

Consumer Behavior (Part 2)

Text book reading Pages 73-88 (CB Text)

Chapter 3 Consumer behavior

Psychological Influences on Consumer Behavior

- 1) motivation and personality
- 2) Perception
- 3) Learning
- 4) Values, beliefs and attitudes
- 5) Lifestyle

Motivation and Personality

- **Motivation**= energizing force that stimulates behavior to satisfy a need

·Abraham Maslow's hierarchy of needs:

1. Physiological needs= basic to survival and must be satisfied first
2. Safety needs= self-preservation and physical well-being
3. Social needs= love and friendship
4. Esteem needs= achievement, status, prestige, and self-respect
5. Self-actualization needs= personal fulfillment

- **Personality**= a person's character traits that influence behavioral responses

·personality characteristics are often revealed in a person's **self-concept**= the way ppl see themselves and the way they believe others see them

·actual self-concept= how ppl actually see themselves

ideal self-concept= how ppl would like to see themselves

·marketers appeal to these two self-images of customers. The use of attractive models in ads appeals to a person's ideal sc

Perception

= process by which someone selects, organizes, and interprets info to create a meaningful picture of the world

- **Selective perception**= information is filtered so that only some of it is understood or remembered or even available to the conscious mind

·**Selective exposure**= ppl pay attention to messages that are consistent w/ their attitudes and beliefs and ignore messages that are inconsistent

·often occurs in the post-purchase stage of the consumer decision process, when consumers read ads for the brand they just bought

·also occurs when a need exists→ more likely to see a KFC ad when you are hungry

·**Selective comprehension**= interpreting info so that it is consistent with your attitudes and beliefs

·**Selective retention**= consumers do not remember all the info they see/read/hear, even minutes after exposure to it

·affect internal+external info search stage of purchase decision process→ reason why some retailers give product brochures to let consumers take home after they leave the showroom

- **Perceived risk**= anxiety felt when a consumer cannot anticipate possible negative outcomes of a purchase

·affect the info search step of the purchase decision process→the greater the perceived risk, the more extensive the external search is likely to be

·marketers develop strategies to make consumers feel more ease about their purchases:

- 1) **Obtaining seals of approval**
- 2) **Securing endorsements from influential ppl**
- 3) **Providing free trials of the product**
- 4) **Providing illustrations**
- 5) **Providing warranties and guarantees**

Learning

= behaviors that result from repeated experience or reasoning

- **Behavioral learning**= process of developing automatic responses to a type of situation built up through repeated exposure to it

·4 variables central to how one learns from repeated experience:

1) **Drive**= a need that moves an individual to action (e.g. Hunger)

2) **Cue**= a stimulus or symbol that one perceives

3) **Response**= the action taken to satisfy the drive

4) **Reinforcement**= the reward; **negative reinforcement** if experience is unpleasant

·**Stimulus generalization**= a response brought about by one stimulus (cue) is generalized to another stimulus

·consumers familiar w/ one product will often transfer their feelings to others that seem familiar e.g. Brand name, shape and color of packaging

·**Stimulus discrimination**= one's ability to perceive differences among similar products

·easy for consumers to differentiate products like automobiles; in low-involvement purchases advertisers work to point out the differences

- **Cognitive learning**= learning w/o direct experience but through thinking, reasoning, and mental problem solving

·making connections between two or more ideas or simply observing the outcomes of others' behaviors and adjusting own behavior accordingly

·firms influence CL by linking their products with certain messages/ideas e.g. Repetition in advertising "Advil" is a "headache remedy"

- **Brand loyalty**= favorable attitude toward and consistent purchase of a single brand over time

·results from positive reinforcements→habits

·if a consumer is satisfied w/ a product, he reduces his risks and saves time by consistently purchasing that same brand

Values, Beliefs, and Attitudes

- Attitude formation

·**Attitude**= tendency to respond to sth in a consistently favorable or unfavorable way

·shaped by our values and beliefs, which we develop as we grow up

1) **Core values**= e.g. Material well-being and humanitarianism

2) **Personal values**= e.g. Thriftiness and ambition

→ marketers concerned w/ both but mostly focus on personal values, which influence the importance we put on specific product features

·**Belief**= consumer's perceptions of how a product or brand performs on different attributes

·based on personal experience, advertising, and discussions w/ other ppl

- Attitude change

·marketers use 3 approaches to try to change consumer attitudes toward products and brands:

1) ***Changing beliefs about the extent to which a brand has certain attributes***

2) ***Changing the perceived importance of attributes***

3) ***Adding new attributes to the product***

Lifestyle

= a way of living that is identified by

1) **Activities**: how people spend their time and resources

2) **Interests**: what they consider important in their environment

3) **Opinions**: what they think of themselves and the world around them

·**Psychographics**= analysis of consumer lifestyles; useful in segmenting and targeting consumers for new and existing products

·E.g. VALS™ program (American)→ identifies 8 interconnected categories of adult lifestyles based on a person's self-orientation and resources

·self-orientation= the patterns of attitudes and activities that help a person reinforce his or her social self-image; three patterns have been uncovered, which are oriented toward principles, status and action

·resources= range from minimal to abundant; include income, education, self-confidence, health, eagerness to buy, intelligence and energy level; each category exhibits different buying behavior and media preferences

·Goldfarb psychographic market segments for Canada→ nine lifestyle types and percentage

Socio-cultural Influences on Consumer Behavior

Personal Influence

- Opinion Leadership

· **Opinion leaders**= individuals who have social influence over others

· more likely to be important for products that provide a for of self-expression (e.g. Automobiles, clothing and club membership)

- **Word of mouth**= ppl influencing each other in personal conversations

· the most powerful info source for consumers → involves friends/family who are viewed as trustworthy

· ways of overcoming negative WOM: supply factual info, provide toll-free #s for consumers to call the company, give appropriate product demonstrations

· **buzz marketing**= a brand becoming popular as a result of ppl talking about it to friends and neighbors

· to create buzz a company can also hire a WOM agency which specializes in **product seeding**= hiring ppl to talk up a brand to others

· The WOM Marketing Association (WOMMA) issued ethical guidelines on product seeding

· brand reps must always disclose their relationship to the brand when promoting to ppl

· **virial marketing**= online version of WOM

· e.g. Social networks such as Facebook

Reference Groups

= groups of ppl who influence a person's attitudes, values and behavior

· e.g. Family, classmates, movie stars, sports celebrities

· influences the info, attitudes and aspiration levels that help set a consumer's standards

· important influence on purchase of luxuries but not necessities

· 3 reference groups that have clear marketing implications

- 1) **Membership group**= one to which a person actually belongs, including social clubs, family
 - easily identifiable and are targeted by firms selling insurance, vacation packages
- 2) **Aspiration group**= one that a person wishes to be a member of or wishes to be identified w/
 - e.g. Nike frequently rely on spokespl or settings associated w/ their target market's aspiration group in their ad
- 3) **Dissociative group**= one that a person wishes to maintain a distance from because of differences in values/behaviors

Family Influence

- **Consumer socialization**= process by which ppl acquire the skills, knowledge, and attitudes necessary to function as consumers
 - children learn how to purchase by interacting w/ adults in purchase situations and through their own purchasing and product usage experiences
 - children show signs of brand preferences as early as age two, which often last a lifetime
 - Time Inc. launched *Sports Illustrated for Kids*

- **Family life cycle**= the distinct phases that a family progresses through from formation to retirement, each phase bringing w/ it identifiable purchasing behaviors
 - Preferences:
 - 1) Young single consumers: non-durable items, e.g. Prepared foods, clothing, personal care products and entertainment
 - significant target market for recreational travel, automobile, and consumer electronics firms
 - 2) Young marrieds w/o children: furniture, housewares and gift items for each other
 - 3) Young marrieds w/ children: driven by needs of children
 - significant target market for life insurance, children's products and home furnishings
 - 4) Single parents w/ children: convenience foods, child care services, personal care items (affected by limited economic status)
 - 5) Middle-aged couples w/ children: leisure products and home improvement items (usually better

off financially)

6) Middle-aged couples w/o children: home furnishings, status automobiles, financial services (usually have a lot discretionary income)

7) Older married and Older unmarried: prescription drugs, medical services, vacation trips, and gifts for younger relatives

- Family decision-making

·2 styles exist:

1) **spouse-dominant**= either husband or wife has more influence in the purchase decision

·wives often have more influence in purchasing groceries, children's toys, clothing, and medicines

·husbands often have more influence in home and car maintenance

2) **Joint decision-making**= most decisions are made by both husband and wife

·cars, vacations, houses, home appliances and electronics, medical care, long-distance telephone services

·increases w/ the education of the spouses

·5 roles exist:

1) information gatherer

2) Influencer

3) Decision maker

4) Purchaser

5) User

·family members assume different roles for different products and services

Culture and Subculture

·**Culture**= a set of values, ideas, and attitudes that are learned and shared among the members of a group

·**Subcultures**= subgroups within a larger culture that have unique values, ideas, and attitudes

- can be defined by regions, demographics, values, race, ethnicity

- French-Canadian subculture

- 30% of population

- French-speaking Quebecers exhibit different consumption behavior than rest of Canada

- “enjoy life” “seek happiness”

- more likely to believe everybody should be free to do their own thing

- more willing to pay higher prices for convenience and premium brands

- cautious about new products and try sth new after they see that the product has proven itself

- brand loyalty, but willing to switch brands if offered a special

- less likely to buy grocery items on impulse, increasingly calculating in food purchases

- grocery stores respond by offering more discount coupons, weekly specials etc

- like things that please the senses; fashion-conscious

- highest% of alcohol drinkers but lowest% of excessive drinkers

- big buyers of lottery tickets; more likely to subscribe to book clubs

- make fewer long-distance phone calls; travel less whether for business or pleasure

- more ppl buy life insurance, but fewer have credit cards

- tend to use services or credit unions (caisses populaires) rather than banks

- marriage rate below national average, although values are still strong regarding family life and having children in marriage

- commercial ads to children is prohibited and greater restrictions exist for alcohol ads

- labels/packages must be both English and French; storefront signage must be French

- Chinese-Canadian subculture

- 3.74% of population is Chinese

- consumers are relatively young, educated and affluent

- tend to spend \$ on home furnishings, automobiles, kids' education, high-tech gadgets, traveling and

gifts

- like to do business within own communities and prefer media in own languages
- strong allegiance to brands
- very family-oriented
- live in close-knit communities→ WOM very important
- preference for luxury vehicles, eat out at restaurants

Global Cultural Diversity

- Canada's approach to admit immigrants and integrate them into society is **mosaic**= ppl are welcome to maintain cultural identities and customs
- marketers must appreciate cultural differences
 - a necessary step: **Cross-cultural analysis**= study of similarities and differences among consumers in two or more societies
- **Values**= socially preferable modes of conduct or states of existence that tend to persist over time
- **Customs**= norms and expectations about the way ppl do things in a specific country or culture
- bribes, kickbacks, and payoffs are considered corrupt in most cultures
- Organization for Economic CO-operation and Development (OECD)= international body whose goal is to foster democratic government and a market-driven economy
 - anti-corruption convention
- **Cultural symbols**= objects, ideas, or processes that represent a particular group of ppl or society
- by cleverly using cultural symbols, global marketers can tie positive symbolism to their products and services
- improper use can spell disaster
- Language

- global marketers should know not only the basics of the native tongues of countries in which they market their products and services but also the subtleties and unique expressions of the language
- language translations can present challenge; sometimes brand names need to be changed in certain countries because of unintended interpretations
- Back translation**= re-translating a word or phrase back into the original language by a different interpreter to catch errors
- unintended translations can also sometimes produce favorable results (e.g. KitKat→Kitto Katsu)

Market Research

Segmentation, Targeting & Positioning

Text book reading Pages 95-117, 146-161 (CB Text)

Chapter 4 Market research

Marketing Information Systems and Market Research

·Information present itself to companies in 2 ways:

1) a **MIS (marketing Information System)**= a set of procedures and processes for collecting ,sorting, analyzing, and summarizing information on an ongoing basis

·collects info on e.g. Market conditions, competitive marketing actions, local sales figures, and then analyze it to provide a current market assessment

·info may come from internal reporting systems and/or external sources such as research companies that track competitive behavior

2) Market research studies

What is Market Research

·**Market Research**= process of planning, collecting, and analyzing info in order to recommend actions to improve marketing activities

·not easy to conduct, because getting accurate info from consumers can be difficult

·market researchers use methodical approaches to ensure that research results are as accurate and cost efficient as possible

Research Classifications

Market research can be classified into 3 basic areas:

1) **Exploratory research**= preliminary research conducted to clarify the scope and nature of a marketing problem

- provides researchers w/ a better understanding of the dimensions of the marketing problem before focusing on areas that require further research

- avoiding exploratory research comes w/ the risk of heading down the wrong path and missing potential opp. or issues

- often conducted w/ the expectation that subsequent and more conclusive research will follow

2) **Descriptive research**= research designed to describe basic characteristics of a given population or to clarify its usage and attitudes

- researcher has a general understanding of the marketing problem, and is seeking more conclusive data that answers particular questions

- e.g. Provide more detailed profiles of product purchasers, describing the size and characteristics of markets, detailing product usage patterns, or outlining consumer attitudes toward particular brands

3) **Causal research**= research designed to identify cause-and-effect relationships among variables

- examines elements such as the effect of ads on sales, the relationship between price and perceived product quality, and the impact of package design on sales

The Six-Step Market Research Approach

1) Define the problem/issue/opportunity

2) Design the research plan

3) Conduct exploratory and qualitative research

4) Collect quantitative primary research

5) Compile, analyze, and interpret data

6) Generate reports and recommendations

Step 1: Define the Problem/Issue/Opportunity

- defining a problem is a difficult task
 - Objective**= specific, measurable goals that the decision maker seeks to achieve
 - if objectives too broad, the problem may not be tangible
 - if objectives too narrow, the value of the research may be questionable
- market researchers spend considerable time precisely defining marketing problems and clarifying research objectives in formal proposals
- common objectives are to discover consumer needs and wants, and to determine why a product is not selling

Step 2: Design the Research Plan

- identify which approach will be taken to complete the project, including what info is needed, how it will be collected, and whether a sampling plan is needed

- Information requirements

- MRS often collect data that is interesting but not relevant to the task at hand → marketers need to avoid this situation because it is time consuming, confusing and costly
- need to determine how to best collect info affordably

- Collection methods

- determining how to collect the data is often as important as actually collecting the data
- researchers can purchase data from a pre-existing study, or conduct their own research using a variety of data-collection methods e.g. In-depth personal interviews, focus groups, telephone surveys, personal questionnaires, mail surveys etc.
- internet provides many tools to facilitate gathering of info
- to ensure accuracy of answers, research methodologies should encourage honesty

- **Sampling**= process of gathering data from a subset of the total population rather than from all members of that particular group

·3 questions:

1) *Who is to be sampled?*

2) *How big should the sample be?*

3) *How should the sample be selected?*

·sampling errors can occur→ reliability of data is sometimes an issue

·2 basic sampling techniques

1) **Probability sampling**= selecting a sample so that each element of a population has a specific known chance of being selected

2) **Non-probability sampling**= selecting a sample so that the chance of selecting particular element of a population is either unknown or zero

·often used when time and budgets are limited, or for exploratory research purposes when conclusions are mostly directional and may require further research

Step 3: Conduct Exploratory and Qualitative Research

·**Qualitative research**= a form of research that uses approaches such as focus groups, in-depth interviews, online communities, online bulletin boards, and social listening to provide insightful and directional info

·although data is not gleaned from a large consumer base, provides useful direction to the research study and may in fact answer questions at hand

·allows marketers to avoid costly quantitative research studies, or provide direction for more detailed quantitative study

·if researchers decide to conduct exploratory research, they have two avenues from which to gather data:

1) **Secondary data**= facts and figures that have already been recorded by a 3rd party

·comes in two forms:

1) **Internal data**= exists within a company and includes data such as sales reports, profitability data, and cost info

2) **External data**= comes from published sources outside the org

·Statistics Canada

·lower in cost and easier to obtain, thus usually obtained before primary data

·Disadvantages:

1) May be out of data

2) Definitions/ categories may not be right for the project

3) Data may not be accurate or specific enough for the study

2) **Primary data**= data that is original and specifically collected for a project

·Sources:

1) **Focus group**= a small group of ppl (6~10) meet for a few hours w/ a trained moderator to discuss topics surrounding the market research problem

·often watched by observers and sessions are videotaped

2) **In-depth interviews**= detailed interviews where a researcher discusses topics w/ an individual at length in a free-flowing conversation in order to discover info

3) **Online research communities**= the use of consumer groups, brought together privately in an online environment, to answer questions, respond to ideas, and collaborate w/ researchers in real time

·uses vocal consumers, often in high-involvement categories e.g. Sports and entertainment; or where consumers are passionate about their products e.g. chocolate and baby food

·community usually exist for one year, involves regular two-way communication visible to all within the community, which is managed by a researcher

4) **Online research bulletin boards**= private online static forums, w/o real-time dialogues and

engaging conversations, where respondents can post their responses to questions posed by researchers

- may not provide researchers w/ the depth of info available through an online community, but are easier to manage and admin.

5) **Social listening**= monitors public online consumer conversations on social media sites such as social networks, blogs, and forums

- take the form of qualitative/quantitative info depending on parameters of study

- ethical issue: participants may not be aware that their conversations may be monitored and used for research purposes→ social networks are required to have privacy policies, and marketers need to abide by the laws

- 3+4+5= **netnography**

Step 4: Collect Quantitative Primary Research

- Quantitative research**= statistically reliable info that uses observational and/or questioning techniques such as observations, surveys, and experiments

- 3 primary research techniques:

1) **Observational research**= watching how ppl behave in person or using a machine to record events

- useful and flexible but costly and unreliable when dependent upon human observations which can at times report different conclusions after watching the same event

2) Surveys

- questions can be standardized in the form of a **questionnaire** and asked to a large representative sample to obtain accurate data

- can be conducted in

1) Person

2) through the mail

3) on the phone

4) through the internet

·each has limitations; need to balance costs against expected quality of info

·**Syndicated studies**= hybrid of primary and secondary research conducted by a research company, spreading the cost across many clients to reduce the price

·routinely conducted w/ extensive panels of consumers to determine trends

·**panel**= large sample of respondents that voluntarily completes questionnaires on a regular basis so that researchers can assess changes in behavior and attitudes

·**Omnibus survey**= voluntary participation of respondents in routine surveys, allowing individual marketers to add a small # of questions to an existing survey to receive cost-effective data on their questions

3) **Experiments**= changing a variable involved in a customer purchase to find out what happens

·can be conducted in:

1) **Simulated** test markets= contrived environments that mimic real-life situations

2) **In-market**= real-time in-field tests where product/promotion is actually sold in a limited location and monitored for success during a specific time period

·formally, **test market**= an in-market localized regional approach, or short-term online destination, used to test the success of promotional offers, new services, or new-product launches

·can provide a more realistic evaluation of product or promotional success than other research options

·yet, time-consuming, costly and visible to competitors

Step 5: Compile, Analyze, and Interpret Data

·turn collected data into actionable info

·market researchers face the challenge of synthesizing and simplifying pages of data into clear charts w/ relevant observations and conclusions that can help marketers address business problems,

challenges, and opportunities

Step 6: Generate Reports and Recommendations

- researcher discusses the results w/ a marketing manager and prepare reports to communicate the research findings
- marketing data and info have little value unless they are translated into findings and recommendations that lead to marketing action
- reports should be clear and concise, w/ key findings highlighted, including relevant charts, graphs and tables

Chapter 6 Segmentation, targeting, and positioning

Market Segmentation

= the aggregation of prospective buyers into groups that have common needs and respond similarly to marketing programs

·**Product differentiation**= positioning a product apart from the competition in the eyes of consumers

·essence of market segmentation, target markets, and product positioning is based on **3 important facts**:

- 1) Consumers have diverse needs, and a single product cannot satisfy everyone
- 2) Companies have finite amounts of \$ and it needs to be spent efficiently and effectively on consumers who are most likely to purchase their products
- 3) Marketers need to have clear consumer insights on their target markets inters of product needs, price expectations, purchase habits, and the communication tools used to gather info, stay informed, and be entertained

·**2 main market segments**:

- 1) **Consumer market**= consists of goods, services, and ideas that a person can purchase or support for his/her own personal use
- 2) **Business market**= involves products that are purchased either to run a business or to be used as a component in another good/service

·how a product is classified depends on its usage

Forms of Marketing Segmentation

- **Mass marketing**= marketing of a product to the entire market w/ no differentiation at all

·exists in a limited capacity today due to competitiveness of market and need for marketers to specifically address consumer needs w/ their offerings

·e.g. Natural gas

- **Segment marketing**= designing specific products and services to meet the needs of different target groups

·most common form of MS

·e.g. Breakfast cereal

·customized products are being created for the company's key accounts

- **Niche marketing**= allows a company to focus its efforts on a limited segment in the market

·smaller firms often adopt NM approaches to compete w/ large corporations that dominate categories

- **Individualized marketing**= involves customizing offers and, in some cases, products to fit individual needs

·internet ordering and flexible manufacturing and marketing approaches have facilitated IM segmentation by making it easier to tailor goods and services to suit individual customer needs

·should find a balance between satisfying a customer's individual wants and being able to do this profitably

Steps in Market Segmentation

1. Review strategic company objectives

·should be clear and quantifiable

·should include sales, revenue, profit targets, and also qualitative elements e.g. Corporate social responsibility initiatives and new biz direction for its divisions

2. Identity specific specific business unit objectives

·need to be in line w/ a company's strategic direction

·outline the specific sales, market share, and profit targets for the biz unit

3. Identify consumer/customer needs and common characteristics in the market

- look at what drives the consumer categories and what future trends are evolving
- identify common interests and evolving trends by analyzing what products currently exist in the category, which areas of the market are expanding and shrinking, and where consumer interests lie
- looking to other countries sometimes suggests where potential future interests may lie

4. Cluster common consumer/customer variables to create meaningful market segments

- pay attention to new areas of interest since they may point to evolving segments

5. Conduct SWOT analyses on the segments to determine strengths, weaknesses, opportunities and threats

- should involve a number of ppl so that different perspectives and ideas are captured

6. Identify the segment that best meets strategic company objectives

7. Identify marketing programs and budget requirements needed for his segment

- conduct a full financial evaluation of the market to assess the costs of doing business and identify what programs are required to support an initiative

- highlight what resources are needed to adequately compete in the segment

8. Create a sales forecast for this segment

- should also consider anticipated competitive reactions

9. Conduct a profit-and-loss financial analysis for this segment

- put marketing programs, budget requirements and sales forecasts together w/ projected costs to determine what level of profits can be achieved in the market segment

10. Check financial forecasts against specific business unit objectives

- objectively assess whether business unit objectives for the segment can be achieved

Target Market Profiles

- Target markets are defined by 4 main variables:

- 1) Geographics
- 2) Demographics

3) Psychographics

4) Behavioristics

Geographics

= where a target market lives using variables such as country, region, province, city size and types of location such as urban ,suburban, or rural

·Canadians differ in terms of needs/preferences based on where they live

Demographics

= ranges for age, gender, family life cycle, income, occupation, education, ethnic background, and home ownership

·info can be identified through a company's market research info and other secondary data sources such as Statistics Canada

Psychographics

= understanding consumers' attitudes to life, their personalities, general interests,opinions, and activities

·generally based on primary research marketers have conducted to gather insights on their consumers

Behavioristics

= why consumers buy a product, the product benefit, how they use it, and whether they are brand loyal in their purchase behavior

·usage rate also plays a role in this info

Product Positioning

= the impression of the product you want to establish in consumers' minds relative to their needs and the competition

·3 basic factors that tend to surface in PP:

1) **Image**: products are often positioned as leader, contenders, or rebels in the market, also taking on characteristics such as trusted, prestigious, or thrifty

2) **Product attribute**: products w/ features that differentiate them from the competition are often positioned on this platform, bringing product claims to the forefront

3) **Price**: products w/ brand parity and little product differentiation may position themselves on a price platform (e.g. Walmart)

·**Positioning statements**= a tool that identifies the main reasons the target market buys a product and what sets it apart in the market

·crystallize the image for marketers so that they can design a marketing mix that aligns w/ the product's positioning

·a product's positioning is reflected in all areas of the marketing mix and one needs to look at each element of the marketing mix to accurately determine its positioning in the market

·simple, clear and focused

·identifies 2 key areas:

1) how the product meets consumer needs

2) How the product is differentiated in the market versus competition

·4 elements:

1) product name

2) Category in which the product competes

3) One or two main reasons that the target market buys the product (product benefits)

4) What sets the product apart from the competition

Repositioning

= a revamping of a product and its marketing mix to more accurately meet consumer needs

·carried out when there are long-term changes in consumer attitudes

Positioning Maps

= visual representations of how products are positioned in a category to consumers

·reveal gaps in the market where consumers may be under-served, while also highlighting the competitive nature of the category

·must clearly identify the two most important attributes that drive purchases in a category

·can identify opportunities to launch new product offerings in the market

The Marketing Mix (Product, Price, Place, Promotion)

Text book reading Pages 171-191, 318-331 (CB Text)

Chapter 7: Products and Brands

Types of Products

·**Product**= a good/service/idea consisting of tangible and intangible features

·3 main categories:

1) **Non-durable goods**= do not last and are consumer only once or for a limited # of times

2) **Durable goods**= last over an extended # of uses

3) **Services**= intangible activities, benefits or satisfactions

·**primary services** (e.g. Bank=provide bank accounts)

·**supplementary services** (e.g. Bank=foreign exchange, parking etc.)

·supplementary services allow products to differentiate their offerings from competition while also adding value to consumers

·most products cannot be defined as “pure goods” or “pure services”; firms combine goods/services to offer a more competitive product to consumers

·**Virtual services**= services that exist only online and have no person-to-person interaction

·**Service continuum**= a range from tangible goods to intangible services (extent to which the product is good-dominant or service-dominant)

The Uniqueness of Services

4 Is of services:

- **Intangibility**

·service tend to be more performance-oriented and, as experiences, cannot be tried before purchase

- marketers need to demonstrate benefits of using the service, using e.g. Online video testimonials

- online services usually provide free limited online trials or time-sensitive downloads as a means of testing out the service

- **Inconsistency**

- quality of service depends on the ppl who provide it (capabilities, experience, motivation and personality)

- online products are often able to overcome this through standardized software, consistent website interfaces, and reliable Internet servers that limit service disruptions

- however new online services often cannot keep up w/ demand and thus provide subpar services

- **Inseparability**

- consumers often cannot and does not separate the deliverer of the service from the service itself

- **Inventory**

- inventory problems exist because services cannot necessarily be stored and accessed when in demand

- Sales forecasts may be inaccurate, warehousing of related items can be expensive, and some services may be perishable

- Perishability**= when products cannot be stored for long periods of time to use at a later date

- not all services are perishable→online services often can be stored and accessed later

·in the service industry, issues arise due to fluctuating demand throughout the day and the difficulty in accessing the manpower needed to service these needs

→**Idle production capacity**= when the supply of a service exceeds its demand

·to deal w/ IPC, service industry often uses part-time employees who are paid an hourly wage and are scheduled to work shifts

Product Elements

The Total Product Concept

·marketers view products as having 3 different layers:

1) **Core product**= fundamental benefit that a consumer derives from having the product

·e.g. bicycle→ transportation/ pleasure of participating in a leisurely sport

2) **Actual product**= physical good/ service that a consumer purchases when buying a product

·including the product's branding, design and features

3) **Augmented product**= additional features and attributes that accompany a product

·e.g. Warranty, service contract, delivery options, installation assistance, a website used to distinguish the product from competitors etc.

·usually exist for more expensive purchases e.g. Cars, TVs, and not exist for simple purchases e.g. Chocolate bar, newspaper

·the more complex+expensive the product, the more intricate the layers used to differentiate the product from competition

Packaging and Labeling

·often an integral part of product and design

·can be used to differentiate from competition

- also provide many functional benefits e.g. Protection or facilitating product usage
- serve as platforms from which to communicate brand imagery, brand logos, detailed product info, and the occasional special offer
- should clearly reflect position's positioning, brand equity and image
- changes to existing packaging and label designs need to be approached w/ caution to ensure consumers are not confused and do not feel that their favorite brands have been altered

Product Lines and Product Mixes

- marketers often manage groups of products that are closely related under an umbrella product line and brand name
- Product line**= group of similar products w/ the same product and brand name that is directed at the same general target market and is marketed together
 - part of a company's product mix
- Product mix**= the combination of product lines offered by a company
 - Product width**= # of different categories offered by the company (width of PM)
 - Product depth**= variety of product lines and products sold within its product categories, groups, and lines (depth of PM)

The Classification of Consumer and Business Products

Consumer Products

·4 types

1) **Convenience products**= items purchased frequently that are inexpensive and require minimum risk and shopping effort (e.g. Bread, newspaper)

2) **Shopping products**= items that require comparison-shopping between different brands and an investment of shopping time (e.g. Jeans, books, TVs)

3) **Specialty products**= items for special occasions that require a specific product or brand and require considerable time and effort to purchase

4) **Unsought products**= unknown items or those of no interest to the purchaser (e.g. Diapers)

·how a consumer good is classified depends on the individual

·although many products are clearly separated into one category or another, ppl in varying stages of life will classify products differently

Business Products

·sales are often directly related to the sales of products w/ which they are associated

·if consumers' demand for Ford cars↑, company's demand for industrial-grade paint and car stereo equipment↑)

·2 classifications:

- Production Goods and Services

·include raw materials and component parts

- Support Goods and Services

·items used to assist in producing other goods and services, including

1) **Installations**= buildings and fixed equipment

·purchased through sales reps who often submit competitive bids

2) **Accessory equipment**= tools and office equipment

·usually purchased in small-order sizes by buyers; sellers use distributors to contact and deal directly w/ a large # of buyers

3) **Supplies**= business equivalent of consumer convenience goods and consist of products that are used continually

- e.g. Stationery, paper clips, brooms

- purchased w/ little effort as price and delivery are the key considerations

4) **Services**= intangible activities needed to assist a business in its operations and in producing its goods and services

- e.g. Transportation services, maintenance and repair services, and advisory services such as tax or legal counsel, creation of website to support the business

Branding

- Brand**= a name or phrase uniquely given by a company to identify its product(s) and to distinguish product(s) from competition

- Brand equity**= value of a brand that results from the favorable exposure, interactions, associations, and experiences that consumers have w/ a brand over time

- Brand extension**= when new goods or services are introduced under an existing flagship brand name

- 2 types of brands

1) **Individual brand**= when a company uses a brand name solely for a specific product category

- e.g. Twitter, Yop (yogurt)

2) **Family brand**= when a company uses a brand name to cover a # of different product categories

- e.g. Crest, Google

- advantage of using an established family brand name for new goods/services: brand equity is quickly transferred from flagship brand to new product, saving marketing funds to built equity from zero

- disadvantage: if new product does not live up to the image of the flagship brand

or share in its values, brand equity built up over time can be eroded for all products under this family brand name

·Brand equity needs to be protected

1) **Patents**= used to legally protect new technologies, unique processes, or formulations from usage by other companies

·a right granted by government, to exclude others from making, using or selling an invention

2) **Copyrights**= used to legally protect the written word, a sound-recording, or a form of communication from being copied by others

·covers music, literature, performances, and can include slogans

3) **Trademarks**= used to legally protect brand images, names and designs from usage by others

·limited to a period of 15 years but can be renewed

Brand Loyalty

= the degree of consumer attachment to a particular brand

·**Global brand**= brand that is sold in a variety of international markets and enjoys wide recognition in these markets

Brand Personality

= a set of human characteristics associated w/ a brand

·e.g. Pepsi-Cola= youthful in spirit and exciting; Dr. Pepper= unique and non-conformist

·marketers work to associate brands w/ specific personality traits and to help consumers make emotional connections w/ their brands

·products/brands can be integrated into movies and TV shows to create associations

Brand Name

·a good brand name should:

1) Suggest the product benefits

·e.g. American Idol, Easy-Off (oven cleaner)

2) Be memorable, distinctive and positive

·e.g. iPad, Xbox, Google

3) Fit the company or product image

·e.g. iPad→sth high-tech and flat; Google→fun, casual (doodle)

4) Have the ability to be legally protected (trademarked)

·should not be too generic or owned by another company

5) Be simple

Type of Brands

·3 types

1) **Manufacturer's brand**= a brand owned and produced by the manufacturer

2) **Private label brand**= (store brand) a brand owned by a retailer that contracts its manufacturing to major suppliers, and then sells the product at its own retail stores

3) **Generic brand**= product that has no branding and is produced as a cheap alternative to a manufacturer's brand and to branded private label products

Chapter 9: Pricing

General Pricing Approaches

Demand-Oriented Approaches

- **Skimming pricing**= setting the highest initial price that those customers really desiring the product are willing to pay

·these customers are not very price-sensitive as they weigh new product's price, quality, and ability to satisfy their needs against the same characteristics of substitutes

·as these customer's demand is satisfied, the firm lowers price to attract a more price-sensitive segment

- **Penetration pricing**= setting a low initial price on a new product to appeal immediately to the mass market (opposite of skimming pricing)

·makes sense when consumers are price-sensitive

·advantage: potential to build sales, market share and profits

·disadvantage: profit margin is relatively low; if costs to produce drop after producing a lot, new entrants will face higher unit costs until they catch up with volumes produced of early entrant

·sometimes follow skimming pricing

- **Prestige pricing**= setting a high price so that quality- or status-conscious consumers are attracted to the product and buy it

·higher price→greater status associated→greater exclusivity, as fewer ppl can afford to buy it

·price remains high throughout the product's life cycle

- **Price lining**= price a line of products at a number of different specific pricing points

- e.g. Price a line of women's dresses at \$59, \$79 and \$99 based on color, style and expected demand

- some instances: all items are purchased at same cost and then marked up differently

- others: manufacturers design products for different price points, and retailers apply same markup

- **Odd-even pricing**= setting prices a few dollars or cents under an even number

- a psychological strategy

- overuse tends to mute its effect on demand

- **Target pricing**= estimate the price that the final consumer will be willing to pay, and then work backward through markups taken by retailers and wholesalers to determine what price should be charged for the product

- **Bundle pricing**= marketing two or more products in a single "package" price

- based on the idea that consumers value the package more than individual items (don't have to make separate purchases and increased satisfaction from one item in the presence of another)

- provides a lower total cost to buyers and lower marketing costs to sellers

- **Yield-management pricing**= charging different prices to maximize revenue for a set amount of capacity at any given time

- e.g. Airlines, hotels and car rental firms vary prices based on time, day, week, or season to match demand and supply

Cost-Oriented Approaches

- **Standard markup pricing**

- **Markup**= difference between selling price and cost, usually expressed as a % of cost
- high-volume products usually have smaller markups than do low-volume products
- markups may appear very large but in fact only result in very low profit

- **Cost-plus pricing**= summing the total unit cost of providing a product or service and adding a specific amount to the cost to arrive at a price

- most commonly used method to set prices for business products
- increasingly favored among B2B marketers in the service sector

Profit-Oriented Approaches

- **Target profit pricing**= set an annual target of a specific dollar amount of profit

- depends on an accurate estimate of demand → difficult to estimate, can cause disaster if estimated too high
- best for firms offering new or unique products, w/o a lot of competition

- **Target return-on-sales pricing**= set prices that will give a profit that is a specified percentage

- often used because of the difficulty in establishing a benchmark of sales or investment to show how much of a firm's effort is needed to achieve the target

- **Target return-on-investment pricing**= set prices to achieve a ROI target, such as a percentage that is mandated by the firm's board of directors/regulators

- used by firms such as general motors and many public utilities

Competition-Oriented Approaches

- **Customary pricing**= tradition, a standardized channel of distribution, or other

competitive factors dictate the price

·e.g. Candy bars in standard vending machines have a customary price of a dollar

·significant departure from the price may result in loss of sales

- **Above-, at-, or below-market pricing**= based on managers' subjective feel for the competitors' price or the market price

- **Loss-leader pricing**= sell at very low prices to attract consumers who, the retailer hopes, will also buy other regularly priced merchandise

·however, some consumers move from store to store, making purchases only on those products that are loss leaders→ **cherry-picking**

Chapter 11: Retailing and wholesaling

The Value of Retailing

- Retailing**= all activities involved in selling, renting, and providing goods/services to ultimate consumers for personal, family, or household use
- important marketing activity; engages the customer, provides a place for showcasing products
- economic value represented by # of ppl employed in retailing and total amount of \$ exchanged in retail sales

Consumer Utilities Offered by Retailing

- 1) **Time**= e.g. Opened 24 hours/ all-year-round
- 2) **Place**= close to customer, convenient locations
- 3) **Form**= production, specification, alteration of product
- 4) **Information, entertainment, recreation etc.**
- 5) **Possession**= purchase is made easier by different ways to pay for the purchase
 - one utility is often emphasized more than others

The Canadian Retail Store

- Retail trade is Canada's 2nd largest labor force
- largest retailers predominantly in the food business
- growing trend for American retailers to open locations in Canada because of its relatively healthy economy

The Global Retail Picture

- major industrialized nations experienced soft demand and market challenges in retailing
- some developing countries or emerging markets in Asia and Eastern Europe are

experiencing solid growth and are developing modern types of retailing

·Walmart= world's biggest retailer

Classifying Retail Outlets

- **Forms of ownership**= distinguishes retail outlets on the basis of whether individuals, corporate chains, or contractual systems own the outlet

1) **Independent retailer**= owned by an individual

·60% of total retail trade in Canada

·tend to be retailers e.g. Bakeries, sporting goods stores, gift stores, restaurants, flower shops

·advantage: the owner can be his/her own boss;

·can offer convenience, quality personal service and lifestyle compatibility

2) **Corporate chain**= multiple outlets under common ownership

·e.g. The bay, sears

·centralized decision-making and purchasing

·have advantages in dealing w/ manufacturers, particularly as the size of the chain grows

·consumers benefit by lower prices, and multiple outlets that have similar merchandise and consistent management policies

·retailing has become a high-tech business for many large chains

3) **Contractual system**= independently owned stores band together to act like a chain

·3 kinds:

1) ***Retailer-sponsored cooperatives***

- members can take advantage of volume discounts commonly available to chains and also give the impression of being a large chain, which may be viewed more favorably by some consumers

2) ***Wholesaler-sponsored voluntary chains***

3) ***Franchises***= an individual or firm (franchisee) contracts w/ a parent company (franchiser) to set up a business or retail outlet

- franchiser assists in selecting store location, setting up store, advertising, and training personnel; provides step by step procedures for major aspects of business

- franchisee pays one-time franchise fee and annual royalty based on store's sales

- a good franchiser concentrates on enhancing image and reputation of the franchise name

Chapter 12: Marketing communications

Marketing Communication Tools

- 1) Advertising
- 2) Public relations
- 3) Sales promotion
- 4) Direct response
- 5) Event marketing and sponsorship
- 6) Personal selling

Advertising

= paid form of media used to communicate to consumers; includes broadcast, print, out-of home, and digital media

·can be very expensive

·one of the latest forms: **webisode**= short online episodes w/ storylines that entertain and subtly weave in the product

- Advertising Media Choices

·selection based on campaign objectives, product, target market and budget constraints

1) TV

·can deliver impactful and effective messages if ads are well-designed and appropriately placed in the media

·148 commercial TV stations→audience fragmentation→difficult for marketers to reach consumers

·consumer behavior is placing TV ads effectiveness into question

·TV viewers frequently change channels when ads appear; often use personal video recorders (PVRs) to skip commercials; choose to watch TV online which has

fewer ads; or watch through digital programming provided by cable providers

2) *Internet*

·**Display advertising**= use of online ads w/ graphics that are placed on websites

·can be static or animated

·**Banner ads**= online ads that can stretch across the top of a web page or be formatted in various sizes, such as leader-boards, rectangles, big boxes, and skyscrapers

·**Leaderboards**= banner ads that stretch across the top of a web page

·**Skyscrapers**= banner ads that are tall, slim, and vertical and appear along the side of a web page

·**Home page takeovers**= an entire ad obscures the website home page

·**Advergaming**= placing ads in online or offline video games

·**Online video advertising**= use of video ads on the internet

·increasingly popular w/ marketers

·disadvantage: more expensive to produce than static or animated display ads

·**Pay-per-click advertising (PPC)**= ads that appear on search engines and their networks, and on Facebook LinkedIn, or YouTube in response to keyword triggers

·often referred to as search advertising

3) *Newspaper*

·3 types:

1. *Daily paid circulation newspapers*: e.g. Toronto Star, Globe and Mail

2. *Free daily newspapers*: e.g. Metro, 24 Hours

3. *Free community newspapers*: published either weekly or monthly, excellent choice for local retailers and for community events

4) **Magazine**

- high-quality media environment
- adapted well to online environment by providing added online content such as searchable databases, blogs, contests, and polls

5) **Radio**

- reach 91% of Canadians over 12 but listening continues to decline among teens
- local, relatively low production cost→affordable for both small and large advertisers
- strong consumer segmentation

6) **Outdoor/transit**

- effective medium for quickly building awareness and interest in a product
- also an excellent reminder for current products
- outdoor includes billboards, mall posters, video displays, wall banners, street-level columns
 - also includes *place-based media*= messages are placed in out-of-home destinations such as shopping malls, airports, doctors' offices, gas stations, elevators and washrooms
- transit= ads placed on the interior and exterior of buses, subway cars and taxis, in subway stations and on transit shelters

Public Relations

= a communications tool that seeks to influence the opinions and attitudes of target groups through the use of unpaid media exposure; targets the media in an attempt to generate positive publicity for a company, product, or individual

- PR professionals build relationships w/ the media and stakeholders and use tools e.g press releases, social media releases, news conferences and events
- while advertising may be viewed w/ suspicion messages that come through a 3rd party such as media are often seen as more reliable+credible
- affordable for even marketers w/ small budgets
- can also take the form of *crisis management* and *image management*
- publicity is not controlled by the company itself but rather by the media
 - Publicity**= non-personal form of communication that appears in the media and is and not paid for directly by the org

- Public Relation Tools

- 1) **Press releases**= announcement written by an org and sent to the media
- 2) **Press conferences**= planned event where representatives of the media are invited to an informational meeting w/ the company
 - advanced materials and press releases are often distributed ahead of time
 - often used during crisis management situations
- 3) **Special event**= creation, support, or sponsorship of special events such as company-sponsored seminars, conferences, and sporting or entertaining events
 - goal is to create a forum to disseminate company info and to create positive brand associations for participants
- 4) **Company reports**= formal company info that is published in annual reports, brochures, newsletters, or videos
- 5) **Social media release**= multimedia online press release platform that includes video, text, and images, as well as social media buttons for sharing on social networks and comment areas where viewers can leave comments

- often seen as a hybrid of advertising and public relations

Sales promotion

= communications tool that provides short-term incentives to generate interest in a product or cause and encourages purchase or support

·social media sites e.g. FB and Twitter are often used to deliver promotional offers to followers

·microsites provide online destinations where contests can be communicated and ppl can interact

·Online/technological promotions growing

·**User-generated content (UGC)**= consumer content that is created by participants

·**Augmented reality (AR)**= when real-world images interact w/ computer-generated info to provide additional info

·Quick response (QR) codes

·2 types of sales promotion:

1) **Consumer promotions**= short-term marketing tools used to encourage immediate consumer purchase

·e.g. Coupons, premiums, contests, samples, rebates

2) **Trade promotions**= short-term promotional tools used to generate support w/ wholesalers, distributors, or retailers

·trade shows, trade allowances and discounts, and cooperative advertising

Direct Response

= marketing communications tool designed to communicate w/ consumers one-on-one and elicit a direct action either online or offline

·designed w/ short term blasts that ultimately build LT relationships w/ the company that result in purchases over the LT

·offline approaches: e.g. Face-to-face selling, direct mail, telemarketing, TV/radio/print where tel numbers or web addresses drive an immediate call to action

·online approaches: e.g. Email campaigns, online display ads, pay-per-click ads, social media interactions that drive consumers to landing pages, websites, or microsites

·offline and online DR approaches often work together

·uses metrics to evaluate success e.g. Business leads, traffic generation, and direct order

·**Lead generation**= requests for additional info that result from DR marketing

·**Traffic generation**= visits to a location/website that result from DR marketing

·Challenges:

1) Requires a comprehensive and up-to-date database of respondent info

2) Expensive to develop and main the database

3) Some consumer avoid participation due to privacy issues

Event Marketing and Sponsorship

·**Event marketing**= creation or involvement of a brand in an experience or occasion that will heighten its awareness, create positive associations, and generate a desired response

·often weaved into integrated campaigns that use public relations, social media, and consumer promotions to make connections w/ consumers and create a buzz

·**Sponsorship**= when an advertiser pays a fee in exchange for inclusion in an event, involvement in its advertising opportunities, or exposure within the event itself

Personal Selling

= two-way flow of communications between a buyer and seller, often face-to-face, or facilitated through communication devices to influence an individual and group purchase decision

·in reality, virtually every occupation that involves customer contact has an element of personal selling w/ the salespl representing the company

·Relationship selling= practice of building LT loyalty from customers based on a salesperson's attention and commitment to customer needs over time

·6 stages: 1) prospecting; 2) pre-approach; 3) approach; 4) presentation; 5) close; 6) follow-up