bases* (e.g., country, area (e.g., northeast, vs. Southern CA) climate, market size)
- *Behavior* (e.g., *media (magazines,* cable, online, movies), loyalty programs, purchase frequency)
- *Attitudes* (e.g., awareness, involvement, price sensitivity, risk tolerance, convenience, prestige)

Segmenting Businesses

- *Demographic* (e.g., company size, NAICS industry, account size)
- *Geographic bases* (e.g., country, sales force coverage)
- *Type of firm* (e.g., architects bidding for government (conservative projects, slow to pay, but big), retailer (aesthetics important, manufacturers (efficiency is important), etc.
- *Attitudes* (e.g., price sensitivity, risk tolerance, corporate culture, profitability, high vs. low "maintenance" accounts)

Of course, companies could do a better job of systematizing the sales force knowledge, which would provide a clearer database for segmentation studies and other purposes.

3-3f Concept in Action: Segmentation Variables

Chapter 15 describes cluster analysis, the technique used to form segments once the marketer has these demographic, geographic, psychographic or behavioral variables. Here is an example from the automobile insurance industry. The industry is huge and competitive, so it's not surprising that companies turn to segmentation to get an edge.

This particular company began with survey data on its customers. The first analytical question is to find survey questions that can detect variability in how respondents think about an issue. If there is none, that would say that the customers are homogeneous in their perceptions, which in turn would indicate that that variable would not be useful in the segmentation. Remember, splitting customers into segments requires some differences across groups.

For example, Figure 3.5 shows simple results on two survey items. The question at the left indicates that most customers like the convenience of consolidating with a single company as their source of insurance for their home and car. While that information is interesting, it is not useful for segmenting because most of the customers are in agreement.

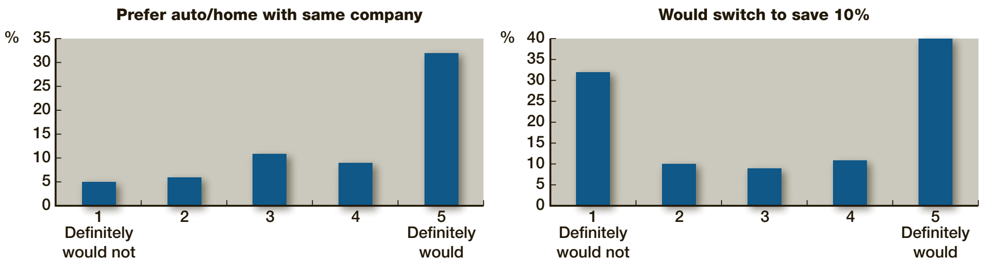


Figure 3.5

Insurance: Looking for Segmentation Variables

Geek Alert! Cluster Analysis

How do I find segments? Marketers and consultants use cluster analysis. Clustering models identify groups of customers who are similar to each other, and customers in one cluster are different from those in another cluster, or segment.

- B2B customers are usually segmented by volume, price sensitivity, and geography.
- B2C customers are segmented using data on demographics, attitudes, and transactions.
    - E.g., Pepsi offers Pepsi, Diet Pepsi, Caffeine Free Pepsi, Mountain Dew, and Aquafina, all for different consumer needs.
    - E.g., cruise ship operators offer different trips to satisfy different customer segments looking for uniqueness, low price, or a lot of programming for children.

Marketers label their segments (e.g., "green" or "price sensitive") to help personify the segments, to facilitate the choice of whom to target, and to develop ad content.

Marketers also verify that clusters that appear to be different on attributes such as age, income, price sensitivity, etc. truly (statistically) are different; if not, the groups are combined.

In contrast, the survey question about the discount (on the right) shows much greater promise as a variable that would help distinguish segments. These data indicate that there are two groups: one who would switch to save a mere 10% (the price sensitives) and one who would not (the brand loyals or the inertias). This variable would be included in the company's segmentation analysis.

3-4 HOW DO MARKETERS SEGMENT THE MARKET?

Marketers identify segments best when iterating between two approaches—a managerial, top-down ideation and a customer-based, bottom-up customer needs assessment. Marketers begin with some knowledge base about the marketplace: the customers, competitors, and the company's own strengths. Then they can gather information to understand the customer perspective.

Knowledge of the marketplace will clearly also enter into the decision as to which of the segments the company should eventually target. A market segment may look desirable in terms of its size and even future growth potential, but it may already be saturated with offerings by other competitors. There may be richer potential opportunities in other segments. The managerial perspective is also clearly important in terms of assessing the extent to which the servicing of a segment is consistent with corporate goals.

As an example of the required integration between the managerial and customer perspectives in formulating segments, consider the service industry of personal investment advisors. These professionals know that their client base may be divided by certain demographic variables such as income level, as well as psychological traits such as risk aversion. They can obtain geographic data as a proxy for income, which would help them conduct a cost-effective direct mailing to ZIP Codes that are known to be proportionally wealthier. Upon identifying sales prospects, the financial advisor can send the potential client surveys to measure their comfort level with risk. The advisor is using extant knowledge and data (e.g., about income and ZIP Codes) in a manner to prime more favorable responses, also complementing this knowledge with personal evaluations (e.g., comfort with risk) to know which financial products might seem most appealing to the client.

The iteration between the managerial and customer perspectives is also important because sometimes a marketing manager might hold beliefs that are not consistent with the customer data. For example, say a marketer for a London theater production company believes that some customer behavior such as income is predictive of the behavior of interest, i.e., the purchase of theater subscriptions. That belief might be based on years of anecdotal data (listening to friends, overhearing transit conversations, etc.). But those anecdotes are not systematically gathered data and probably do not represent an unbiased selection of customers. Thus, the marketer's beliefs would need to be reconsidered when confronted with real, better data that in fact the correlation between income and theatergoing isn't that strong. Empirically, arts-related behaviors (such as the frequency of museum attendance) are better predictors of who belongs to the theatergoer segment.

3-4a How to Evaluate the Segmentation Scheme

The iteration between marketing managers' good sense and the customer-based data continues when evaluating potential segmentation scenarios. A set of segments may be very