Although safety is Volvo's core position, the value proposition the firm offers customers includes other benefits too.

Total Customer Satisfaction

In general, **satisfaction** is a person's feelings of pleasure or disappointment that result from comparing a product's perceived performance (or outcome) to expectations.[17] If the performance falls short of expectations, the customer is dissatisfied. If it matches expectations, the customer is satisfied. If it exceeds expectations, the customer is highly satisfied or delighted.[18] Customer assessments of product performance depend on many factors, especially the type of loyalty relationship the customer has with the brand.[19] Consumers often form more favorable perceptions of a product with a brand they already feel positive about.

Although the customer-centered firm seeks to create high customer satisfaction, that is not its ultimate goal. Increasing customer satisfaction by lowering price or increasing services may result in lower profits. The company might be able to increase its profitability by means other than increased satisfaction (for example, by improving manufacturing processes or investing more in R&D). Also, the company has many stakeholders, including employees, dealers, suppliers, and stockholders. Spending more to increase customer satisfaction might divert funds from increasing the satisfaction of other "partners." Ultimately, the company must try to deliver a high level of customer satisfaction subject to also delivering acceptable levels to other stakeholders, given its total resources.[20]

How do buyers form their expectations? Expectations result from past buying experience, friends' and associates' advice, and marketers' and competitors' information and promises. If marketer raise expectations too high, the buyer is likely to be disappointed. If it sets expectations too low, it won't attract enough buyers (although it will satisfy those who do buy).[21] Some of today's most successful companies are raising expectations and delivering performances to match. Korean automaker Kia found success in the United States by launching low-cost, high-quality cars with enough reliability to offer 10-year, 100,000 mile warranties.

Monitoring Satisfaction

Many companies are systematically measuring how well they treat customers, identifying the factors shaping satisfaction, and changing operations and marketing as a result.[22]

Wise firms measure customer satisfaction regularly, because it is one key to customer retention.[23] A highly satisfied customer generally stays loyal longer, buys more as the company introduces new and upgraded products, talks favorably to others about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company, and costs less to serve than new customers because transactions can become routine.[24] Greater customer satisfaction has also been linked to higher returns and lower risk in the stock market.[25]

The link between customer satisfaction and customer loyalty is not proportional, however. Suppose customer satisfaction is rated on a scale from one to five. At a very low level of satisfaction (level one), customers are likely to abandon the company and even bad-mouth it. At levels two to four, customers are fairly satisfied but still find it easy to switch when a better offer comes along. At level five, the customer is very likely to repurchase and even spread good word of mouth about the company. High satisfaction or delight creates an emotional bond with the brand or company, not just a rational preference. Xerox's senior management found its "completely satisfied" customers were six times more likely to repurchase Xerox products over the following 18 months than even its "very satisfied" customers.[26]

The company needs to recognize, however, that customers vary in how they define good performance. Good delivery could mean early delivery, on-time delivery, or order completeness, and two customers can report being "highly satisfied" for different reasons. One may be easily satisfied most of the time and the other might be hard to please but was pleased on this occasion.[27]

MEASUREMENT TECHNIQUES *Periodic surveys* can track customer satisfaction directly and ask additional questions to measure repurchase intention and the respondent's likelihood or willingness to recommend the company and brand to others. One of the nation's largest and most diversified new-home builders, Pulte Homes, wins more awards in J.D. Power's annual survey than any other by constantly measuring how well it's doing with customers and tracking them over a long period of time. Pulte surveys customers just after they buy their homes and again several years later to make sure they're still happy.[28] "Marketing Insight: Net Promoter and Customer Satisfaction" describes why some companies believe just one well-designed question is all that is necessary to assess customer satisfaction.[29]

Companies need to monitor their competitors' performance too. They can monitor their *customer loss rate* and contact those who have stopped buying or who have switched to another supplier to find out why. Finally, as described in Chapter 3, companies can hire *mystery shoppers* to pose as potential buyers and report on strong and weak points experienced in buying the company's and competitors' products. Managers themselves can enter company and competitor sales

Marketing Insight

Net Promoter and Customer Satisfaction

Many companies make measuring customer satisfaction a top priority, but how should they go about doing it? Bain's Frederick Reichheld suggests only one customer question really matters: "How likely is it that you would recommend this product or service to a friend or colleague?" According to Reichheld, a customer's willingness to recommend results from how well the customer is treated by frontline employees, which in turn is determined by all the functional areas that contribute to a customer's experience.[30]

Reichheld was inspired in part by the experiences of Enterprise Rent-A-Car. When the company cut its customer satisfaction survey in 1998 from 18 questions to 2—one about the quality of the rental experience and the other about the likelihood customers would rent from the company again—it found those who gave the highest ratings to their rental experience were three times as likely to rent again than those who gave the second highest rating. The firm also found that diagnostic information managers collected from dissatisfied customers helped it fine-tune its operations.

In a typical Net Promoter survey that follows Reichheld's thinking, customers are asked to rate their likelihood to recommend on a 0 to 10-point scale. Marketers then subtract *detractors* (those who gave a 0 to 6) from *promoters* (those who gave a 9 or 10) to arrive at the Net Promoter Score (NPS). Customers who rate the brand with a 7 or 8 are deemed *passively satisfied* and are not included. A typical set of NPS scores falls in the 10 percent to 30 percent range, but world-class companies can score over 50 percent. Some firms with top NPS scores include USAA (89 percent), Apple (77 percent), Amazon.com (74 percent), Costco.com (73 percent), and Google (71 percent).

Reichheld is gaining believers. GE, American Express, and Microsoft among others have all adopted the NPS metric, and GE has tied 20 percent of its managers' bonuses to its NPS scores. When the European unit of GE Healthcare scored low, follow-up research revealed that response times to customers were a major problem. After it overhauled its call center and put more specialists in the field, GE Healthcare's Net Promoter scores jumped 10 to 15 points. BearingPoint found clients who gave it high Net Promoter scores showed the highest revenue growth.

Reichheld says he developed NPS in response to overly complicated—and thus ineffective—customer surveys. So it's not surprising that client firms praise its simplicity and strong relationship to financial performance. When Intuit applied Net Promoter to its TurboTax product, feedback revealed dissatisfaction with the software's rebate procedure. After Intuit dropped the proof-of-purchase requirement, sales jumped 6 percent.

Net Promoter is not without critics. One comprehensive academic study of 21 firms and more than 15,000 consumers in Norway failed to find any superiority of Net Promoter over other metrics such as the ACSI measure, discussed later in this chapter.

Sources: Fred Reichheld, *Ultimate Question: For Driving Good Profits and True Growth* (Cambridge, MA: Harvard Business School Press, 2006); Jena McGregor, "Would You Recommend Us?" *BusinessWeek*, January 30, 2006, pp. 94–95; Kathryn Kranhold, "Client-Satisfaction Tool Takes Root," *Wall Street Journal*, July 10, 2006; Fred Reichheld, "The One Number You Need to Grow," *Harvard Business Review*, December 2003; Timothy L. Keiningham, Bruce Cooil, Tor Wallin Andreassen, and Lerzan Aksoy, "A Longitudinal Examination of Net Promoter and Firm Revenue Growth," *Journal of Marketing*, 71 (July 2007), pp. 39–51; Neil A. Morgan and Lopo Leotte Rego, "The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Business Performance," *Marketing Science,* 25, no. 5 (September–October 2006), pp. 426–39; Timothy L. Keiningham, Lerzan Aksoy, Bruce Cooil, and Tor W. Andreassen, "Linking Customer Loyalty to Growth," *MIT Sloan Management Review* (Summer 2008), pp. 51–57; Timothy L. Keiningham, Lerzan Aksoy, Bruce Cooil, and Tor W. Andreassen, "Commentary on 'The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Business Performance,'" *Marketing Science*, 27, no. 3 (May–June 2008), 531–32.

situations where they are unknown and experience firsthand the treatment they receive, or they can phone their own company with questions and complaints to see how employees handle the calls.

INFLUENCE OF CUSTOMER SATISFACTION For customer-centered companies, customer satisfaction is both a goal and a marketing tool. Companies need to be especially concerned with their customer satisfaction level today because the Internet provides a tool for consumers to quickly spread both good and bad word of mouth to the rest of the world. Some customers set up their own Web sites to air grievances and galvanize protest, targeting high-profile brands such as United Airlines, Home Depot, and Mercedes-Benz.[31]

The University of Michigan's Claes Fornell has developed the American Customer Satisfaction Index (ACSI) to measure consumers' perceived satisfaction with different firms, industries, economic sectors, and national economies.[32] Table 5.2 displays some of the 2009 leaders.

Companies that do achieve high customer satisfaction ratings make sure their target market knows it. Once they achieved number one status in their category on J.D. Power's customer satisfaction ratings, Hyundai, American Express, Medicine Shoppe (a chain pharmacy), and Alaska Airways have communicated that fact.

TABLE 5.2 2009 ACSI Scores by Industry

Industry	Firm	Score
Airlines	Southwest Airlines	81
Apparel	Jones Apparel	84
Automobiles & Light Vehicles	Lexus & BMW	87
Banks	Wachovia	76
Breweries	Molson Coors Brewing	83
Cable & Satellite TV	DIRECTV	71
Cellular Telephones	Nokia	74
Cigarettes	Philip Morris	79
Department & Discount Stores	Nordstrom & Kohl's	80
Energy Utilities	Sempra Energy	80
Express Delivery	FedEx	84
Fixed Line Telephone Service	Cox Communications	74
Food Manufacturing	H. J. Heinz	89
Health Insurance	Blue Cross and Blue Shield	73
Hotels	Hilton Hotels	79
Internet Brokerage	Fidelity Investments	80
Internet News & Information	MSNBC.com	76
Internet Portals & Search Engines	Google	86
Internet Travel	Expedia	77
Life Insurance	Prudential Financial	79
Personal Care & Cleaning Products	Clorox	87
Personal Computers	Apple	85
Soft Drinks	Dr Pepper Snapple	87
Supermarkets	Publix	82
Wireless Telephone Service	Verizon Wireless	74

Source: ACSI LLC, www.theacsi.org. Used with permission.

CUSTOMER COMPLAINTS Some companies think they're getting a sense of customer satisfaction by tallying complaints, but studies show that while customers are dissatisfied with their purchases about 25 percent of the time, only about 5 percent complain. The other 95 percent either feel complaining is not worth the effort or don't know how or to whom to complain. They just stop buying.[33]

Of the customers who register a complaint, 54 percent to 70 percent will do business with the organization again if their complaint is resolved. The figure goes up to a staggering 95 percent if the customer feels the complaint was resolved *quickly*. Customers whose complaints are satisfactorily resolved tell an average of 5 people about the good treatment they received.[34] The average dissatisfied customer, however, gripes to 11 people. If each of these tells still other people, the number exposed to bad word of mouth may grow exponentially.

No matter how perfectly designed and implemented a marketing program is, mistakes will happen. The best thing a company can do is make it easy for customers to complain. Suggestion forms, toll-free numbers, Web sites, and e-mail addresses allow for quick, two-way communication. The 3M Company claims that over two-thirds of its product improvement ideas come from listening to customer complaints.

Given the potential downside of having an unhappy customer, it's critical that marketers deal with negative experiences properly.[35] Beyond that, the following procedures can help to recover customer goodwill:[36]

1. Set up a 7-day, 24-hour toll-free hotline (by phone, fax, or e-mail) to receive and act on customer complaints.
2. Contact the complaining customer as quickly as possible. The slower the company is to respond, the more dissatisfaction may grow and lead to negative word of mouth.
3. Accept responsibility for the customer's disappointment; don't blame the customer.
4. Use customer service people who are empathic.
5. Resolve the complaint swiftly and to the customer's satisfaction. Some complaining customers are not looking for compensation so much as a sign that the company cares.

Product and Service Quality

Satisfaction will also depend on product and service quality. What exactly is quality? Various experts have defined it as "fitness for use," "conformance to requirements," and "freedom from variation." We will use the American Society for Quality's definition: **Quality** is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.[37] This is clearly a customer-centered definition. We can say the seller has delivered quality whenever its product or service meets or exceeds the customers' expectations.

A company that satisfies most of its customers' needs most of the time is called a quality company, but we need to distinguish between *conformance* quality and *performance* quality (or grade). A Lexus provides higher performance quality than a Hyundai: The Lexus rides smoother, goes faster, and lasts longer. Yet both a Lexus and a Hyundai deliver the same conformance quality if all the units deliver their respective promised quality.

IMPACT OF QUALITY Product and service quality, customer satisfaction, and company profitability are intimately connected. Higher levels of quality result in higher levels of customer satisfaction, which support higher prices and (often) lower costs. Studies have shown a high correlation between relative product quality and company profitability.[38] The drive to produce goods that are superior in world markets has led some countries—and groups of countries—to recognize or award prizes to companies that exemplify the best quality practices, such as the Deming Prize in Japan, the Malcolm Baldrige National Quality Award in the United States, and the European Quality Award.

Companies that have lowered costs to cut corners have paid the price when the quality of the customer experience suffers:[39] When Northwest Airlines stopped offering free magazines, pillows, movies, and even minibags of pretzels on domestic flights, it also raised prices and reduced its flight schedule. As one frequent flier noted, "Northwest acts low cost without *being* low cost." Not surprisingly, Northwest came in last of all top U.S. airlines in both the ACS index and J.D. Power's customer satisfaction poll soon thereafter. Home Depot also encountered turbulence when it became overly focused on cost cutting.

Home Depot When Home Depot decided to expand into the contractor supply business, while also cutting costs and streamlining operations in 1,816 U.S. stores, it replaced many full-time workers with part-timers who soon made up about 40 percent of store staff. The chain's ACS index of customer satisfaction dropped to the bottom among major U.S. retailers, 11 points behind customer-friendly competitor Lowe's, and its share price slid 24 percent during the biggest home improvement boom in U.S. history. To turn the company around, new management simplified operations. Store managers were given three goals to achieve—cleaner warehouses, stocked shelves, and top customer service. The 200+ e-mails sent from the corporate office on a typical Monday were replaced with one—the rest of the information was made available online. In a new practice called "power hours," on weekdays from 10 AM to 2 PM and all day Saturday and Sunday, employees were to do nothing but serve customers. To make sure the new strategy stuck, performance reviews were changed so store employees were evaluated almost entirely on customer service.[40]

Home Depot instituted a number of changes in its operations to improve customer service and satisfaction.

Quality is clearly the key to value creation and customer satisfaction. Total quality is everyone's job, just as marketing is everyone's job. "Marketing Memo: Marketing and Total Quality" outlines the role of marketing in maximizing total quality for the firm.

Maximizing Customer Lifetime Value

Ultimately, marketing is the art of attracting and keeping profitable customers. Yet every company loses money on some of its customers. The well-known 80–20 rule states that 80 percent or more of the company's profits come from the top 20 percent of its customers. Some cases may be more extreme—the most profitable 20 percent of customers (on a per capita basis) may contribute as much as 150 percent to 300 percent of profitability. The least profitable 10 percent to 20 percent, on the other hand, can actually reduce profits between 50 percent to 200 percent per account, with the middle 60 percent to 70 percent breaking even.[41] The implication is that a company could improve its profits by "firing" its worst customers.

marketing **Memo**

Marketing and Total Quality

Marketers play several roles in helping their companies define and deliver high-quality goods and services to target customers

- They correctly identify customers' needs and requirements.
- They communicate customer expectations properly to product designers.
- They make sure customers' orders are filled correctly and on time.
- They check that customers have received proper instructions, training, and technical assistance in the use of the product.
- They stay in touch with customers after the sale to ensure they are, and remain, satisfied.
- They gather customer ideas for product and service improvements and convey them to the appropriate departments.

When marketers do all this, they make substantial contributions to total quality management and customer satisfaction, as well as to customer and company profitability.

It's not always the company's largest customers, who can demand considerable service and deep discounts, who yield the most profit. The smallest customers pay full price and receive minimal service, but the costs of transacting with them can reduce their profitability. Midsize customers who receive good service and pay nearly full price are often the most profitable.

Customer Profitability

A **profitable customer** is a person, household, or company that over time yields a revenue stream exceeding by an acceptable amount the company's cost stream for attracting, selling, and serving that customer. Note the emphasis is on the *lifetime* stream of revenue and cost, not the profit from a particular transaction.[42] Marketers can assess customer profitability individually, by market segment, or by channel.

Many companies measure customer satisfaction, but few measure individual customer profitability.[43] Banks claim this is a difficult task, because each customer uses different banking services and the transactions are logged in different departments. However, the number of unprofitable customers in their customer base has appalled banks that have succeeded in linking customer transactions. Some report losing money on over 45 percent of their retail customers.

CUSTOMER PROFITABILITY ANALYSIS A useful type of profitability analysis is shown in Figure 5.3.[44] Customers are arrayed along the columns and products along the rows. Each cell contains a symbol representing the profitability of selling that product to that customer. Customer 1 is very profitable; he buys two profit-making products (P1 and P2). Customer 2 yields mixed profitability; he buys one profitable product (P1) and one unprofitable product (P3). Customer 3 is a losing customer because he buys one profitable product (P1) and two unprofitable products (P3 and P4).

What can the company do about customers 2 and 3? (1) It can raise the price of its less profitable products or eliminate them, or (2) it can try to sell customers 2 and 3 its profit-making products. Unprofitable customers who defect should not concern the company. In fact, the company should encourage them to switch to competitors.

Customer profitability analysis (CPA) is best conducted with the tools of an accounting technique called **activity-based costing (ABC)**. ABC accounting tries to identify the real costs associated with serving each customer—the costs of products and services based on the resources they consume. The company estimates all revenue coming from the customer, less all costs.

With ABC, the costs should include the cost not only of making and distributing the products and services, but also of taking phone calls from the customer, traveling to visit the customer, paying for entertainment and gifts—all the company's resources that go into serving that customer. ABC also allocates indirect costs like clerical costs, office expenses, supplies, and so on, to the activities that use them, rather than in some proportion to direct costs. Both variable and overhead costs are tagged back to each customer.

Companies that fail to measure their costs correctly are also not measuring their profit correctly and are likely to misallocate their marketing effort. The key to effectively employing ABC is to define and judge "activities" properly. One time-based solution calculates the cost of one minute of overhead and then decides how much of this cost each activity uses.[45]

		Customers			
		C_1	C_2	C_3	
Products	P_1	+	+	+	Highly profitable product
	P_2	+			Profitable product
	P_3		−	−	Unprofitable product
	P_4			−	Highly unprofitable product
		High-profit customer	Mixed-bag customer	Losing customer	

|Fig. 5.3|

Customer-Product Profitability Analysis

Measuring Customer Lifetime Value

The case for maximizing long-term customer profitability is captured in the concept of customer lifetime value.[46] **Customer lifetime value (CLV)** describes the net present value of the stream of future profits expected over the customer's lifetime purchases. The company must subtract from its expected revenues the expected costs of attracting, selling, and servicing the account of that customer, applying the appropriate discount rate (say, between 10 percent and 20 percent, depending on cost of capital and risk attitudes). Lifetime value calculations for a product or service can add up to tens of thousands of dollars or even into six figures.[47]

Many methods exist to measure CLV.[48] "Marketing Memo: Calculating Customer Lifetime Value" illustrates one. CLV calculations provide a formal quantitative framework for planning customer investment and help marketers adopt a long-term perspective. One challenge, however, is to arrive at reliable cost and revenue estimates. Marketers who use CLV concepts must also take into account the short-term, brand-building marketing activities that help increase customer loyalty.

Cultivating Customer Relationships

Companies are using information about customers to enact precision marketing designed to build strong long-term relationships.[49] Information is easy to differentiate, customize, personalize, and dispatch over networks at incredible speed.

marketing Memo — Calculating Customer Lifetime Value

Researchers and practitioners have used many different approaches for modeling and estimating CLV. Columbia's Don Lehmann and Harvard's Sunil Gupta recommend the following formula to estimate the CLV for a not-yet-acquired customer:

$$CLV = \sum_{t=0}^{T} \frac{(p_t - c_t)r_t}{(1+i)^t} - AC$$

where p_t = price paid by a consumer at time t,

c_t = direct cost of servicing the customer at time t,

i = discount rate or cost of capital for the firm,

r_t = probability of customer repeat buying or being "alive" at time t,

AC = acquisition cost,

T = time horizon for estimating CLV.

A key decision is what time horizon to use for estimating CLV. Typically, three to five years is reasonable. With this information and estimates of other variables, we can calculate CLV using spreadsheet analysis.

Gupta and Lehmann illustrate their approach by calculating the CLV of 100 customers over a 10-year period (see Table 5.3). In this example, the firm acquires 100 customers with an acquisition cost per customer of $40. Therefore, in year 0, it spends $4,000. Some of these customers defect each year. The present value of the profits from this cohort of customers over 10 years is $13,286.52. The net CLV (after deducting acquisition costs) is $9,286.52, or $92.87 per customer.

Using an infinite time horizon avoids having to select an arbitrary time horizon for calculating CLV. In the case of an infinite time horizon, if margins (price minus cost) and retention rates stay constant over time, the future CLV of an existing customer simplifies to the following:

$$CLV = \sum_{t=1}^{\infty} \frac{mr^t}{(1+i)^t} = m\frac{r}{(1+i-r)}$$

In other words, CLV simply becomes margin (m) times a *margin multiple* $[r/(1+i-r)]$.

Table 5.4 shows the margin multiple for various combinations of r and i and a simple way to estimate CLV of a customer. When retention rate is 80 percent and discount rate is 12 percent, the margin multiple is about two and a half. Therefore, the future CLV of an existing customer in this scenario is simply his or her annual margin multiplied by 2.5.

Sources: Sunil Gupta and Donald R. Lehmann, "Models of Customer Value," Berend Wierenga, ed., *Handbook of Marketing Decision Models* (Berlin, Germany: Springer Science and Business Media, 2007); Sunil Gupta and Donald R. Lehmann, "Customers as Assets," *Journal of Interactive Marketing* 17, no. 1 (Winter 2006), pp. 9–24; Sunil Gupta and Donald R. Lehmann, *Managing Customers as Investments* (Upper Saddle River, NJ: Wharton School Publishing, 2005); Peter Fader, Bruce Hardie, and Ka Lee, "RFM and CLV: Using Iso-Value Curves for Customer Base Analysis," *Journal of Marketing Research* 42, no. 4 (November 2005), pp. 415–30; Sunil Gupta, Donald R. Lehmann, and Jennifer Ames Stuart, "Valuing Customers," *Journal of Marketing Research* 41, no. 1 (February 2004), pp. 7–18; Werner J. Reinartz and V. Kumar, "On the Profitability of Long-Life Customers in a Noncontractual Setting: An Empirical Investigation and Implications for Marketing," *Journal of Marketing* 64 (October 2000), pp. 17–35.

TABLE 5.3 A Hypothetical Example to Illustrate CLV Calculations

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Number of Customers	100	90	80	72	60	48	34	23	12	6	2
Revenue per Customer		100	110	120	125	130	135	140	142	143	145
Variable Cost per Customer		70	72	75	76	78	79	80	81	82	83
Margin per Customer		30	38	45	49	52	56	60	61	61	62
Acquisition Cost per Customer	40										
Total Cost or Profit	–4,000	2,700	3,040	3,240	2,940	2,496	1,904	1,380	732	366	124
Present Value	–4,000	2,454.55	2,512.40	2,434.26	2,008.06	1,549.82	1,074.76	708.16	341.48	155.22	47.81

TABLE 5.4 Margin Multiple

	Discount Rate			
Retention Rate	**10%**	**12%**	**14%**	**16%**
60%	1.20	1.5	1.11	1.07
70%	1.75	1.67	1.59	1.52
80%	2.67	2.50	2.35	2.22
90%	4.50	4.09	3.75	3.46

But information cuts both ways. For instance, customers now have a quick and easy means of doing comparison shopping through sites such as Bizrate.com, Shopping.com, and PriceGrabber.com. The Internet also facilitates communication between customers. Web sites such as Epinions.com and Yelp.com enable customers to share information about their experiences with various products and services. Customer empowerment has become a way of life for many companies that have had to adjust to a shift in the power with their customer relationships.

Customer Relationship Management

Customer relationship management (CRM) is the process of carefully managing detailed information about individual customers and all customer "touch points" to maximize loyalty.[50] A *customer touch point* is any occasion on which a customer encounters the brand and product—from actual experience to personal or mass communications to casual observation. For a hotel, the touch points include reservations, check-in and checkout, frequent-stay programs, room service, business services, exercise facilities, laundry service, restaurants, and bars. The Four Seasons relies on personal touches, such as a staff that always addresses guests by name, high-powered employees who understand the needs of sophisticated business travelers, and at least one best-in-region facility, such as a premier restaurant or spa.[51]

CRM enables companies to provide excellent real-time customer service through the effective use of individual account information. Based on what they know about each valued customer, companies can customize market offerings, services, programs, messages, and media. CRM is important because a major driver of company profitability is the aggregate value of the company's customer base.[52]

PERSONALIZING MARKETING The widespread usage of the Internet allows marketers to abandon the mass market practices that built brand powerhouses in the 1950s, 1960s, and 1970s for new approaches that are a throwback to marketing practices from a century ago, when merchants literally knew their customers by name. *Personalizing marketing* is about making sure the brand and its marketing are as relevant as possible to as many customers as possible—a challenge, given that no two customers are identical.

Jones Soda

Jones Soda Peter van Stolk founded Jones Soda on the premise that Gen Y consumers would be more accepting of a new soft drink brand if they felt they discovered it themselves. Jones Soda initially was sold only in shops that sell surfboards, snowboards, and skateboards. The Jones Soda Web site would encourage fans to send in personal photos for possible use on Jones Soda labels. Although only a small number were picked from tens of thousands of entries, the approach helped create relevance and an emotional connection. Customers could also purchase bottles with customized labels. Famous for unusual flavors such as Turkey and Gravy, Pineapple Upside Down, Berry White (a pun on singer Barry White), Purple Carrot, and Lemon Drop Dead, the company also adds pithy words of wisdom from customers under the bottle cap to create additional relevance and distinctiveness. The approach worked for a number of years—revenue grew at 15 percent to 30 percent annually—until an ill-fated foray into canned soda and selling through mass market retailers Target and Walmart resulted in some devastating financial losses and a vow to return to the company's personal-touch roots.[53]

An increasingly essential ingredient for the best relationship marketing today is the right technology. GE Plastics could not target its e-mail effectively to different customers if it were not for advances in database software. Dell could not customize computer ordering for its global corporate customers without advances in Web technology. Companies are using e-mail, Web sites, call centers, databases, and database software to foster continuous contact between company and customer.

E-commerce companies looking to attract and retain customers are discovering that personalization goes beyond creating customized information.[54] For example, the Lands' End Live Web site offers visitors the opportunity to talk with a customer service representative. Nordstrom takes a similar approach to ensure online buyers are as satisfied with the company's customer service as in-store visitors. Domino's has put the customer in charge of ordering a pizza delivery every step of the way.

Domino's

Domino's Domino's has introduced a new "build-your-own-pizza" feature on its Web site that allows customers to watch a simulated photographic version of their pizza as they select a size, choose a sauce, and add toppings. The Web site also shows exactly what the completed pizza would cost in the process. It lets customers track orders from when the pizza enters the oven to when it leaves the store. Domino's also introduced a new point-of-sale system that streamlined the logistics of online and phone orders. This system improved accuracy, increased repeat visits, and boosted revenues and processes.[55]

Companies are also recognizing the importance of the personal component to CRM and what happens once customers make actual contact with the company. Employees can create strong bonds with customers by individualizing and personalizing relationships. In essence, thoughtful companies turn their customers into clients. Here is the distinction:

> Customers may be nameless to the institution; clients cannot be nameless. Customers are served as part of the mass or as part of larger segments; clients are served on an individual basis. Customers are served by anyone who happens to be available; clients are served by the professional assigned to them.[56]

To adapt to customers' increased desire for personalization, marketers have embraced concepts such as permission marketing and one-to-one marketing.

Permission marketing, the practice of marketing to consumers only after gaining their expressed permission, is based on the premise that marketers can no longer use "interruption marketing" via mass media campaigns. According to Seth Godin, a pioneer in the technique, marketers can develop stronger consumer relationships by respecting consumers' wishes and sending messages only when they express a willingness to become more involved with the brand.[57] Godin believes permission marketing works because it is "anticipated, personal, and relevant."

Permission marketing, like other personalization approaches, presumes consumers know what they want. But in many cases, consumers have undefined, ambiguous, or conflicting preferences. "Participatory marketing" may be a more appropriate concept than permission marketing, because marketers and consumers need to work together to find out how the firm can best satisfy consumers.

Don Peppers and Martha Rogers outline a four-step framework for *one-to-one marketing* that can be adapted to CRM marketing as follows:[58]

1. ***Identify your prospects and customers.*** Don't go after everyone. Build, maintain, and mine a rich customer database with information from all the channels and customer touch points.
2. ***Differentiate customers in terms of (1) their needs and (2) their value to your company.*** Spend proportionately more effort on the most valuable customers (MVCs). Apply activity-based costing and calculate customer lifetime value. Estimate net present value of all future profits from purchases, margin levels, and referrals, less customer-specific servicing costs.
3. ***Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationships.*** Formulate customized offerings you can communicate in a personalized way.
4. ***Customize products, services, and messages to each customer.*** Facilitate customer interaction through the company contact center and Web site.

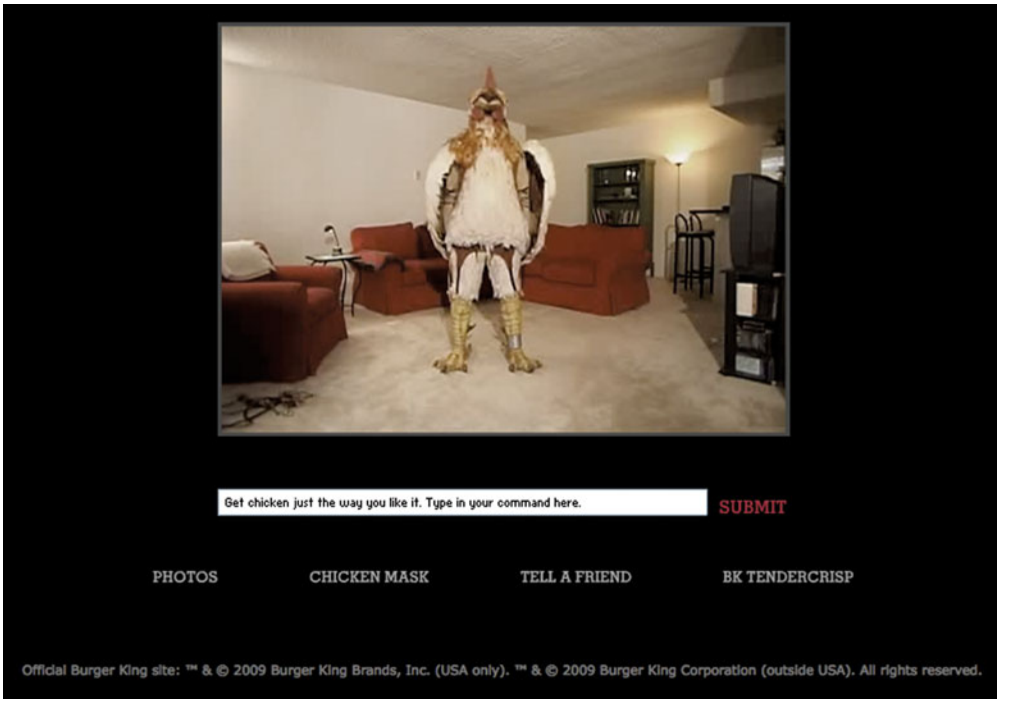
One-to-one marketing is not for every company: It works best for firms that normally collect a great deal of individual customer information and carry a lot of products that can be cross-sold, need periodic replacement or upgrading, and offer high value. For others, the required investment in information collection, hardware, and software may exceed the payout. With automobiles that can cost over $100,000, Aston Martin engages in one-to-one marketing with a select group of customers. High-end dealerships offer separate owners-only clubroom sections and weekend getaways to test-drive new models.[59]

CUSTOMER EMPOWERMENT Often seen as the flag bearer for marketing best practices, P&G's former chairman, A.G. Lafley, created shockwaves with his Association of National Advertisers' speech in October 2006. "The power is with the consumer," proclaimed Lafley, and "marketers and retailers are scrambling to keep up with her. Consumers are beginning in a very real sense to own our brands and participate in their creation. We need to learn to let go." In support of his contention, Lafley pointed out how a teenager had created an animated spot for Pringles snacks that was posted on YouTube; how Pantene, the hair care products company, had created a campaign that encouraged women to cut their hair and donate the clippings to make wigs for cancer patients; and how sales of Cover Girl Outlast lipstick increased 25 percent after the firm put mirrored ads in women's restrooms asking, "Is your lipstick still on?" and ran targeted five-second TV ads with the same theme.[60]

Other marketers have begun to advocate a "bottom-up" grassroots approach to marketing, rather than the more traditional "top-down" approach in which marketers feel they are calling the shots. Burger King has launched attention-getting edgy campaigns in recent years ("Whopper Freakout," "Subservient Chicken," and "Wake Up With the King") on consumer-friendly new media such as YouTube, MySpace, video games, and iPods. Allowing the customer to take charge just makes sense for a brand whose slogan is "Have It Your Way" and whose main rival, McDonald's, already owns the more staid family market.

Marketers are helping consumers become evangelists for brands by providing them resources and opportunities to demonstrate their passion. Doritos held a contest to let consumers name their next flavor. Converse asked amateur filmmakers to submit 30-second short films that demonstrated their inspiration from the iconic sneaker brand. The best of the 1,800 submissions were showcased in the Converse Gallery Web site, and the best of the best became TV commercials. Sales of shoes via the Web site doubled in the month after the gallery's launch.[61]

Even business-to-business firms are getting into the action. PAETEC provides telecommunications services to hotels, universities, and other companies. It has grown into a $500 million company in six years, and its growth is due entirely to customer evangelism. PAETEC's primary marketing strategy: Invite current customers and key prospects to dine on PAETEC's tab and meet



Burger King's "Subservient Chicken" marketing campaign reinforced the brand's core promise of putting the customer in charge.

one another. No boring PowerPoint presentations here, just customers talking about their telecommunications challenges and their unfiltered experiences being PAETEC customers. Prospects are sold on the company by other customers.[62]

Although much has been made of the newly empowered consumer—in charge, setting the direction of the brand, and playing a much bigger role in how it is marketed—it's still true that only *some consumers* want to get involved with *some of the brands* they use and, even then, only *some of the time*. Consumers have lives, jobs, families, hobbies, goals, and commitments, and many things matter more to them than the brands they purchase and consume. Understanding how to best market a brand given such diversity is crucially important.

CUSTOMER REVIEWS AND RECOMMENDATIONS Although the strongest influence on consumer choice remains "recommended by relative/friend," an increasingly important decision factor is "recommendations from consumers." With increasing mistrust of some companies and their advertising, online customer ratings and reviews are playing an important role for Internet retailers such as Amazon.com and Shop.com.

Online pet food retailer PETCO actually started using consumer product ratings and reviews in e-mails and banner ads, finding the click-through rate increased considerably as a result.[63] Brick-and-mortar retailers such as Staples and Cabela's are also recognizing the power of consumer reviews and have begun to display them in their stores.[64]

Despite consumer acceptance of such reviews, however, their quality and integrity is always in question. In one famous example, over a period of seven years, the cofounder and CEO of Whole Foods Market reportedly posted more than 1,100 entries on Yahoo! Finance's online bulletin board under a pseudonym, praising his company and criticizing competitors.

Some sites offer summaries of reviews to provide a range of product evaluations. Metacritic aggregates music, game, TV, and movie reviews from leading critics—often from more than 100 publications—averaged into a single 1 to 100 score. Review sites are important in the video game industry because of the influence they wield and the product's high selling price—often $50 to $60. Some game companies tie bonuses for their developers to game scores on the more popular sites. If a major new release doesn't make the 85-plus cutoff, the publisher's stock price may even drop.[65]

Bloggers who review products or services have become important because they may have thousands of followers; blogs are often among the top links returned in online searches for certain brands or categories. A company's PR department may track popular blogs via online services such as Google alerts, BlogPulse, and Technorati. Firms also court the favor of key bloggers via free samples, advance information, and special treatment. Most bloggers disclose when they are given free samples by companies.

For smaller brands with limited media budgets, online word of mouth is critical. To generate prelaunch buzz for one of its new hot cereals, organic food maker Amy's Kitchen shipped out samples before its release to several of the 50 or so vegan, gluten-free, or vegetarian food bloggers the company tracks. When favorable reviews appeared on these blogs, the company was besieged by e-mails asking where the cereal could be bought.[66]

Negative reviews actually can be surprisingly helpful. A January 2007 Forrester study of 10,000 consumers of Amazon.com's electronics and home and garden products found that 50 percent found negative reviews helpful. Most consumers purchased the products regardless of negative comments because they felt the comments reflected personal tastes and opinions that differed from their own. Because consumers can better learn the advantages and disadvantages of products through negative reviews, fewer product returns may result, saving retailers and producers money.[67]

Online retailers often add their own recommendations, "If you like that black purse, you'll love this red blouse." One source estimated that recommendation systems contribute 10 percent to 30 percent of an online retailer's sales. Specialized software tools help online retailers facilitate customer "discovery" or unplanned purchases. When Blockbuster adopted one such system, cancellation rates fell and subscribers nearly doubled the number of movies on their order lists.[68]

Amy's Kitchen sent product samples to carefully selected bloggers to quickly spread the word about its new products.

At the same time, online companies need to make sure their attempts to create relationships with customers don't backfire, as when customers are bombarded by computer-generated recommendations that consistently miss the mark. Buy a lot of baby gifts on Amazon.com, and your personalized recommendations suddenly don't look so personal! E-tailers need to recognize the limitations of online personalization at the same time that they try harder to find technology and processes that really work.

Attracting and Retaining Customers

Companies seeking to expand their profits and sales must spend considerable time and resources searching for new customers. To generate leads, they develop ads and place them in media that will reach new prospects; send direct mail and e-mails to possible new prospects; send their salespeople to participate in trade shows where they might find new leads; purchase names from list brokers; and so on.

Different acquisition methods yield customers with varying CLVs. One study showed that customers acquired through the offer of a 35 percent discount had about one-half the long-term value of customers acquired without any discount.[69] Campaigns that target loyal customers by reinforcing the benefits they enjoy often also attract new customers. Two-thirds of the considerable growth spurred by UK mobile communication leader O2's loyalty strategy was attributed to recruitment of new customers, the remainder from reduced defection.[70]

REDUCING DEFECTION It is not enough to attract new customers; the company must also keep them and increase their business.[71] Too many companies suffer from high **customer churn** or defection. Adding customers here is like adding water to a leaking bucket.

Cellular carriers and cable TV operators are plagued by "spinners," customers who switch carriers at least three times a year looking for the best deal. Many lose 25 percent of their subscribers each year, at an estimated cost of $2 billion to $4 billion. Some of the dissatisfaction defecting customers cite comes from unmet needs and expectations, poor product/service quality and high complexity, and billing errors.[72]

To reduce the defection rate, the company must:

1. ***Define and measure its retention rate.*** For a magazine, subscription renewal rate is a good measure of retention. For a college, it could be first- to second-year retention rate, or class graduation rate.

2. ***Distinguish the causes of customer attrition and identify those that can be managed better.*** Not much can be done about customers who leave the region or go out of business, but much can be done about those driven away by poor service, shoddy products, or high prices.[73]
3. ***Compare the lost customer's lifetime value to the costs of reducing the defection rate.*** As long as the cost to discourage defection is lower than the lost profit, spend the money to try to retain the customer.

RETENTION DYNAMICS Figure 5.4 shows the main steps in attracting and retaining customers in terms of a funnel and some sample questions to measure customer progress through the funnel. The **marketing funnel** identifies the percentage of the potential target market at each stage in the decision process, from merely aware to highly loyal. Consumers must move through each stage before becoming loyal customers. Some marketers extend the funnel to include loyal customers who are brand advocates or even partners with the firm.

By calculating *conversion rates*—the percentage of customers at one stage who move to the next—the funnel allows marketers to identify any bottleneck stage or barrier to building a loyal customer franchise. If the percentage of recent users is significantly lower than triers, for instance, something might be wrong with the product or service that prevents repeat buying.

The funnel also emphasizes how important it is not just to attract new customers, but to retain and cultivate existing ones. Satisfied customers are the company's *customer relationship capital.* If the company were sold, the acquiring company would pay not only for the plant and equipment and brand name, but also for the delivered *customer base,* the number and value of customers who will do business with the new firm. Consider this data about customer retention:[74]

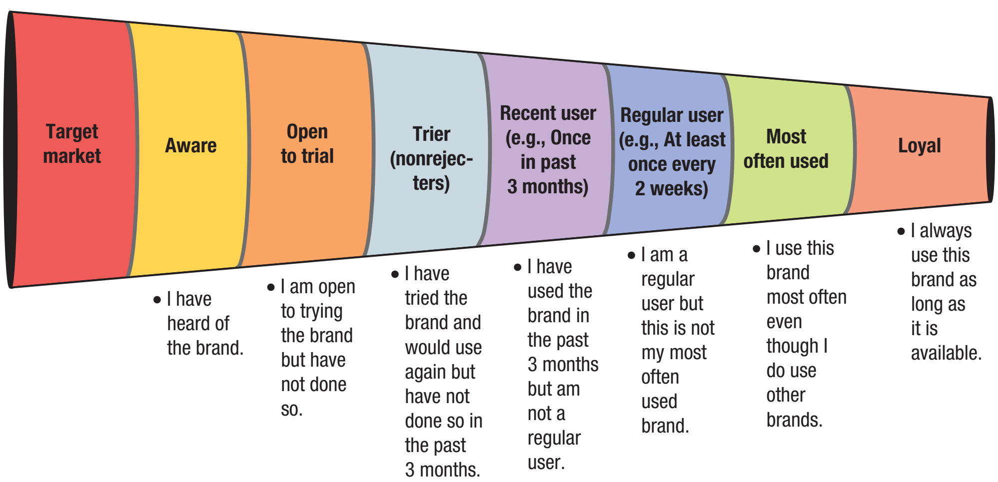
- Acquiring new customers can cost five times more than satisfying and retaining current ones. It requires a great deal of effort to induce satisfied customers to switch from their current suppliers.
- The average company loses 10 percent of its customers each year.
- A 5 percent reduction in the customer defection rate can increase profits by 25 percent to 85 percent, depending on the industry.
- Profit rate tends to increase over the life of the retained customer due to increased purchases, referrals, price premiums, and reduced operating costs to service.

MANAGING THE CUSTOMER BASE Customer profitability analysis and the marketing funnel help marketers decide how to manage groups of customers that vary in loyalty, profitability, and other factors.[75] A key driver of shareholder value is the aggregate value of the customer base. Winning companies improve that value by excelling at strategies like the following:

- ***Reducing the rate of customer defection.*** Selecting and training employees to be knowledgeable and friendly increases the likelihood that customers' shopping questions will be answered satisfactorily. Whole Foods, the world's largest retailer of natural and organic foods, woos customers with a commitment to market the best foods and a team concept for employees.
- ***Increasing the longevity of the customer relationship.*** The more engaged with the company, the more likely a customer is to stick around. Nearly 65 percent of new Honda purchases replace an older Honda. Drivers cited Honda's reputation for creating safe vehicles with high resale value.

|Fig. 5.4|

The Marketing Funnel



- ***Enhancing the growth potential of each customer through "share of wallet," cross-selling, and up-selling.***[76] Sales from existing customers can be increased with new offerings and opportunities. Harley-Davidson sells more than motorcycles and accessories like gloves, leather jackets, helmets, and sunglasses. Its dealerships sell more than 3,000 items of clothing—some even have fitting rooms. Licensed goods sold by others range from predictable items (shot glasses, cue balls, and Zippo cigarette lighters) to the more surprising (cologne, dolls, and cell phones).
- ***Making low-profit customers more profitable or terminating them.*** To avoid the direct need for termination, marketers can encourage unprofitable customers to buy more or in larger quantities, forgo certain features or services, or pay higher amounts or fees.[77] Banks, phone companies, and travel agencies all now charge for once-free services to ensure minimum revenue levels. Firms can also discourage those with questionable profitability prospects. Progressive Insurance screens customers and diverts the potentially unprofitable to competitors.[78] "Free" customers who pay little or nothing and are subsidized by paying customers—as in print and online media, employment and dating services, and shopping malls—may still create useful direct and indirect network effects, however, an important function.[79]
- ***Focusing disproportionate effort on high-profit customers.*** The most profitable customers can be treated in a special way. Thoughtful gestures such as birthday greetings, small gifts, or invitations to special sports or arts events can send them a strong positive signal.

Building Loyalty

Creating a strong, tight connection to customers is the dream of any marketer and often the key to long-term marketing success. Companies that want to form such bonds should heed some specific considerations (see Figure 5.5). One set of researchers sees retention-building activities as adding financial benefits, social benefits, or structural ties.[80] The following sections explain three types of marketing activities companies are using to improve loyalty and retention.

INTERACTING WITH CUSTOMERS Listening to customers is crucial to customer relationship management. Some companies have created an ongoing mechanism that keeps their marketers permanently plugged in to frontline customer feedback.

- Deere & Company, which makes John Deere tractors and has a superb record of customer loyalty—nearly 98 percent annual retention in some product areas—has used retired employees to interview defectors and customers.[81]
- Chicken of the Sea has 80,000 members in its Mermaid Club, a core-customer group that receives special offers, health tips and articles, new product updates, and an informative e-newsletter. In return, club members provide valuable feedback on what the company is doing and thinking of doing. Feedback from club members has helped design the brand's Web site, develop messages for TV advertising, and craft the look and text on the packaging.[82]
- Build-A-Bear Workshop uses a "Cub Advisory Board" as a feedback and decision-input body. The board is made up of twenty 8- to 12-year-olds who review new-product ideas and give a "paws up or down." Many products in the stores are customer ideas.[83]

But listening is only part of the story. It is also important to be a customer advocate and, as much as possible, take the customers' side and understand their point of view.[84] USAA Insurance's legendary quality of service has led to the highest customer satisfaction in the industry. USAA subscribers will often tell stories about how the company looks out for them, even counseling them not

|Fig. 5.5|

Forming Strong Customer Bonds

- Create superior products, services, and experiences for the target market.
- Get cross-departmental participation in planning and managing the customer satisfaction and retention process.
- Integrate the "Voice of the Customer" to capture their stated and unstated needs or requirements in all business decisions.
- Organize and make accessible a database of information on individual customer needs, preferences, contacts, purchase frequency, and satisfaction.
- Make it easy for customers to reach appropriate company staff and express their needs, perceptions, and complaints.
- Assess the potential of frequency programs and club marketing programs.
- Run award programs recognizing outstanding employees.

Feedback from members of its Mermaid Club has helped Chicken of the Sea improve its marketing and customer appeal.

to take out more insurance than they need. With such levels of trust, USAA enjoys high customer loyalty and significant cross-selling opportunities.[85]

DEVELOPING LOYALTY PROGRAMS **Frequency programs (FPs)** are designed to reward customers who buy frequently and in substantial amounts.[86] They can help build long-term loyalty with high CLV customers, creating cross-selling opportunities in the process. Pioneered by the airlines, hotels, and credit card companies, FPs now exist in many other industries. Most supermarket chains offer price club cards that grant discounts on certain items.[87]

Typically, the first company to introduce a FP in an industry gains the most benefit, especially if competitors are slow to respond. After competitors react, FPs can become a financial burden to all the offering companies, but some companies are more efficient and creative in managing them. Some FPs generate rewards in a way that locks customers in and creates significant costs to switching. FPs can also produce a psychological boost and a feeling of being special and elite that customers value.[88]

Club membership programs can be open to everyone who purchases a product or service, or limited to an affinity group or those willing to pay a small fee. Although open clubs are good for building a database or snagging customers from competitors, limited-membership clubs are more powerful long-term loyalty builders. Fees and membership conditions prevent those with only a fleeting interest in a company's products from joining. These clubs attract and keep those customers responsible for the largest portion of business. Apple has a highly successful club.

Apple

Apple Apple encourages owners of its computers to form local Apple-user groups. By 2009, there were over 700, ranging in size from fewer than 30 members to over 1,000. The groups provide Apple owners with opportunities to learn more about their computers, share ideas, and get product discounts. They sponsor special activities and events and perform community service. A visit to Apple's Web site will help a customer find a nearby user group.[89]

CREATING INSTITUTIONAL TIES The company may supply customers with special equipment or computer links that help them manage orders, payroll, and inventory. Customers are less inclined to switch to another supplier when it means high capital costs, high search costs, or the loss of loyal-customer discounts. A good example is McKesson Corporation, a leading pharmaceutical wholesaler, which invested millions of dollars in EDI (Electronic Data Interchange) capabilities to help independent pharmacies manage inventory, order-entry processes, and shelf space. Another example is Milliken & Company, which provides proprietary software programs, marketing research, sales training, and sales leads to loyal customers.

Win-Backs

Regardless of how hard companies may try, some customers inevitably become inactive or drop out. The challenge is to reactivate them through win-back strategies.[90] It's often easier to reattract ex-customers (because the company knows their names and histories) than to find new ones. Exit interviews and lost-customer surveys can uncover sources of dissatisfaction and help win back only those with strong profit potential.[91]

Customer Databases and Database Marketing

Marketers must know their customers.[92] And in order to know the customer, the company must collect information and store it in a database from which to conduct database marketing. A **customer database** is an organized collection of comprehensive information about individual customers or prospects that is current, accessible, and actionable for lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships. **Database marketing** is the process of building, maintaining, and using customer databases and other databases (products, suppliers, resellers) to contact, transact, and build customer relationships.

Customer Databases

Many companies confuse a customer mailing list with a customer database. A **customer mailing list** is simply a set of names, addresses, and telephone numbers. A customer database contains much more information, accumulated through customer transactions, registration information, telephone queries, cookies, and every customer contact.

Ideally, a customer database also contains the consumer's past purchases, demographics (age, income, family members, birthdays), psychographics (activities, interests, and opinions), mediagraphics (preferred media), and other useful information. The catalog company Fingerhut possesses some 1,400 pieces of information about each of the 30 million households in its massive customer database.

Ideally, a **business database** contains business customers' past purchases; past volumes, prices, and profits; buyer team member names (and ages, birthdays, hobbies, and favorite foods); status of current contracts; an estimate of the supplier's share of the customer's business; competitive suppliers; assessment of competitive strengths and weaknesses in selling and servicing the account; and relevant customer buying practices, patterns, and policies.

A Latin American unit of the Swiss pharmaceutical firm Novartis keeps data on 100,000 of Argentina's farmers, knows their crop protection chemical purchases, groups them by value, and treats each group differently.

Data Warehouses and Data Mining

Savvy companies capture information every time a customer comes into contact with any of their departments, whether it is a customer purchase, a customer-requested service call, an online query, or a mail-in rebate card.[93] Banks and credit card companies, telephone companies, catalog marketers, and many other companies have a great deal of information about their customers, including not only addresses and phone numbers, but also transactions and enhanced data on age, family size, income, and other demographic information.

These data are collected by the company's contact center and organized into a **data warehouse** where marketers can capture, query, and analyze them to draw inferences about an individual customer's needs and responses. Telemarketers can respond to customer inquiries based on a complete picture of the customer relationship, and customized marketing activities can be directed to individual customers.

dunnhumby

dunnhumby British research firm dunnhumby has increased the profitability of struggling retailers by gleaning insights from their loyalty program data and credit card transactions. The firm helped British supermarket giant Tesco tailor coupons and special discounts to its loyalty card shoppers. Tesco decided against dropping a poor-selling type of bread after dunnhumby's analysis revealed it was a "destination product" for a loyal cohort that would shop elsewhere if it disappeared. Other U.S. clients have included Kroger, Macy's, and Home Depot. For a major European catalog company, dunnhumby found that not only did shoppers with different body types prefer different clothing styles, they also shopped at different times of the year: Slimmer consumers tended to buy early in a new season, whereas larger folks tended to take fewer risks and wait until later in the season to see what would be popular.[94]

Through **data mining,** marketing statisticians can extract from the mass of data useful information about individuals, trends, and segments. Data mining uses sophisticated statistical and mathematical techniques such as cluster analysis, automatic interaction detection, predictive modeling, and neural networking. Some observers believe a proprietary database can provide a company with a significant competitive advantage.[95] See Figure 5.6 for some examples.

In general, companies can use their databases in five ways:

1. ***To identify prospects***—Many companies generate sales leads by advertising their product or service. The ads generally contain a response feature, such as a business reply card or toll-free phone number, and the company builds its database from customer responses. It sorts through the database to identify the best prospects, then contacts them by mail or phone to try to convert them into customers.

|Fig. 5.6|

Examples of Database Marketing

Qwest Twice a year Qwest sifts through its customer list looking for customers that have the potential to be more profitable. The company's database contains as many as 200 observations about each customer's calling patterns. By looking at demographic profiles, plus the mix of local versus long-distance calls or whether a consumer has voice mail, Qwest can estimate potential spending. Next, the company determines how much of the customer's likely telecom budget is already coming its way. Armed with that knowledge, Qwest sets a cutoff point for how much to spend on marketing to this customer.

Royal Caribbean Royal Caribbean uses its database to offer spur-of-the-moment cruise packages to fill all the berths on its ships. It focuses on retired people and single people because they are more able to make quick commitments. Fewer empty berths mean maximized profits for the cruise line.

Fingerhut The skillful use of database marketing and relationship building has made catalog house Fingerhut one of the nation's largest direct-mail marketers. Not only is its database full of demographic details such as age, marital status, and number of children, but it also tracks customers' hobbies, interests, and birthdays. Fingerhut tailors mail offers based on what each customer is likely to buy. Fingerhut stays in continuous touch with customers through regular and special promotions, such as annual sweepstakes, free gifts, and deferred billing. Now the company has applied its database marketing to its Web sites.

Mars Mars is a market leader not only in candy, but also in pet food. In Germany, Mars has compiled the names of virtually every cat-owning family by contacting veterinarians and by advertising a free booklet titled "How to Take Care of Your Cat." Those who request the booklet fill out a questionnaire, so Mars knows the cat's name, age, and birthday. Mars now sends a birthday card to each cat each year, along with a new catfood sample or money-saving coupons for Mars brands.

American Express It is no wonder that, at its secret location in Phoenix, security guards watch over American Express's 500 billion bytes of data on how its customers have used the company's 35 million green, gold, and platinum charge cards. Amex uses the database to include precisely targeted offers in its monthly mailing of millions of customer bills.

2. ***To decide which customers should receive a particular offer***—Companies interested in selling, up-selling, and cross-selling set up criteria describing the ideal target customer for a particular offer. Then they search their customer databases for those who most closely resemble the ideal. By noting response rates, a company can improve its targeting precision. Following a sale, it can set up an automatic sequence of activities: One week later send a thank-you note; five weeks later send a new offer; ten weeks later (if customer has not responded) phone and offer a special discount.
3. ***To deepen customer loyalty***—Companies can build interest and enthusiasm by remembering customer preferences and sending appropriate gifts, discount coupons, and interesting reading material.
4. ***To reactivate customer purchases***—Automatic mailing programs (automatic marketing) can send out birthday or anniversary cards, holiday shopping reminders, or off-season promotions. The database can help the company make attractive or timely offers.
5. ***To avoid serious customer mistakes***—A major bank confessed to a number of mistakes it had made by not using its customer database well. In one case, the bank charged a customer a penalty for late payment on his mortgage, failing to note he headed a company that was a major depositor in this bank. The customer quit the bank. In a second case, two different staff members of the bank phoned the same mortgage customer offering a home equity loan at different prices. Neither knew the other had made the call. In a third case, the bank gave a premium customer only standard service in another country.

The Downside of Database Marketing and CRM

Database marketing is most frequently used by business marketers and service providers that normally and easily collect a lot of customer data, like hotels, banks, airlines, and insurance, credit card, and phone companies. Other types of companies in the best position to invest in CRM are those that do a lot of cross-selling and up-selling (such as GE and Amazon.com) or whose customers have highly differentiated needs and are of highly differentiated value to the company. Packaged-goods retailers and consumer packaged-goods companies use database marketing less frequently, though some (such as Kraft, Quaker Oats, Ralston Purina, and Nabisco) have built databases for certain brands. Some businesses cited as CRM successes include Enterprise Rent-A-Car, Pioneer Hi-Bred Seeds, Fidelity Investments, Lexus, Intuit, and Capital One.[96]

Having covered the upside of database marketing, we also need to cover the downside. Five main problems can prevent a firm from effectively using CRM.

1. ***Some situations are just not conducive to database management.*** Building a customer database may not be worthwhile when: (1) the product is a once-in-a-lifetime purchase (a grand piano); (2) customers show little loyalty to a brand (there is lots of customer churn); (3) the unit sale is very small (a candy bar) so CLV is low; (4) the cost of gathering information is too high; and (5) there is no direct contact between the seller and ultimate buyer.
2. ***Building and maintaining a customer database requires a large, well-placed investment in computer hardware, database software, analytical programs, communication links, and skilled staff.*** It's difficult to collect the right data, especially to capture all the occasions of company interaction with individual customers. Deloitte Consulting found that 70 percent of firms found little or no improvement from implementing CRM because the CRM system was poorly designed, it became too expensive, users didn't make much use of it or report much benefit, and collaborators ignored the system. Sometimes companies mistakenly concentrate on customer contact processes without making corresponding changes in internal structures and systems.[97]
3. ***It may be difficult to get everyone in the company to be customer oriented and use the available information.*** Employees find it far easier to carry on traditional transaction marketing than to practice CRM. Effective database marketing requires managing and training employees as well as dealers and suppliers.
4. ***Not all customers want a relationship with the company.*** Some may resent knowing the company has collected that much personal information about them. Online companies should explain their privacy policies and give consumers the right not to have their information stored. European countries do not look favorably on database marketing and are protective of consumers' private information. The European Union passed a law handicapping the

growth of database marketing in its 27 member countries. "Marketing Insight: The Behavioral Targeting Controversy" reviews some privacy and security issues.

5. ***The assumptions behind CRM may not always hold true.***[98] High-volume customers often know their value to a company and can leverage it to extract premium service and/or price discounts, so that it may not cost the firm less to serve them. Loyal customers may expect and demand more and resent any attempt to charge full prices. They may also be jealous of attention lavished on other customers. When eBay began to chase big corporate customers such as IBM, Disney, and Sears, some mom-and-pop businesses that helped build the brand felt abandoned.[99] Loyal customers also may not necessarily be the best ambassadors for the brand. One study found those who scored high on behavioral loyalty and bought a lot of a company's products were less active word-of-mouth marketers than customers who scored high on attitudinal loyalty and expressed greater commitment to the firm.

Thus, the benefits of database marketing do not come without significant costs and risks, not only in collecting the original customer data, but also in maintaining and mining them. When it works, a data warehouse yields more than it costs, but the data must be in good condition, and the discovered relationships must be valid and acceptable to consumers.

Marketing Insight

The Behavioral Targeting Controversy

The emergence of *behavioral targeting* is allowing companies to track the online behavior of target customers and find the best match between ads and prospects. Tracking an individual's Internet usage behavior relies on cookies—randomly assigned numbers, codes, and data that are stored on the user's computer hard drive and reveal which sites have been visited, the amount of time spent there, which products or pages were viewed, which search terms entered, and so on.

Most behavioral targeting is carried out by online ad networks owned by large Internet firms such as Google or AOL, as well as by some Internet service providers (ISPs). These online ad networks—such as AdBrite, which has more than 70,000 sites in its online marketplace—use cookies to track consumers' movements through all their affiliated sites. A new customer signing up with Microsoft for a free Hotmail e-mail account, for example, is required to give the company his or her name, age, gender, and zip code. Microsoft can then combine those facts with information such as observed online behavior and characteristics of the area in which the customer lives, to help advertisers better understand whether, when, and how to contact that customer. Although Microsoft must be careful to preserve consumer privacy—the company claims it won't purchase an individual's income history—it can still provide advertising clients with behavioral targeting information.

For example, Microsoft can help a DiningIn franchisee zero in on working moms aged 30 to 40 in a given neighborhood with ads designed to reach them before 10 AM when they're most likely to be planning their evening meal. Or if a person clicks on three Web sites related to auto insurance and then visits an unrelated site for sports or entertainment, auto insurance ads may show up on that site, in addition to the auto insurance sites. This practice ensures that ads are readily apparent for a potential customer likely to be in the market. Microsoft claims behavioral targeting can increase the likelihood a visitor clicks an ad by as much as 76 percent.

Proponents of behavioral targeting maintain that consumers see more relevant ads in this way. Because the ads are more effective as a result, greater ad revenue is available to support free online content. Spending on behavioral targeting is projected to grow to $4.4 billion or 8.6 percent of total online ad spending by 2012.

But consumers have significant misgivings about being tracked online by advertisers. In one 2009 U.S. survey, about two-thirds of respondents objected to the practice, including 55 percent of respondents aged 18 to 24. Two-thirds of respondents also believed laws should give people the right to know everything a Web site knows about them. Government regulators wonder whether industry self-regulation will be sufficient or legislation is needed.

Proponents of behavioral targeting maintain that many consumers lack full understanding of different tracking practices and would be less concerned if they knew exactly how it worked. Their claims of anonymity and privacy, however, have been weakened by events such as a leak at AOL of online behavioral data in 2006 for 650,000 users and overly aggressive attempts to institute data capture procedures at Facebook and various ISPs.

Sources: Elisabeth Sullivan, "Behave," *Marketing News*, September 15, 2008, pp. 12–15; Stephanie Clifford, "Two-Thirds of Americans Object to Online Tracking," *New York Times*, September 30, 2009; Jessica Mintz, "Microsoft Adds Behavioral Targeting," *Associated Press*, December 28, 2006; Becky Ebenkamp, "Behavior Issues," *Brandweek*, October 20, 2008, pp. 21–25; Brian Morrissey, "Connect the Thoughts," *Adweek Media*, June 29, 2009, pp. 10–11; Laurie Birkett, "The Cookie That Won't Crumble," *Forbes*, January 18, 2010, p. 32; Alden M. Hayashi, "How *Not* to Market on the Web," *MIT Sloan Management Review* (Winter 2010), pp. 14–15.

Summary

1. Customers are value maximizers. They form an expectation of value and act on it. Buyers will buy from the firm that they perceive to offer the highest customer-delivered value, defined as the difference between total customer benefits and total customer cost.
2. A buyer's satisfaction is a function of the product's perceived performance and the buyer's expectations. Recognizing that high satisfaction leads to high customer loyalty, companies must ensure that they meet and exceed customer expectations.
3. Losing profitable customers can dramatically affect a firm's profits. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy. The key to retaining customers is relationship marketing.
4. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. Marketers play a key role in achieving high levels of total quality so that firms remain solvent and profitable.
5. Marketing managers must calculate customer lifetime values of their customer base to understand their profit implications. They must also determine ways to increase the value of the customer base.
6. Companies are also becoming skilled in customer relationship management (CRM), which focuses on developing programs to attract and retain the right customers and meeting the individual needs of those valued customers.
7. Customer relationship management often requires building a customer database and data mining to detect trends, segments, and individual needs. A number of significant risks also exist, so marketers must proceed thoughtfully.

Applications

Marketing Debate

Online versus Offline Privacy

As more firms practice relationship marketing and develop customer databases, privacy issues are emerging as an important topic. Consumers and public interest groups are scrutinizing—and sometimes criticizing—the privacy policies of firms and raising concerns about potential theft of online credit card information or other potentially sensitive or confidential financial information. Others maintain online privacy fears are unfounded and that security issues are as much a concern offline. They argue that the opportunity to steal information exists virtually everywhere, and it's up to consumers to protect their interests.

Take a position: **Privacy is a bigger issue online than offline *versus* Privacy is no different online than offline.**

Marketing Discussion

Using CLV

Consider customer lifetime value (CLV). Choose a business and show how you would go about developing a quantitative formulation that captures the concept. How would that business change if it totally embraced the customer equity concept and maximized CLV?

Marketing Excellence

>>Nordstrom

Nordstrom is an upscale U.S. department store chain with sales that topped $8 billion in 2009. John W. Nordstrom originally started the company as a shoe store but grew it over the years into a fashion specialty chain store selling top-quality, brand-name clothing, accessories, jewelry, cosmetics, and fragrances.

From the beginning, Nordstrom has believed in and stressed the importance of providing the highest level of customer service possible along with top-of-the-line, high-quality merchandise. As a shoe retailer, the company offered a wide range of products to fit most everyone's needs and price point. As it expanded into fashion and apparel, it maintained these goals.

Today, Nordstrom sets the standard in customer service and loyalty. In fact, the company is so well-known for this trait that urban legends of unusual acts of customer service still circulate today. One of the best-known tells how in 1975 a customer came into a Nordstrom store after Nordstrom had purchased a company called Northern Commercial Company. The customer wanted to return a

set of tires originally bought at Northern Commercial. Although Nordstrom has never carried or sold tires, it happily accepted the return and instantly provided the customer cash for his purchase.

While Nordstrom's "no questions asked" return policy remains intact today, there are many other examples of its exceptional customer service. Its sales representatives send thank-you cards to customers who shop there and have hand-delivered special orders to customers' homes. Nordstrom installed a tool called Personal Book at its registers that allow salespeople to enter and recall customers' specific preferences in order to better personalize their shopping experiences. Nordstrom also provides customers with multichannels for shopping, allowing them to buy something online and pick it up at a store within an hour.

Nordstrom's customer loyalty program, Fashion Rewards Program, rewards customers on four different levels based on their annual spending. Customers who spend $10,000 annually receive complimentary alterations, free shipping, a 24-hour fashion emergency hotline, and access to a personal concierge service. Customers at the highest rewards level ($20,000 spent annually) also receive private shopping trips complete with prestocked dressing rooms in the customers' specific size, champagne, and live piano music; tickets to Nordstrom's runway fashion shows; and access to exclusive travel and fashion packages, including red carpet events.

This strategic and often costly customer-focus approach has reaped great benefits for the company. Not only has Nordstrom emerged over the past 100+ years as a luxury brand known for quality, trust, and service, but its customers stay loyal even in hard times. During the economic crisis in 2008 and 2009, many customers chose to shop at Nordstrom over its competitors due to their existing relationship and hassle-free return policy.

Nordstrom currently operates 112 full-line stores, 69 Nordstrom Rack clearance stores, two Jeffrey Boutiques, and one clearance store, with plans to open 50 new stores over the next 10 years. When a new store opens, Nordstrom connects with the surrounding community by hosting an opening night gala complete with live entertainment, a runway fashion show, and the ultimate shopping experience to help raise money for local charities.

As Nordstrom moves forward, the company continues to be flexible and look for new tools and means to help deepen and develop its customer-salesperson relationship.

Questions

1. How else can Nordstrom continue to provide exceptional customer service and increase brand loyalty?
2. What are Nordstrom's greatest risks, and who are its biggest competitors?

Sources: "Annual Reports," Nordstrom.com; "Company History," Nordstrom.com; Chantal Todé, "Nordstrom Loyalty Program Experience," *DMNews*, May 4, 2007; Melissa Allison and Amy Martinez, "Nordstrom's Solid December Showing Suggests Some Shoppers Eager to Spend." *Seattle Times*, January 7, 2010.

Marketing Excellence

>>Tesco

If you asked a customer of UK supermarket chain Tesco what the shopping experience there was like in the early 1980s, "customer friendly" would probably not be the answer. Though it began upgrading its stores and product selection in 1983, Tesco continued to suffer from a reputation as a "pile it high and sell it cheap" mass market retailer, lagging behind Sainsbury's, the more upscale market leader. To gain share against Sainsbury's, Tesco needed to reverse the public perception of its stores. It decided to improve the shopping experience and highlight improvements with an image campaign to "lift us out of the mold in our particular sector," as its 1989 agency brief put it.

Between 1990 and 1992, Tesco launched 114 separate initiatives to improve the quality of its stores, including adding baby-changing rooms, stocking specialty items such as French free-range chickens, and introducing a value-priced line of products. It developed a campaign entitled "Every Little Helps" to communicate these improvements with 20 ads, each focused on a different aspect of its approach: "doing right by the customer." As a result, between 1990 and 1995, Tesco attracted 1.3 million new customers, who helped increase revenues and market share until Tesco surpassed Sainsbury's as the market leader in 1995.

Tesco then introduced an initiative that would make it a world-class example of how to build lasting relationships with customers: the Tesco Clubcard frequent-shopper program. The Clubcard not only offered discounts and special offers tailored to individual shoppers but also acted as a powerful data-gathering tool, enabling Tesco to understand the shopping patterns and preferences of its customers better than any competitor could. Using Clubcard data, Tesco created a unique "DNA profile" for each customer

based on shopping habits. To build this profile, it classified each product purchased by a customer on a set of up to 40 dimensions, including price, size, brand, eco-friendliness, convenience, and healthiness. Based on their DNA profile, Tesco shoppers received one of 4 million different variations of the quarterly Clubcard statement, which contained targeted special offers and other promotions. The company also installed kiosks in its stores where Clubcard shoppers could get customized coupons.

The Clubcard data helped Tesco run its business more efficiently. Tracking Clubcard purchases helped uncover each product's price elasticity and helped set promotional schedules, which saved Tesco over $500 million. Tesco used its customer data to determine the range of products and the nature of merchandising for each store, and even the location of new stores. Within 15 months of introduction, more than 8 million Clubcards had been issued, of which 5 million were used regularly. Tesco's customer focus strategies enhanced by the Clubcard helped propel Tesco to even greater success than in the early 1990s. The company's market share in the United Kingdom rose to 15 percent by 1999, and that year other British companies voted Tesco Britain's most admired company for the second year in a row.

In the following years, Tesco continued to apply its winning formula of using customer data to dominate the British retail landscape. Tesco moved beyond supermarkets to "big-box" retailing of general merchandise, or nonfood products. This strategic growth not only provided additional convenience to consumers who preferred shopping under one roof but also improved overall profitability. In 2003, the average profit margin was 9 percent for nonfood products versus 5 percent for food and nearly 20 percent of Tesco's revenues came from nonfood items. That year, the company sold more CDs than Virgin Megastores and its apparel line, Cherokee, was the fastest-growing brand in the United Kingdom.

Tesco continued to conduct extensive customer research with telephone, written surveys, and customer panels to extend its lead in the grocery market. By 2005, the company had a 35 percent share of supermarket spending in the United Kingdom, almost twice that of its nearest competitor, and a 14 percent share of total retail sales. Tesco sought growth overseas in the mid-2000s and today, the company operates 4,300 stores in 14 countries, with a strong focus on high-growth markets in Asia. The company has used the same customer-centered strategies that worked in the United Kingdom to expand into these new markets.

Tesco continues to diversify its product and service offerings in order to reach more consumers. In the late 1990s, Tesco launched its own ISP service, Tesco Broadband, to provide Internet access to homes and businesses. During the 2000s, the company partnered with existing telecoms to create Tesco Mobile and Tesco Home Phone, a service now used by over 2 million UK residents. Recently, Tesco joined forces with the Royal Bank of Scotland to create a banking division, Tesco Bank. In addition, Tesco offers insurance policies, dental plans, music downloads, and financial services. One Citigroup analyst said the chain had, "pulled off a trick that I'm not aware of any other retailer achieving. That is to appeal to all segments of the market." Tesco has accomplished this feat by creating three distinctive Tesco-branded price ranges in order to appeal to everyone: "Finest," "Mid-range," and "Value." In addition, Tesco has categorized its stores into six different formats, depending on where they are located and whom they are targeting. From largest to smallest, these stores include Tesco Extra, Tesco Superstores, Tesco Metro, Tesco Express, One Stop, and Tesco Homeplus.

Throughout Tesco's massive expansion, both globally and through its product and service offerings, Tesco has stayed true to the importance of its Clubcard loyalty program. Consumers can now earn points on their Clubcard every time they shop at a Tesco store, use one of Tesco's services (Tesco Mobile, Tesco Home Phone, Tesco Broadband, Tesco Credit Card, or Tesco Financial), or use one of Tesco's partners' services. During the recent worldwide recession, Tesco helped trigger spending through special loyalty promotions such as double reward points. During a double points promotion, consumers receive 2 points for every £1 spent. For every 100 points, consumers receive a £1 voucher good for any Tesco product or service.

In 2009, Tesco's profits reached £3 billion, which resulted in £59 billion in revenues. Today, it is the largest British retailer measured by both sales and market share (30 percent). Based on profit, it is the second largest retailer in the world after Walmart.

Questions

1. What's next for Tesco? Where and how can it grow? Who will it target?
2. How can Tesco take its customer loyalty programs to the next level?

Sources: Richard Fletcher, "Leahy Shrugs Off Talk of a 'Brain Drain,'" *Sunday Times* (London), January 29, 2006; Elizabeth Rigby, "Prosperous Tesco Takes Retailing to a New Level," *Financial Times*, September 21, 2005, p. 23; Laura Cohn, "A Grocery War That's Not about Food," *BusinessWeek*, October 20, 2003, p. 30; "The Prime Minister Launches the 10th Tesco Computers for Schools Scheme," *M2 Presswire*, January 26, 2001; Ashleye Sharpe and Joanna Bamford, "Tesco Stores Ltd," paper presented at Advertising Effectiveness Awards, 2000; Hamish Pringle and Marjorie Thompson, *Brand Spirit* (New York: John Wiley & Sons, 1999); Hannah Liptrot, "Tesco: Supermarket Superpower," *BBC*, June 3, 2005.

Chapter 6

In This Chapter, We Will Address the Following Questions

1. How do consumer characteristics influence buying behavior?
2. What major psychological processes influence consumer responses to the marketing program?
3. How do consumers make purchasing decisions?
4. In what ways do consumers stray from a deliberative, rational decision process?

LEGO has programs in place to help it stay close to its customers—especially the more devoted and loyal ones.

Analyzing Consumer Markets

The aim of marketing is to meet and satisfy target customers' needs and wants better than competitors. Marketers must have a thorough understanding of how consumers think, feel, and act and offer clear value to each and every target consumer.

LEGO of Billund, Denmark, may have been one of the first mass customized brands. Every child who has ever had a set of the most basic LEGO blocks has built his or her own unique and amazing creations, brick by plastic brick. When LEGO decided to become a lifestyle brand and launch theme parks; its own lines of clothes, watches, and video games; and products such as Clikits craft sets designed to attract more girls to the brand franchise, it neglected its core market of five- to nine-year-old boys. Plunging profits led to layoffs of almost half its employees as the firm streamlined its brand portfolio to emphasize its core businesses. To better coordinate new product activities, LEGO revamped its organizational structure into four functional groups managing eight key areas. One group was responsible for supporting customer communities and tapping into them for product ideas. LEGO also set up what was later renamed LEGO Design byME, which let customers design, share, and build their own custom LEGO products using LEGO's freely downloadable Digital Designer 3.0 software. The creations that result can exist—and be shared with other enthusiasts—solely online, or, if customers want to build them, the software tabulates the pieces required and sends an order to LEGO's Enfield, Connecticut, warehouse. Customers can request step-by-step building guide instructions and even design their own box to store the pieces.[1]

Successful marketing requires that companies fully connect with their customers. Adopting a holistic marketing orientation means understanding customers—gaining a 360-degree view of both their daily lives and the changes that occur during their lifetimes so the right products are always marketed to the right customers in the right way. This chapter explores individual consumer buying dynamics; the next chapter explores the buying dynamics of business buyers.

What Influences Consumer Behavior?

Consumer behavior is the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants.[2] Marketers must fully understand both the theory and reality of consumer behavior. Table 6.1 provides a snapshot profile of U.S. consumers.

A consumer's buying behavior is influenced by cultural, social, and personal factors. Of these, cultural factors exert the broadest and deepest influence.

Cultural Factors

Culture, subculture, and social class are particularly important influences on consumer buying behavior. **Culture** is the fundamental determinant of a person's wants and behavior. Through family and other key institutions, a child growing up in the United States is exposed to values such as

TABLE 6.1 American Consumer Almanac

Expenditures		
Average U.S. outlays for goods and services in 2009		
	$	%
Housing	$16,920	34.1%
Transportation	$8,758	17.6%
Food	$6,133	12.4%
Personal insurance and pensions	$5,336	10.7%
Healthcare	$2,853	5.7%
Entertainment	$2,698	5.4%
Apparel and services	$1,881	3.8%
Cash contributions	$1,821	3.7%
Education	$945	1.9%
Miscellaneous	$808	1.6%
Personal care products and services	$588	1.2%
Alcoholic beverages	$457	.9%
Tobacco products and smoking supplies	$323	0.7%
Reading	$118	0.2%
Ownership		
Percentage of households with at least one vehicle owned or leased		77.0%
Percentage of households that own homes		67%
Percentage of households that own their homes "free and clear"		23%
Time use on an average workday for employed persons ages 25–54 with children in 2008		
Working and related activities	8.8 hours	
Sleeping	7.6 hours	
Leisure and sports	2.6 hours	
Caring for others	1.3 hours	
Eating and drinking	1.0 hours	
Household activities	1.0 hours	
Other	1.7 hours	
Monthly users' time spent in hours: Minutes per user aged 2+ years—Q1 2009		
	# of Americans	Average minutes per day spent
Watching TV in the home	285,574,000	153 minutes
Watching time-shifted TV	79,533,000	8 minutes
Using the Internet	163,110,000	29 minutes
Watching video on the Internet	131,102,000	3 minutes
Mobile subscribers watching video on a mobile phone	13,419,000	4 minutes

Sources: Bureau of Labor Statistics, *Consumer Expenditure Survey*, www.bls.gov/cex; AC Nielsen, *A2 M2 Three Screen Report*, 1st Quarter 2009, http://blog.nielsen.com/nielsenwire/wp-content/uploads/2009/05/nielsen_threescreenreport_q109.pdf.

achievement and success, activity, efficiency and practicality, progress, material comfort, individualism, freedom, external comfort, humanitarianism, and youthfulness.[3] A child growing up in another country might have a different view of self, relationship to others, and rituals. Marketers must closely attend to cultural values in every country to understand how to best market their existing products and find opportunities for new products.

Each culture consists of smaller **subcultures** that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups, and geographic regions. When subcultures grow large and affluent enough, companies often design specialized marketing programs to serve them.

Virtually all human societies exhibit *social stratification,* most often in the form of **social classes**, relatively homogeneous and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests, and behavior. One classic depiction of social classes in the United States defined seven ascending levels: (1) lower lowers, (2) upper lowers, (3) working class, (4) middle class, (5) upper middles, (6) lower uppers, and (7) upper uppers.[4]

Social class members show distinct product and brand preferences in many areas, including clothing, home furnishings, leisure activities, and automobiles. They also differ in media preferences; upper-class consumers often prefer magazines and books, and lower-class consumers often prefer television. Even within a category such as TV, upper-class consumers may show greater preference for news and drama, whereas lower-class consumers may lean toward reality shows and sports. There are also language differences—advertising copy and dialogue must ring true to the targeted social class.

Social Factors

In addition to cultural factors, social factors such as reference groups, family, and social roles and statuses affect our buying behavior.

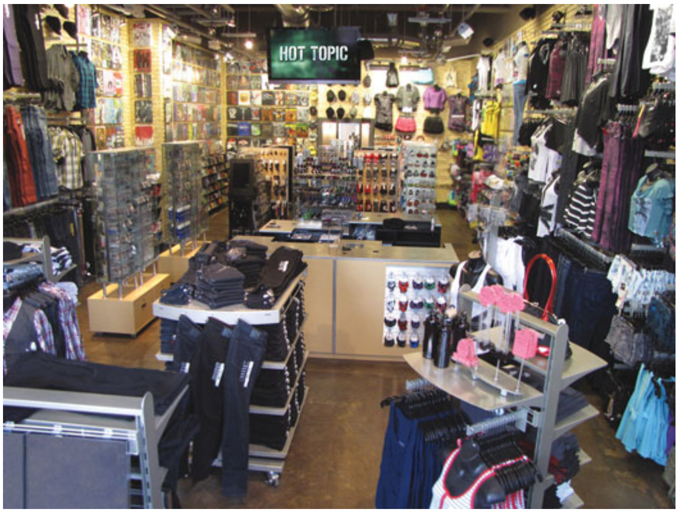
REFERENCE GROUPS A person's **reference groups** are all the groups that have a direct (face-to-face) or indirect influence on their attitudes or behavior. Groups having a direct influence are called **membership groups**. Some of these are **primary groups** with whom the person interacts fairly continuously and informally, such as family, friends, neighbors, and coworkers. People also belong to **secondary groups**, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction.

Reference groups influence members in at least three ways. They expose an individual to new behaviors and lifestyles, they influence attitudes and self-concept, and they create pressures for conformity that may affect product and brand choices. People are also influenced by groups to which they do *not* belong. **Aspirational groups** are those a person hopes to join; **dissociative groups** are those whose values or behavior an individual rejects.

Where reference group influence is strong, marketers must determine how to reach and influence the group's opinion leaders. An **opinion leader** is the person who offers informal advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used.[5] Opinion leaders are often highly confident, socially active, and frequent users of the category. Marketers try to reach them by identifying their demographic and psychographic characteristics, identifying the media they read, and directing messages to them.

Clothing companies such as Hot Topic, which hope to appeal to the fickle and fashion-conscious youth market, have used music in a concerted effort to monitor opinion leaders' style and behavior.

Hot Topic With over 600 stores in malls in 49 states and Puerto Rico, Hot Topic has been hugely successful at using anti-establishment style in its fashions. The chain also sells books, comics, jewelry, CDs, records, posters, and other paraphernalia. Hot Topic's slogan, "Everything about the music," reflects its operating premise: Whether a teen is into rock, pop-punk, emo, acid rap, rave, or rockabilly—or even more obscure musical tastes—Hot Topic has the right T-shirt. To keep up with music trends, all Hot Topic staffers, from the CEO to the music-obsessed salespeople (80 percent of whom are under 25), regularly attend concerts by up-and-coming and established bands to scout who's wearing what. Each store looks more like a campus student center than a shop—loud music plays and dark walls have bulletin boards displaying concert flyers and staff music picks. Hot Topic also hosts free acoustic shows, called Local Static, showcasing local bands and has created a music-related social network site, ShockHound.com. Hot Topic can catch trends and launch new hip clothing and hard-to-find pop culture merchandise in six to eight weeks, literally months before traditional competitors using off-shore suppliers.[6]



Hot Topic works hard to stay on top of what's new and what matters with its core youth audience—especially in music.

FAMILY The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group.[7] There are two families in the buyer's life. The **family of orientation** consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics and a sense of personal ambition, self-worth, and love.[8] Even if the buyer no longer interacts very much with his or her parents, parental influence on behavior can be significant. Almost 40 percent of families have auto insurance with the same company as the husband's parents.

A more direct influence on everyday buying behavior is the **family of procreation**—namely, the person's spouse and children. In the United States, husband–wife engagement in purchases has traditionally varied widely by product category. The wife has usually acted as the family's main purchasing agent, especially for food, sundries, and staple clothing items. Now traditional purchasing roles are changing, and marketers would be wise to see both men and women as possible targets.

For expensive products and services such as cars, vacations, or housing, the vast majority of husbands and wives engage in joint decision making.[9] Men and women may respond differently to marketing messages, however.[10] Research has shown that women value connections and relationships with family and friends and place a higher priority on people than on companies. Men, on the other hand, relate more to competition and place a high priority on action.[11]

Marketers are taking more direct aim at women with new products such as Quaker's Nutrition for Women cereals and Crest Rejuvenating Effects toothpaste. In 2003, Sherwin-Williams launched a Dutch Boy easy-to-use "Twist and Pour" paint can targeted specifically at women. Priced $2 higher than the same paint in traditional metal containers, the new product helped the company triple its revenue.[12]

Another shift in buying patterns is an increase in the amount of dollars spent and the direct and indirect influence wielded by children and teens. Direct influence describes children's hints, requests, and demands—"I want to go to McDonald's." Indirect influence means that parents know the brands, product choices, and preferences of their children without hints or outright requests ("I think Jake and Emma would want to go to McDonald's").

Research has shown that more than two-thirds of 13- to 21-year-olds make or influence family purchase decisions on audio/video equipment, software, and vacation destinations.[13] In total, these teens and young adults spend over $120 billion a year. They report that to make sure they buy the right products, they watch what their friends say and do as much as what they see or hear in an ad or are told by a salesperson in a store.[14]

Television can be especially powerful in reaching children, and marketers are using it to target them at younger ages than ever before with product tie-ins for just about everything—Disney character pajamas, retro G.I. Joe toys and action figures, Harry Potter backpacks, and *High School Musical* playsets.

By the time children are around 2 years old, they can often recognize characters, logos, and specific brands. They can distinguish between advertising and programming by about ages 6 or 7. A year or so later, they can understand the concept of persuasive intent on the part of advertisers. By 9 or 10, they can perceive the discrepancies between message and product.[15]

ROLES AND STATUS We each participate in many groups—family, clubs, organizations. Groups often are an important source of information and help to define norms for behavior. We can define a person's position in each group in terms of role and status. A **role** consists of the activities a person is expected to perform. Each role in turn connotes a **status**. A senior vice

marketing Memo

The Average U.S. Consumer Quiz

Listed below is a series of statements used in attitude surveys of U.S. consumers. For each statement, estimate what percent of U.S. men and women agreed with it in 2009 and write your answer, a number between 0 percent and 100 percent, in the columns to the right. Then check your results against the correct answers in the footnote.*

Statements	Percent of Consumers Agreeing	
	% Men	% Women
1. It's more important to fit in than to be different from other people.	_____	_____
2. Material things like the car I drive and the house I live in are really important to me.	_____	_____
3. Religion doesn't provide the answers to many of today's problems.	_____	_____
4. Businesses care more about selling me products and services that already exist rather than coming up with something that really fits my lifestyle.	_____	_____
5. Most of the time, the service people that I deal with don't care much about me or my needs.	_____	_____
6. I wish there were clearer rules about what is right and wrong.	_____	_____
7. I am comfortable with a certain amount of debt.	_____	_____
8. It is risky to buy a brand you are not familiar with.	_____	_____
9. I try to have as much fun as I can now and let the future take care of itself.	_____	_____
10. No matter how hard I try, I never seem to have enough time to do all the things I need to do.	_____	_____

Note:
Results are from a nationally representative sample of 4,147 respondents surveyed in 2009.
Source: The Futures Company Yankelovich MONITOR (with permission). Copyright 2009, Yankelovich, Inc.
*Answers:
1. M = 27%, W = 20%; 2. M = 47%, W = 39%; 3. M = 53%, W = 45%; 4. M = 72%, W = 66%; 5. M = 60%, W = 57%; 6. M = 47%, W = 45%; 7. M = 54%, W = 46%; 8. M = 49%, W = 46%; 9. M = 56%, W = 46%; 10. M = 63%, W = 69%

Source: The Futures Company/Yankelovich Monitor. Copyright 2009, Yankelovich, Inc.

president of marketing may be seen as having more status than a sales manager, and a sales manager may be seen as having more status than an office clerk. People choose products that reflect and communicate their role and their actual or desired status in society. Marketers must be aware of the status-symbol potential of products and brands.

Personal Factors

Personal characteristics that influence a buyer's decision include age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values. Because many of these have a direct impact on consumer behavior, it is important for marketers to follow them closely. See how well you do with "Marketing Memo: The Average U.S. Consumer Quiz."

AGE AND STAGE IN THE LIFE CYCLE Our taste in food, clothes, furniture, and recreation is often related to our age. Consumption is also shaped by the *family life cycle* and the number, age, and gender of people in the household at any point in time. U.S. households are increasingly fragmented—the traditional family of four with a husband, wife, and two kids makes up a much smaller percentage of total households than it once did. The average U.S. household size in 2008 was 2.6 persons.[16]

In addition, *psychological* life-cycle stages may matter. Adults experience certain "passages" or "transformations" as they go through life.[17] Their behavior as they go through these passages, such as becoming a parent, is not necessarily fixed but changes with the times.

Marketers should also consider *critical life events or transitions*—marriage, childbirth, illness, relocation, divorce, first job, career change, retirement, death of a spouse—as giving rise to new needs. These should alert service providers—banks, lawyers, and marriage, employment, and bereavement counselors—to ways they can help. For example, the wedding industry attracts marketers of a whole host of products and services.

Newlyweds Newlyweds in the United States spend a total of about $70 billion on their households in the first year after marriage—and they buy more in the first six months than an established household does in five years! Marketers know marriage often means two sets of shopping habits and brand preferences must be blended into one. Procter & Gamble, Clorox, and Colgate-Palmolive include their products in "Newlywed Kits," distributed when couples apply for a marriage license. JCPenney has identified "Starting Outs" as one of its two major customer groups. Marketers pay a premium for name lists to assist their direct marketing because, as one noted, newlywed names "are like gold."[18]

One well-defined and attractive target market for many firms is newlyweds.

OCCUPATION AND ECONOMIC CIRCUMSTANCES Occupation also influences consumption patterns. Marketers try to identify the occupational groups that have above-average interest in their products and services and even tailor products for certain occupational groups: Computer software companies, for example, design different products for brand managers, engineers, lawyers, and physicians.

As the recent recession clearly indicated, both product and brand choice are greatly affected by economic circumstances: spendable income (level, stability, and time pattern), savings and assets (including the percentage that is liquid), debts, borrowing power, and attitudes toward spending and saving. Luxury-goods makers such as Gucci, Prada, and Burberry are vulnerable to an economic downturn. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products or introduce or increase the emphasis on discount brands so they can continue to offer value to target customers. Some firms—such as Snap Fitness—are well-positioned to take advantage of good and bad economic times to begin with.

Snap Fitness Although some gym chains struggled in the recession—Bally's Total Fitness filed for bankruptcy twice—24-hour Snap Fitness actually expanded the number of its clubs, and its revenue doubled. The franchise chain did all this despite charging members only $35 per month with easy cancellation fees. Its secret? A no-frills approach reinforced by the motto, "Fast, Convenient, Affordable." The small gyms—only 2,500 square feet—typically have five treadmills, two stationary bikes, five elliptical machines, and weight equipment. What's important is what they *don't* have—no classes, spa rooms, on-site child care, or juice bars. Few clubs have showers, and most are staffed only 25 to 40 hours a week. The sweet spot of their target market is married 35- to 55-year-olds with kids who live nearby and are busy enough that they cannot afford more than an hour a day to go to the gym.[19]

No-frills Snap Fitness was perfectly positioned to weather the latest economic recession.

PERSONALITY AND SELF-CONCEPT Each person has personality characteristics that influence his or her buying behavior. By **personality**, we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli (including buying behavior). We often describe personality in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness, and adaptability.[20]

Personality can be a useful variable in analyzing consumer brand choices. Brands also have personalities, and consumers are likely to choose brands whose personalities match their own. We define **brand personality** as the specific mix of human traits that we can attribute to a particular brand.

Stanford's Jennifer Aaker researched brand personalities and identified the following traits:[21]

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

Aaker analyzed some well-known brands and found that a number tended to be strong on one particular trait: Levi's on "ruggedness"; MTV on "excitement"; CNN on "competence"; and Campbell's on "sincerity." These brands will, in theory, attract users high on the same traits. A brand personality may have several attributes: Levi's suggests a personality that is also youthful, rebellious, authentic, and American.

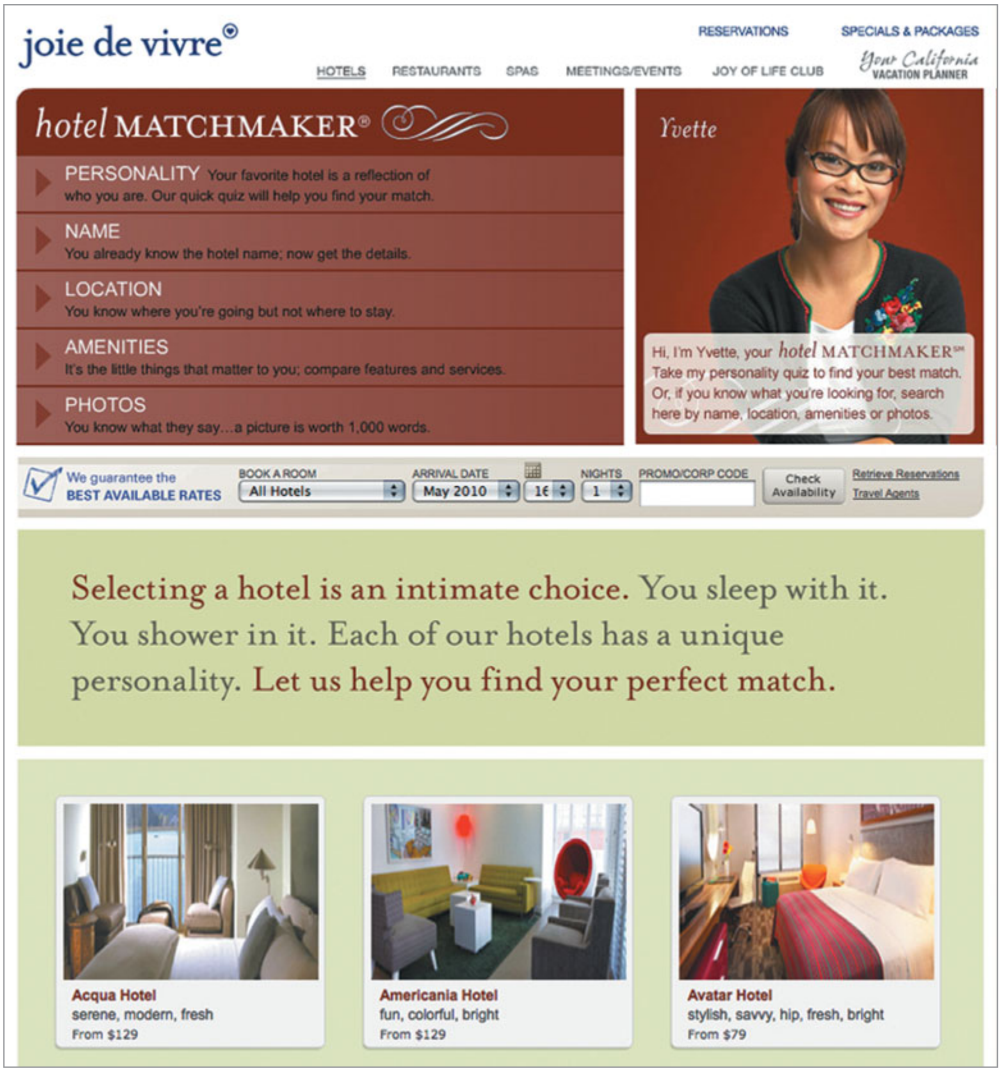
A cross-cultural study exploring the generalizability of Aaker's scale outside the United States found three of the five factors applied in Japan and Spain, but a "peacefulness" dimension replaced "ruggedness" both in Japan and Spain, and a "passion" dimension emerged in Spain instead of "competence."[22] Research on brand personality in Korea revealed two culture-specific factors—"passive likeableness" and "ascendancy"—reflecting the importance of Confucian values in Korea's social and economic systems.[23]

Consumers often choose and use brands with a brand personality consistent with their *actual self-concept* (how we view ourselves), although the match may instead be based on the consumer's *ideal self-concept* (how we would like to view ourselves) or even on *others' self-concept* (how we think others see us).[24] These effects may also be more pronounced for publicly consumed products than for privately consumed goods.[25] On the other hand, consumers who are high "self-monitors"—that is, sensitive to how others see them—are more likely to choose brands whose personalities fit the consumption situation.[26] Finally, often consumers have multiple aspects of self (serious professional, caring family member, active fun-lover) that may be evoked differently in different situations or around different types of people. Some marketers carefully orchestrate brand experiences to express brand personalities. Here's how San Francisco's Joie de Vivre chain does this.[27]

Joie de Vivre Joie de Vivre Hospitality operates a chain of boutique hotels, restaurants, and resorts in the San Francisco area. Each property's unique décor, quirky amenities, and thematic style are often loosely based on popular magazines. For example, The Hotel del Sol—a converted motel bearing a yellow exterior and surrounded by palm trees wrapped with festive lights—is described as "kind of *Martha Stewart Living* meets *Islands* magazine." The Phoenix, represented by *Rolling Stone,* is, like the magazine, described as "adventurous, hip, irreverent, funky, and young at heart." Joie de Vivre's goal is to stimulate each of the five senses in accordance with the five words chosen for each hotel. The boutique concept enables the hotels to offer personal touches, such as vitamins in place of chocolates on pillows. There's even an online personality matchmaker to help match guests to the most fitting hotels. Joie de Vivre now owns the largest number of independent hotel properties in the Bay Area.

LIFESTYLE AND VALUES People from the same subculture, social class, and occupation may lead quite different lifestyles. A **lifestyle** is a person's pattern of living in the world as expressed in activities, interests, and opinions. It portrays the "whole person" interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups. A computer manufacturer might find that most computer buyers are achievement-oriented and then aim the brand more clearly at the achiever lifestyle. Here's an example of one of the latest lifestyle trends businesses are targeting.

Boutique hotel chain Joie de Vivre uniquely positions each of its properties and then offers an online matchmaker to help consumers find the hotel that best fits their interests.



LOHAS

LOHAS Consumers who worry about the environment, want products to be produced in a sustainable way, and spend money to advance their personal health, development, and potential have been named "LOHAS," an acronym for *lifestyles of health and sustainability.* One estimate placed 19 percent of the adults in the United States, or 41 million people, in the LOHAS or "Cultural Creatives" category.[28] The market for LOHAS products encompasses organic foods, energy-efficient appliances and solar panels, alternative medicine, yoga tapes, and ecotourism. Taken together, these account for an estimated $209 billion market. Table 6.2 breaks the LOHAS demographic into six segments with estimated size, and product and service interests.

Lifestyles are shaped partly by whether consumers are *money constrained* or *time constrained.* Companies aiming to serve money-constrained consumers will create lower-cost products and services. By appealing to thrifty consumers, Walmart has become the largest company in the world. Its "everyday low prices" have wrung tens of billions of dollars out of the retail supply chain, passing the larger part of savings along to shoppers in the form of rock-bottom bargain prices.

Consumers who experience time famine are prone to **multitasking**, doing two or more things at the same time. They will also pay others to perform tasks because time is more important to them than money. Companies aiming to serve them will create convenient products and services for this group.

TABLE 6.2 LOHAS Market Segments

Personal Health	**Natural Lifestyles**
Natural, organic products	Indoor & outdoor furnishings
Nutritional products	Organic cleaning supplies
Integrative health care	Compact fluorescent lights
Dietary supplements	Social change philanthropy
Mind body spirit products	Apparel
U.S. Market—$118.03 billion	*U.S. Market—$10.6 billion*
Green Building	**Alternative Transportation**
Home certification	Hybrid vehicles
Energy Star appliances	Biodiesel fuel
Sustainable flooring	Car sharing programs
Renewable energy systems	*U.S. Market—$6.12 billion*
Wood alternatives	
U.S. Market—$50 billion	
Eco-Tourism	**Alternative Energy**
Eco-tourism travel	Renewable energy credits
Eco-adventure travel	Green pricing
U.S. Market—$24.17 billion	*U.S. Market—$380 million*

Source: Reprinted by permission of LOHAS, http://www.lohas.com/.

In some categories, notably food processing, companies targeting time-constrained consumers need to be aware that these very same people want to believe they're *not* operating within time constraints. Marketers call those who seek both convenience and some involvement in the cooking process the "convenience involvement segment."[29]

Hamburger Helper

Hamburger Helper Launched in 1971 in response to tough economic times, the inexpensive pasta-and-powdered mix Hamburger Helper was designed to quickly and inexpensively stretch a pound of meat into a family meal. With an estimated 44 percent of evening meals prepared in under 30 minutes and strong competition from fast-food drive-through windows, restaurant deliveries, and precooked grocery store dishes, Hamburger Helper's days of prosperity might seem numbered. Market researchers found, however, that some consumers don't want the fastest microwaveable solution possible—they also want to feel good about how they prepare a meal. In fact, on average, they prefer to use at least one pot or pan and 15 minutes of time. To remain attractive to this segment, marketers of Hamburger Helper are always introducing new flavors to tap into changing consumer taste trends. Not surprisingly, the latest economic downturn saw sales of the brand rise 9 percent in 2009.[30]

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

Key Psychological Processes

The starting point for understanding consumer behavior is the stimulus-response model shown in Figure 6.1. Marketing and environmental stimuli enter the consumer's consciousness, and a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes—motivation, perception, learning, and memory—fundamentally influence consumer responses.[31]

Motivation: Freud, Maslow, Herzberg

We all have many needs at any given time. Some needs are *biogenic*; they arise from physiological states of tension such as hunger, thirst, or discomfort. Other needs are *psychogenic*; they arise from psychological states of tension such as the need for recognition, esteem, or belonging. A need becomes a **motive** when it is aroused to a sufficient level of intensity to drive us to act. Motivation has both direction—we select one goal over another—and intensity—we pursue the goal with more or less vigor.

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

FREUD'S THEORY Sigmund Freud assumed the psychological forces shaping people's behavior are largely unconscious, and that a person cannot fully understand his or her own motivations. Someone who examines specific brands will react not only to their stated capabilities, but also to other, less conscious cues such as shape, size, weight, material, color, and brand name. A technique called *laddering* lets us trace a person's motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal.[32]

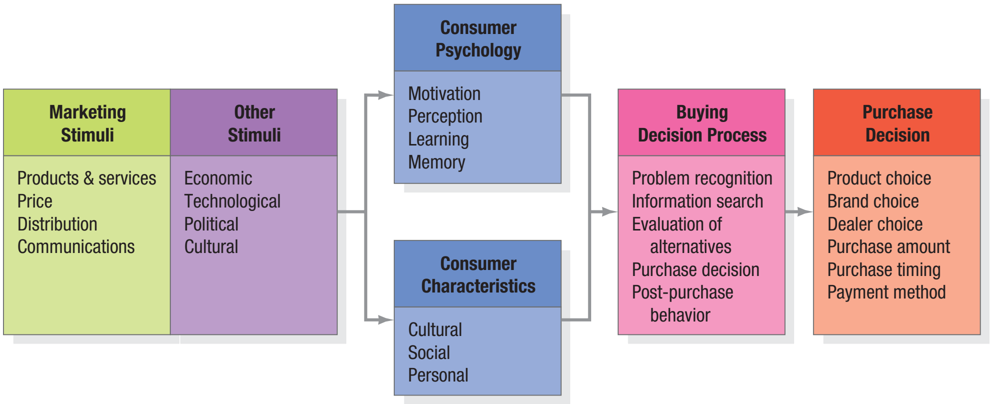
Motivation researchers often collect in-depth interviews with a few dozen consumers to uncover deeper motives triggered by a product. They use various *projective techniques* such as word association, sentence completion, picture interpretation, and role playing, many pioneered by Ernest Dichter, a Viennese psychologist who settled in the United States.[33]

Today, motivational researchers continue the tradition of Freudian interpretation. Jan Callebaut identifies different motives a product can satisfy. For example, whiskey can meet the need for social relaxation, status, or fun. Different whiskey brands need to be motivationally positioned in one of these three appeals.[34] Another motivation researcher, Clotaire Rapaille, works on breaking the "code" behind product behavior.[35]

Chrysler

Chrysler When Chrysler decided to offer a new sedan, it had already done a great deal of traditional market research that suggested U.S. consumers wanted excellent gas mileage, safety, and prices. However, it was only through qualitative research that Chrysler discovered what cultural anthropologist Clotaire Rapaille calls "the code"—the unconscious meaning people give to a particular market offering. First, interviewers took on the role of "a visitor from another planet," asking participants to help them understand the product in question. Then, participants told stories about the product, and finally, after a relaxation exercise, they wrote about their first experiences with it. In this way, Chrysler learned that "cookie-cutter" sedans were "off-code," and it used information from the sessions to create the PT Cruiser. With its highly distinctive retro design, this sedan was one of the most successful U.S. car launches in recent history.[36]

MASLOW'S THEORY Abraham Maslow sought to explain why people are driven by particular needs at particular times.[37] His answer is that human needs are arranged in a hierarchy from most to least pressing—physiological needs, safety needs, social needs, esteem needs, and self-actualization



|Fig. 6.1|

Model of Consumer Behavior

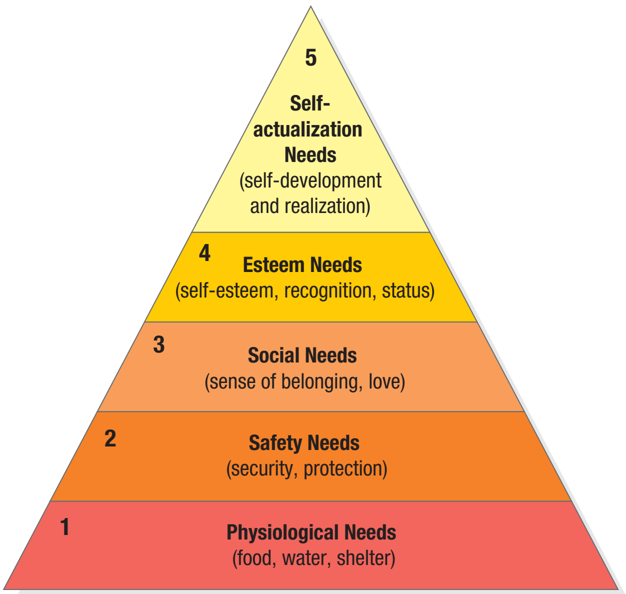
needs (see Figure 6.2). People will try to satisfy their most important need first and then try to satisfy the next most important. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), nor in how he is viewed by others (need 3 or 4), nor even in whether he is breathing clean air (need 2), but when he has enough food and water, the next most important need will become salient.

HERZBERG'S THEORY Frederick Herzberg developed a two-factor theory that distinguishes *dissatisfiers* (factors that cause dissatisfaction) from *satisfiers* (factors that cause satisfaction).[38] The absence of dissatisfiers is not enough to motivate a purchase; satisfiers must be present. For example, a computer that does not come with a warranty would be a dissatisfier. Yet the presence of a product warranty would not act as a satisfier or motivator of a purchase, because it is not a source of intrinsic satisfaction. Ease of use would be a satisfier.

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

Perception

A motivated person is ready to act—*how* is influenced by his or her perception of the situation. In marketing, perceptions are more important than reality, because perceptions affect consumers' actual behavior. **Perception** is the process by which we select, organize, and interpret information



|Fig. 6.2|

Maslow's Hierarchy of Needs

Source: A. H. Maslow, Motivation and Personality, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 1987). Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

inputs to create a meaningful picture of the world.[39] It depends not only on physical stimuli, but also on the stimuli's relationship to the surrounding environment and on conditions within each of us. One person might perceive a fast-talking salesperson as aggressive and insincere; another, as intelligent and helpful. Each will respond to the salesperson differently.

People emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion, and selective retention.

SELECTIVE ATTENTION Attention is the allocation of processing capacity to some stimulus. Voluntary attention is something purposeful; involuntary attention is grabbed by someone or something. It's estimated that the average person may be exposed to over 1,500 ads or brand communications a day. Because we cannot possibly attend to all these, we screen most stimuli out—a process called **selective attention**. Selective attention means that marketers must work hard to attract consumers' notice. The real challenge is to explain which stimuli people will notice. Here are some findings:

1. ***People are more likely to notice stimuli that relate to a current need.*** A person who is motivated to buy a computer will notice computer ads and be less likely to notice DVD ads.
2. ***People are more likely to notice stimuli they anticipate.*** You are more likely to notice computers than radios in a computer store because you don't expect the store to carry radios.
3. ***People are more likely to notice stimuli whose deviations are large in relationship to the normal size of the stimuli.*** You are more likely to notice an ad offering $100 off the list price of a computer than one offering $5 off.

Though we screen out much, we are influenced by unexpected stimuli, such as sudden offers in the mail, over the phone, or from a salesperson. Marketers may attempt to promote their offers intrusively in order to bypass selective attention filters.

SELECTIVE DISTORTION Even noticed stimuli don't always come across in the way the senders intended. **Selective distortion** is the tendency to interpret information in a way that fits our preconceptions. Consumers will often distort information to be consistent with prior brand and product beliefs and expectations.[40]

For a stark demonstration of the power of consumer brand beliefs, consider that in "blind" taste tests, one group of consumers samples a product without knowing which brand it is, while another group knows. Invariably, the groups have different opinions, despite consuming *exactly the same product*.

When consumers report different opinions of branded and unbranded versions of identical products, it must be the case that their brand and product beliefs, created by whatever means (past experiences, marketing activity for the brand, or the like), have somehow changed their product perceptions. We can find examples with virtually every type of product.[41] When Coors changed its label from "Banquet Beer" to "Original Draft," consumers claimed the taste had changed even though the formulation had not.

Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive. In other words, coffee may seem to taste better, a car may seem to drive more smoothly, the wait in a bank line may seem shorter, depending on the brand.

SELECTIVE RETENTION Most of us don't remember much of the information to which we're exposed, but we do retain information that supports our attitudes and beliefs. Because of **selective retention**, we're likely to remember good points about a product we like and forget good points about competing products. Selective retention again works to the advantage of strong brands. It also explains why marketers need to use repetition—to make sure their message is not overlooked.

SUBLIMINAL PERCEPTION The selective perception mechanisms require consumers' active engagement and thought. A topic that has fascinated armchair marketers for ages is **subliminal perception**. They argue that marketers embed covert, subliminal messages in ads or packaging. Consumers are not consciously aware of them, yet they affect behavior. Although it's clear that mental processes include many subtle subconscious effects,[42] no evidence supports the notion that marketers can systematically control consumers at that level, especially enough to change moderately important or strongly held beliefs.[43]

Learning

When we act, we learn. **Learning** induces changes in our behavior arising from experience. Most human behavior is learned, although much learning is incidental. Learning theorists believe learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement. Two popular approaches to learning are classical conditioning and operant (instrumental) conditioning.

A **drive** is a strong internal stimulus impelling action. **Cues** are minor stimuli that determine when, where, and how a person responds. Suppose you buy an HP computer. If your experience is rewarding, your response to computers and HP will be positively reinforced. Later, when you want to buy a printer, you may assume that because it makes good computers, HP also makes good printers. In other words, you *generalize* your response to similar stimuli. A countertendency to generalization is discrimination. **Discrimination** means we have learned to recognize differences in sets of similar stimuli and can adjust our responses accordingly.

Learning theory teaches marketers that they can build demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement. A new company can enter the market by appealing to the same drives competitors use and by providing similar cues, because buyers are more likely to transfer loyalty to similar brands (generalization); or the company might design its brand to appeal to a different set of drives and offer strong cue inducements to switch (discrimination).

Some researchers prefer more active, cognitive approaches when learning depends on the inferences or interpretations consumers make about outcomes (was an unfavorable consumer experience due to a bad product, or did the consumer fail to follow instructions properly?). The **hedonic bias** occurs when people have a general tendency to attribute success to themselves and failure to external causes. Consumers are thus more likely to blame a product than themselves, putting pressure on marketers to carefully explicate product functions in well-designed packaging and labels, instructive ads and Web sites, and so on.

Emotions

Consumer response is not all cognitive and rational; much may be emotional and invoke different kinds of feelings. A brand or product may make a consumer feel proud, excited, or confident. An ad may create feelings of amusement, disgust, or wonder.

Here are two recent examples that recognize the power of emotions in consumer decision making.

- For years, specialty foam mattress leader Tempur-Pedic famously used infomercials showing that a wine glass on its mattress did not spill even as people bounced up and down on the bed. To create a stronger emotional connection, the company began a broader-based media campaign in 2007 that positioned the mattresses as a wellness brand and "the nighttime therapy for body and mind."[44]
- Reckitt Benckiser and Procter & Gamble launched advertising approaches in 2009 for Woolite and Tide, respectively, that tapped not into the detergents' performance benefits but into the emotional connection—and challenges—of laundry. Based on research showing that one in three working women recognize they ruined some of their clothes in the wash over the last year, Reckitt Benckiser launched an online and in-store "Find the Look, Keep the Look" style guide for Woolite for "finding fashion and keeping it looking fabulous without breaking the bank." Based on the premise that a detergent should do more than clean, P&G positioned new Tide Total Care as preserving clothing and keeping the "7 signs of beautiful clothes," including shape, softness, and finish.[45]

Memory

Cognitive psychologists distinguish between **short-term memory (STM)**—a temporary and limited repository of information—and **long-term memory (LTM)**—a more permanent, essentially unlimited repository. All the information and experiences we encounter as we go through life can end up in our long-term memory.

Most widely accepted views of long-term memory structure assume we form some kind of associative model.[46] For example, the **associative network memory model** views LTM as a set of nodes and links. *Nodes* are stored information connected by *links* that vary in strength. Any type of information can be stored in the memory network, including verbal, visual, abstract, and contextual.

Woolite's style guide focuses on the emotional benefits of choosing and preserving the right look in clothes for women.

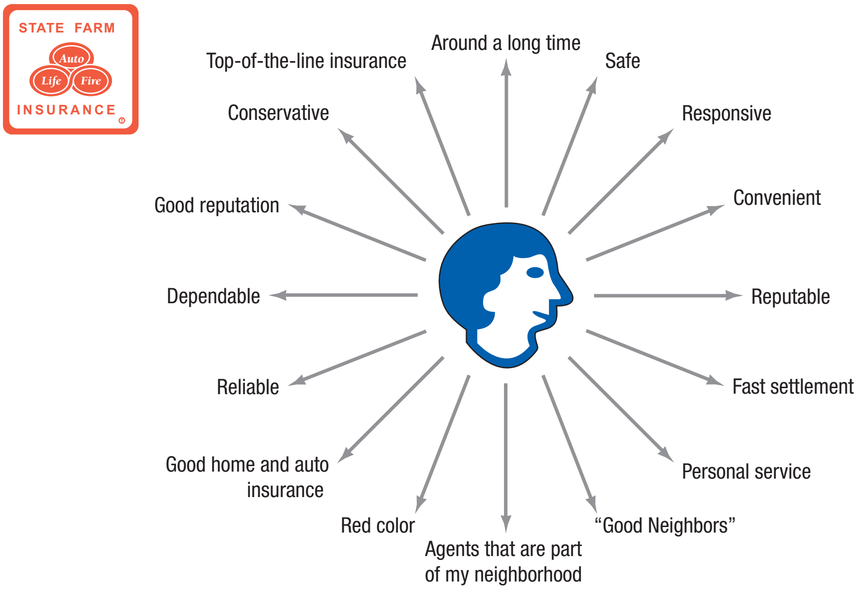
A spreading activation process from node to node determines how much we retrieve and what information we can actually recall in any given situation. When a node becomes activated because we're encoding external information (when we read or hear a word or phrase) or retrieving internal information from LTM (when we think about some concept), other nodes are also activated if they're strongly enough associated with that node.

In this model, we can think of consumer brand knowledge as a node in memory with a variety of linked associations. The strength and organization of these associations will be important determinants of the information we can recall about the brand. **Brand associations** consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand node.

We can think of marketing as a way of making sure consumers have product and service experiences to create the right brand knowledge structures and maintain them in memory. Companies such as Procter & Gamble like to create mental maps of consumers that depict their knowledge of a particular brand in terms of the key associations likely to be triggered in a marketing setting, and their relative strength, favorability, and uniqueness to consumers. △ Figure 6.3 displays a very simple mental map highlighting brand beliefs for a hypothetical consumer for State Farm insurance.

|Fig. 6.3| △

Hypothetical State Farm Mental Map



MEMORY PROCESSES Memory is a very constructive process, because we don't remember information and events completely and accurately. Often we remember bits and pieces and fill in the rest based on whatever else we know. "Marketing Insight: Made to Stick" offers some practical tips for how marketers can ensure their ideas—inside or outside the company—are remembered and have impact.

Memory encoding describes how and where information gets into memory. The strength of the resulting association depends on how much we process the information at encoding (how much we think about it, for instance) and in what way.[47] In general, the more attention we pay to the meaning of information during encoding, the stronger the resulting associations in memory will be.[48] Advertising research in a field setting suggests that high levels of repetition for an uninvolving, unpersuasive ad, for example, are unlikely to have as much sales impact as lower levels of repetition for an involving, persuasive ad.[49]

Memory retrieval is the way information gets out of memory. Three facts are important about memory retrieval.

1. The presence of *other* product information in memory can produce interference effects and cause us to either overlook or confuse new data. One marketing challenge in a category crowded with many competitors—for example, airlines, financial services, and insurance companies—is that consumers may mix up brands.

Marketing Insight

Made to Stick

Picking up on a concept first introduced by Malcolm Gladwell in his *Tipping Point* book, brothers Chip and Dan Heath set out to uncover what makes an idea sticky and catch on with an audience. Considering a wide range of ideas from diverse sources—urban legends, conspiracy theories, public policy mandates, and product design—they identified six traits that characterize all great ideas and used the acronym "SUCCES" to organize them:

1. *Simple*—find the core of any idea. Take an idea and distill it down, whittling away everything that is not essential. "Southwest Airlines is THE low-fare airline."
2. *Unexpected*—grab people's attention by surprising them. Nordstrom's customer service is legendary because it unexpectedly exceeds customer's already high expectations by going beyond helping them buy to address their personal situations—ironing shirts before meetings, keeping cars warm while they shop, or wrapping presents they actually bought at Macy's.
3. *Concrete*—make sure any idea can be easily grasped and remembered later. Boeing successfully designed the 727 airplane by giving its thousands of engineers a very specific goal—the plane had to seat 131 passengers, be able to fly nonstop from New York to Miami, and land on runway 4-22 at LaGuardia, which could not be used by large planes.
4. *Credibility*—give an idea believability. Indian overnight delivery service Safexpress was able to overcome doubts about its capabilities by describing to a Bollywood film studio how it had flawlessly delivered 69,000 copies of the latest *Harry Potter* novel to bookstores all over the country by 8 AM on the morning of its release.
5. *Emotion*—help people see the importance of an idea. Research on fact-based versus appeal-to-emotion antismoking ads has demonstrated that emotional appeals are more compelling and memorable.
6. *Stories*—empower people to use an idea through narrative. Research again shows how narratives evoke mental stimulation, and visualization of events makes recall and further learning easier.

The Heaths believe great ideas are made, not born, via these traits. One example is the Subway ad campaign starring Jared—who lost 100 pounds in three months by eating two subs a day—that helped to raise Subway's sales 18 percent in one year. According to the Heaths, the idea scores high on all six dimensions of stickiness.

1. *Simple*—weight loss
2. *Unexpected*—weight loss by eating fast food
3. *Concrete*—weight loss by eating two Subway subs daily
4. *Credibility*—a documented loss of 100 pounds
5. *Emotion*—a triumph over difficult weight problems
6. *Stories*—a personal account of how eating two Subway Subs lead to an incredible weight loss.

Sources: Chip Heath and Dan Heath, *Made to Stick: Why Some Ideas Survive and Others Die ...* (New York: Random House, 2007); Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference* (New York: Little, Brown and Company, 2000); Barbara Kiviat, "Are You Sticky?" *Time*, October 29, 2006; Justin Ewers, "Making It Stick," *U.S. News & World Report*, January 21, 2007; Mike Hofman, "Chip and Dan Heath: Marketing Made Sticky," *Inc*, January 1, 2007.

TABLE 6.3 Understanding Consumer Behavior

Who buys our product or service?
Who makes the decision to buy the product?
Who influences the decision to buy the product?
How is the purchase decision made? Who assumes what role?
What does the customer buy? What needs must be satisfied?
Why do customers buy a particular brand?
Where do they go or look to buy the product or service?
When do they buy? Any seasonality factors?
How is our product perceived by customers?
What are customers' attitudes toward our product?
What social factors might influence the purchase decision?
Do customers' lifestyles influence their decisions?
How do personal or demographic factors influence the purchase decision?

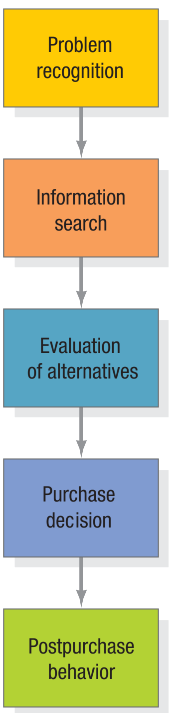
Source: Based on figure 1.7 from George Belch and Michael Belch, *Advertising and Promotion: An Integrated Marketing Communications Perspective*, 8th ed. (Homewood, IL: Irwin, 2009).

2. The time between exposure to information and encoding has been shown generally to produce only gradual decay. Cognitive psychologists believe memory is extremely durable, so once information becomes stored in memory, its strength of association decays very slowly.[50]

3. Information may be *available* in memory but not be *accessible* for recall without the proper retrieval cues or reminders. The effectiveness of retrieval cues is one reason marketing *inside* a supermarket or any retail store is so critical—the actual product packaging, the use of in-store mini-billboard displays, and so on. The information they contain and the reminders they provide of advertising or other information already conveyed outside the store will be prime determinants of consumer decision making.

|Fig. 6.4|

Five-Stage Model of the Consumer Buying Process



The Buying Decision Process: The Five-Stage Model

The basic psychological processes we've reviewed play an important role in consumers' actual buying decisions.[51] Table 6.3 provides a list of some key consumer behavior questions marketers should ask in terms of who, what, when, where, how, and why.

Smart companies try to fully understand customers' buying decision process—all the experiences in learning, choosing, using, and even disposing of a product.[52] Marketing scholars have developed a "stage model" of the process (see Figure 6.4). The consumer typically passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. Clearly, the buying process starts long before the actual purchase and has consequences long afterward.[53]

Consumers don't always pass through all five stages—they may skip or reverse some. When you buy your regular brand of toothpaste, you go directly from the need to the purchase decision, skipping information search and evaluation. The model in Figure 6.4 provides a good frame of reference, however, because it captures the full range of considerations that arise when a consumer faces a highly involving new purchase.[54] Later in the chapter, we will consider other ways consumers make decisions that are less calculated.

Problem Recognition

The buying process starts when the buyer recognizes a problem or need triggered by internal or external stimuli. With an internal stimulus, one of the person's normal needs—hunger, thirst, sex—rises to a threshold level and becomes a drive. A need can also be aroused by an external stimulus. A person may admire a friend's new car or see a television ad for a Hawaiian vacation, which inspires thoughts about the possibility of making a purchase.

Marketers need to identify the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies that spark consumer interest. Particularly for discretionary purchases such as luxury goods, vacation packages, and entertainment options, marketers may need to increase consumer motivation so a potential purchase gets serious consideration.

Information Search

Surprisingly, consumers often search for limited amounts of information. Surveys have shown that for durables, half of all consumers look at only one store, and only 30 percent look at more than one brand of appliances. We can distinguish between two levels of engagement in the search. The milder search state is called *heightened attention.* At this level a person simply becomes more receptive to information about a product. At the next level, the person may enter an *active information search:* looking for reading material, phoning friends, going online, and visiting stores to learn about the product.

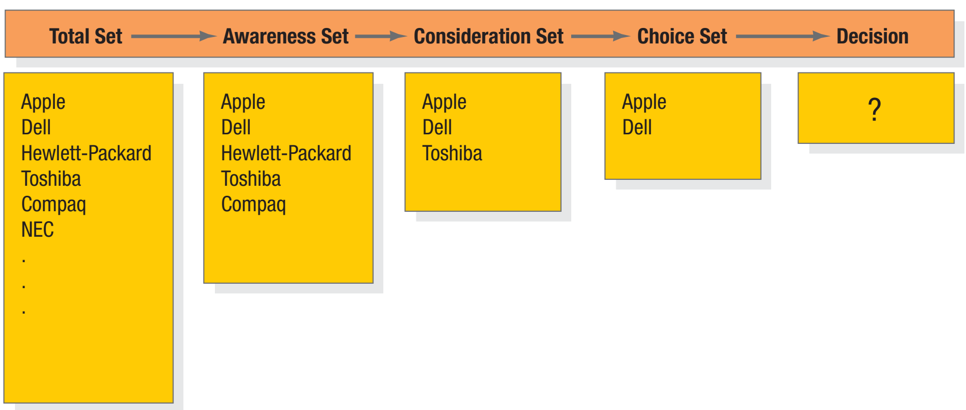
INFORMATION SOURCES Major information sources to which consumers will turn fall into four groups:

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

The relative amount and influence of these sources vary with the product category and the buyer's characteristics. Generally speaking, although consumers receive the greatest amount of information about a product from commercial—that is, marketer-dominated—sources, the most effective information often comes from personal or experiential sources, or public sources that are independent authorities.

Each source performs a different function in influencing the buying decision. Commercial sources normally perform an information function, whereas personal sources perform a legitimizing or evaluation function. For example, physicians often learn of new drugs from commercial sources but turn to other doctors for evaluations.

SEARCH DYNAMICS By gathering information, the consumer learns about competing brands and their features. The first box in Figure 6.5 shows the *total set* of brands available. The individual consumer will come to know a subset of these, the *awareness set*. Only some, the *consideration set,* will meet initial buying criteria. As the consumer gathers more



|Fig. 6.5|

Successive Sets Involved in Consumer Decision Making information, just a few, the *choice set,* will remain strong contenders. The consumer makes a final choice from these.[55]

Marketers need to identify the hierarchy of attributes that guide consumer decision making in order to understand different competitive forces and how these various sets get formed. This process of identifying the hierarchy is called **market partitioning**. Years ago, most car buyers first decided on the manufacturer and then on one of its car divisions (*brand-dominant hierarchy*). A buyer might favor General Motors cars and, within this set, Chevrolet. Today, many buyers decide first on the nation from which they want to buy a car (*nation-dominant hierarchy*). Buyers may first decide they want to buy a German car, then Audi, and then the A4 model of Audi.

The hierarchy of attributes also can reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (sports, passenger, hybrid) are type dominant; those who choose the brand first are brand dominant. Type/price/brand-dominant consumers make up one segment; quality/service/type buyers make up another. Each may have distinct demographics, psychographics, and mediagraphics and different awareness, consideration, and choice sets.[56]

Figure 6.5 makes it clear that a company must strategize to get its brand into the prospect's awareness, consideration, and choice sets. If a food store owner arranges yogurt first by brand (such as Dannon and Yoplait) and then by flavor within each brand, consumers will tend to select their flavors from the same brand. However, if all the strawberry yogurts are together, then all the vanilla, and so forth, consumers will probably choose which flavors they want first, and then choose the brand name they want for that particular flavor. Australian supermarkets arrange meats by the way they might be cooked, and stores use more descriptive labels, such as "a 10-minute herbed beef roast." The result is that Australians buy a greater variety of meats than U.S. shoppers, who choose from meats laid out by animal type—beef, chicken, pork, and so on.[57]

The company must also identify the other brands in the consumer's choice set so that it can plan the appropriate competitive appeals. In addition, marketers should identify the consumer's information sources and evaluate their relative importance. Asking consumers how they first heard about the brand, what information came later, and the relative importance of the different sources will help the company prepare effective communications for the target market.

Evaluation of Alternatives

How does the consumer process competitive brand information and make a final value judgment? No single process is used by all consumers, or by one consumer in all buying situations. There are several processes, and the most current models see the consumer forming judgments largely on a conscious and rational basis.

Some basic concepts will help us understand consumer evaluation processes: First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities to deliver the benefits. The attributes of interest to buyers vary by product—for example:

1. ***Hotels***—Location, cleanliness, atmosphere, price
2. ***Mouthwash***—Color, effectiveness, germ-killing capacity, taste/flavor, price
3. ***Tires***—Safety, tread life, ride quality, price

Consumers will pay the most attention to attributes that deliver the sought-after benefits. We can often segment the market for a product according to attributes and benefits important to different consumer groups.

BELIEFS AND ATTITUDES Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behavior. A **belief** is a descriptive thought that a person holds about something. Just as important are **attitudes**, a person's enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea.[58] People have attitudes toward almost everything: religion, politics, clothes, music, food.

Attitudes put us into a frame of mind: liking or disliking an object, moving toward or away from it. They lead us to behave in a fairly consistent way toward similar objects. Because attitudes economize on energy and thought, they can be very difficult to change. As a general rule, a company is well advised to fit its product into existing attitudes rather than try to change attitudes. If beliefs and attitudes become too negative, however, more serious steps may be necessary. With a controversial ad campaign for its pizza, Domino's took drastic measures to try to change consumer attitudes.

Domino's Known more for the speed of its delivery than for the taste of its pizza, Domino's decided to address negative perceptions head on. A major communication program featured documentary-style TV ads that opened with Domino's employees at corporate headquarters reviewing written and videotaped focus group feedback from customers. The feedback contained biting and vicious comments, such as, "Domino's pizza crust to me is like cardboard" and "The sauce tastes like ketchup." After President Patrick Doyle is shown on camera stating these results were unacceptable, the ads proceeded to show Domino's chefs and executives in their test kitchens proclaiming that its pizza was new and improved with a bolder, richer sauce; a more robust cheese combination; and an herb-and garlic-flavored crust. Many critics were stunned by the admission of the company that their number 2 ranked pizza, in effect, had been inferior for years. Others countered by noting that the new product formulation and unconventional ads were addressing a widely held, difficult-to-change negative belief that was dragging the brand down and required decisive action. Doyle summed up consumer reaction as "Most really like it, some don't. And that's OK."[59]

Recognizing consumers' solidly entrenched beliefs, Domino's launched a bold ad campaign to transform its image.

EXPECTANCY-VALUE MODEL The consumer arrives at attitudes toward various brands through an attribute evaluation procedure, developing a set of beliefs about where each brand stands on each attribute.[60] The **expectancy-value model** of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance.

Suppose Linda has narrowed her choice set to four laptop computers (A, B, C, and D). Assume she's interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table 6.4 shows her beliefs about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that Linda would choose it. But, as is often the case, her choice set consists of brands that vary in their appeal. If Linda wants the best memory capacity, she should buy C; if she wants the best graphics capability, she should buy A; and so on.

If we knew the weights Linda attaches to the four attributes, we could more reliably predict her laptop choice. Suppose she assigned 40 percent of the importance to the laptop's memory capacity, 30 percent to graphics capability, 20 percent to size and weight, and 10 percent to price. To find Linda's perceived value for each laptop according to the expectancy-value model, we multiply her weights by her beliefs about each computer's attributes. This computation leads to the following perceived values:

$$\text{Laptop A} = 0.4(8) + 0.3(9) + 0.2(6) + 0.1(9) = 8.0$$

$$\text{Laptop B} = 0.4(7) + 0.3(7) + 0.2(7) + 0.1(7) = 7.0$$

TABLE 6.4 A Consumer's Brand Beliefs about Laptop Computers

Laptop Computer	Attribute			
	Memory Capacity	Graphics Capability	Size and Weight	Price
A	8	9	6	9
B	7	7	7	7
C	10	4	3	2
D	5	3	8	5

Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with 10 representing the lowest price, because a consumer prefers a low price to a high price.

$$\text{Laptop C} = 0.4(10) + 0.3(4) + 0.2(3) + 0.1(2) = 6.0$$

$$\text{Laptop D} = 0.4(5) + 0.3(3) + 0.2(8) + 0.1(5) = 5.0$$

An expectancy-model formulation predicts that Linda will favor laptop A, which (at 8.0) has the highest perceived value.[61]

Suppose most laptop computer buyers form their preferences the same way. Knowing this, the marketer of laptop B, for example, could apply the following strategies to stimulate greater interest in brand B:

- ***Redesign the laptop computer.*** This technique is called *real repositioning*.
- ***Alter beliefs about the brand.*** Attempting to alter beliefs about the brand is called *psychological repositioning*.
- ***Alter beliefs about competitors' brands.*** This strategy, called *competitive depositioning*, makes sense when buyers mistakenly believe a competitor's brand has more quality than it actually has.
- ***Alter the importance weights.*** The marketer could try to persuade buyers to attach more importance to the attributes in which the brand excels.
- ***Call attention to neglected attributes.*** The marketer could draw buyers' attention to neglected attributes, such as styling or processing speed.
- ***Shift the buyer's ideals.*** The marketer could try to persuade buyers to change their ideal levels for one or more attributes.[62]

Purchase Decision

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

NONCOMPENSATORY MODELS OF CONSUMER CHOICE The expectancy-value model is a compensatory model, in that perceived good things about a product can help to overcome perceived bad things. But consumers often take "mental shortcuts" called **heuristics** or rules of thumb in the decision process.

With **noncompensatory models** of consumer choice, positive and negative attribute considerations don't necessarily net out. Evaluating attributes in isolation makes decision making easier for a consumer, but it also increases the likelihood that she would have made a different choice if she had deliberated in greater detail. We highlight three choice heuristics here.

1. Using the **conjunctive heuristic**, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets the minimum standard for all attributes. For example, if Linda decided all attributes had to rate at least 5, she would choose laptop computer B.
2. With the **lexicographic heuristic**, the consumer chooses the best brand on the basis of its perceived most important attribute. With this decision rule, Linda would choose laptop computer C.
3. Using the **elimination-by-aspects heuristic**, the consumer compares brands on an attribute selected probabilistically—where the probability of choosing an attribute is positively related to its importance—and eliminates brands that do not meet minimum acceptable cutoffs.

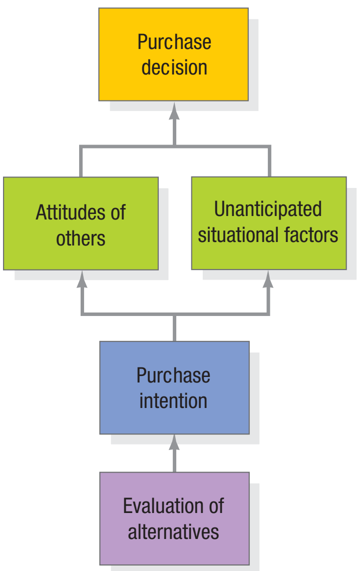
Our brand or product knowledge, the number and similarity of brand choices and time pressures present, and the social context (such as the need for justification to a peer or boss) all may affect whether and how we use choice heuristics.[63]

Consumers don't necessarily use only one type of choice rule. For example, they might use a noncompensatory decision rule such as the conjunctive heuristic to reduce the number of brand choices to a more manageable number, and then evaluate the remaining brands. One reason for the runaway success of the Intel Inside campaign in the 1990s was that it made the brand the first cutoff for many consumers—they would buy only a personal computer that had an Intel microprocessor. Leading personal computer makers at the time such as IBM, Dell, and Gateway had no choice but to support Intel's marketing efforts.

INTERVENING FACTORS Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (see Figure 6.6).[64] The first factor is the *attitudes of others*. The influence of another person's attitude depends on two

|Fig. 6.6|

Steps between Evaluation of Alternatives and a Purchase Decision



things: (1) the intensity of the other person's negative attitude toward our preferred alternative and (2) our motivation to comply with the other person's wishes.[65] The more intense the other person's negativism and the closer he or she is to us, the more we will adjust our purchase intention. The converse is also true.

Related to the attitudes of others is the role played by infomediaries' evaluations: *Consumer Reports,* which provides unbiased expert reviews of all types of products and services; J.D. Power, which provides consumer-based ratings of cars, financial services, and travel products and services; professional movie, book, and music reviewers; customer reviews of books and music on such sites as Amazon.com; and the increasing number of chat rooms, bulletin boards, blogs, and so on where people discuss products, services, and companies.

Consumers are undoubtedly influenced by these external evaluations, as evidenced by the success of a small-budget movie such as *Paranormal Activity,* which cost only $15,000 to make but grossed over $100 million at the box office in 2009 thanks to a slew of favorable reviews by moviegoers and online buzz at many Web sites.[66]

The second factor is *unanticipated situational factors* that may erupt to change the purchase intention. Linda might lose her job, some other purchase might become more urgent, or a store salesperson may turn her off. Preferences and even purchase intentions are not completely reliable predictors of purchase behavior.

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by one or more types of *perceived risk*:[67]

1. ***Functional risk*—**The product does not perform to expectations.
2. ***Physical risk*—**The product poses a threat to the physical well-being or health of the user or others.
3. ***Financial risk*—**The product is not worth the price paid.
4. ***Social risk*—**The product results in embarrassment in front of others.
5. ***Psychological risk*—**The product affects the mental well-being of the user.
6. ***Time risk*—**The failure of the product results in an opportunity cost of finding another satisfactory product.

The degree of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the level of consumer self-confidence. Consumers develop routines for reducing the uncertainty and negative consequences of risk, such as avoiding decisions, gathering information from friends, and developing preferences for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce it.

Every year there are hit movies, such as *Paranormal Activity*, that ride a wave of buzz and favorable consumer word of mouth to box-office success.

Postpurchase Behavior

After the purchase, the consumer might experience dissonance from noticing certain disquieting features or hearing favorable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help him or her feel good about the brand. The marketer's job therefore doesn't end with the purchase. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses and disposal.

POSTPURCHASE SATISFACTION Satisfaction is a function of the closeness between expectations and the product's perceived performance.[68] If performance falls short of expectations, the consumer is *disappointed;* if it meets expectations, the consumer is *satisfied;* if it exceeds expectations, the consumer is *delighted.* These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others.

The larger the gap between expectations and performance, the greater the dissatisfaction. Here the consumer's coping style comes into play. Some consumers magnify the gap when the product isn't perfect and are highly dissatisfied; others minimize it and are less dissatisfied.[69]

POSTPURCHASE ACTIONS A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others. Dissatisfied consumers may abandon or return the product. They may seek information that confirms its high value. They may take public action by complaining to the company, going to a lawyer, or complaining to other groups (such as business, private, or government agencies). Private actions include deciding to stop buying the product (*exit option*) or warning friends (*voice option*).[70]

Chapter 5 described CRM programs designed to build long-term brand loyalty. Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations. Computer companies, for example, can send a letter to new owners congratulating them on having selected a fine computer. They can place ads showing satisfied brand owners. They can solicit customer suggestions for improvements and list the location of available services. They can write intelligible instruction booklets. They can send owners a magazine containing articles describing new computer applications. In addition, they can provide good channels for speedy redress of customer grievances.

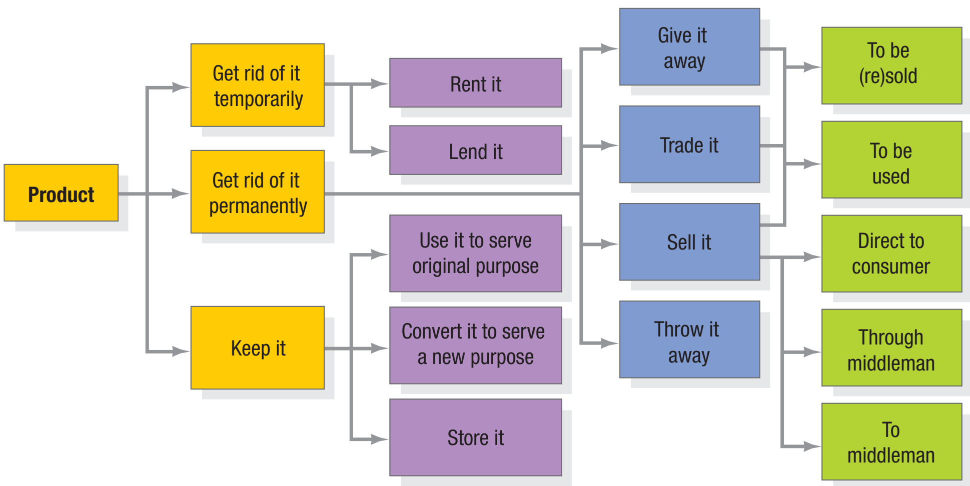
POSTPURCHASE USES AND DISPOSAL Marketers should also monitor how buyers use and dispose of the product (△ Figure 6.7). A key driver of sales frequency is product consumption rate—the more quickly buyers consume a product, the sooner they may be back in the market to repurchase it.

Consumers may fail to replace some products soon enough because they overestimate product life.[71] One strategy to speed replacement is to tie the act of replacing the product to a certain holiday, event, or time of year.

|Fig. 6.7| △

How Customers Use or Dispose of Products

Source: Jacob Jacoby, et al., "What about Disposition?" Journal of Marketing (July 1977), p. 23. Reprinted with permission from the *Journal of Marketing*, published by the American Marketing Association.



Oral B has tied toothbrush promotions to the springtime switch to daylight savings time. Another strategy is to provide consumers with better information about either (1) the time they first used the product or need to replace it or (2) its current level of performance. Batteries have built-in gauges that show how much power they have left; toothbrushes have color indicators to indicate when the bristles are worn; and so on. Perhaps the simplest way to increase usage is to learn when actual usage is lower than recommended and persuade customers that more regular usage has benefits, overcoming potential hurdles.

If consumers throw the product away, the marketer needs to know how they dispose of it, especially if—like batteries, beverage containers, electronic equipment, and disposable diapers—it can damage the environment. There also may be product opportunities in disposed products: Vintage clothing shops, such as Savers, resell 2.5 billion pounds of used clothing annually; Diamond Safety buys finely ground used tires and then makes and sells playground covers and athletic fields; and, unlike the usual potato chip maker, which discards some of the spud, Pringles converts the whole potato into dehydrated potato flakes that are rolled and cut into chips.[72]

Moderating Effects on Consumer Decision Making

The manner or path by which a consumer moves through the decision-making stages depends on several factors, including the level of involvement and extent of variety seeking, as follows.

LOW-INVOLVEMENT CONSUMER DECISION MAKING The expectancy-value model assumes a high level of **consumer involvement**, or engagement and active processing the consumer undertakes in responding to a marketing stimulus.

Richard Petty and John Cacioppo's *elaboration likelihood model*, an influential model of attitude formation and change, describes how consumers make evaluations in both low- and high-involvement circumstances.[73] There are two means of persuasion in their model: the *central route*, in which attitude formation or change stimulates much thought and is based on the consumer's diligent, rational consideration of the most important product information; and the *peripheral route*, in which attitude formation or change provokes much less thought and results from the consumer's association of a brand with either positive or negative peripheral cues. *Peripheral cues* for consumers include a celebrity endorsement, a credible source, or any object that generates positive feelings.

Consumers follow the central route only if they possess sufficient motivation, ability, and opportunity. In other words, they must want to evaluate a brand in detail, have the necessary brand and product or service knowledge in memory, and have sufficient time and the proper setting. If any of those factors is lacking, consumers tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions.

We buy many products under conditions of low involvement and without significant brand differences. Consider salt. If consumers keep reaching for the same brand in this category, it may be out of habit, not strong brand loyalty. Evidence suggests we have low involvement with most low-cost, frequently purchased products.

Marketers use four techniques to try to convert a low-involvement product into one of higher

Savers takes clothes consumers no longer want and sells them to other consumers who do want them—at the right price.

involvement. First, they can link the product to an engaging issue, as when Crest linked its toothpaste to avoiding cavities. Second, they can link the product to a personal situation—for example, fruit juice makers began to include vitamins such as calcium to fortify their drinks. Third, they might design advertising to trigger strong emotions related to personal values or ego defense, as when cereal makers began to advertise to adults the heart-healthy nature of cereals and the importance of living a long time to enjoy family life. Fourth, they might add an important feature—for example, when GE lightbulbs introduced "Soft White" versions. These strategies at best raise consumer involvement from a low to a moderate level; they do not necessarily propel the consumer into highly involved buying behavior.

If consumers will have low involvement with a purchase decision regardless of what the marketer can do, they are likely to follow the peripheral route. Marketers must give consumers one or more positive cues to justify their brand choice, such as frequent ad repetition, visible sponsorships, and vigorous PR to enhance brand familiarity. Other peripheral cues that can tip the balance in favor of the brand include a beloved celebrity endorser, attractive packaging, and an appealing promotion.

VARIETY-SEEKING BUYING BEHAVIOR Some buying situations are characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching. Think about cookies. The consumer has some beliefs about cookies, chooses a brand without much evaluation, and evaluates the product during consumption. Next time, the consumer may reach for another brand out of a desire for a different taste. Brand switching occurs for the sake of variety, rather than dissatisfaction.

The market leader and the minor brands in this product category have different marketing strategies. The market leader will try to encourage habitual buying behavior by dominating the shelf space with a variety of related but different product versions, avoiding out-of-stock conditions, and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that tries to break the consumer's purchase and consumption cycle and presents reasons for trying something new.

Behavioral Decision Theory and Behavioral Economics

As you might guess from low-involvement decision making and variety-seeking, consumers don't always process information or make decisions in a deliberate, rational manner. One of the most active academic research areas in marketing over the past three decades has been *behavioral decision theory* (BDT). Behavioral decision theorists have identified many situations in which consumers make seemingly irrational choices. Table 6.5 summarizes some provocative findings from this research.[74]

What all these and other studies reinforce is that consumer behavior is very constructive and the context of decisions really matters. Understanding how these effects show up in the marketplace can be crucial for marketers.

The work of these and other academics has also challenged predictions from economic theory and assumptions about rationality, leading to the emergence of the field of *behavioral economics*.[75] Here, we review some of the issues in three broad areas—decision heuristics, framing, and other contextual effects. "Marketing Insight: Predictably Irrational" summarizes one in-depth treatment of the topic.

Decision Heuristics

Previously we reviewed some common heuristics that occur with noncompensatory decision making. Other heuristics similarly come into play in everyday decision making when consumers forecast the likelihood of future outcomes or events.[76]

1. The **availability heuristic**—Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind. If an example comes to mind too easily, consumers might overestimate the likelihood of its happening. For example, a recent

TABLE 6.5	Selected Behavioral Decision Theory Findings
•	Consumers are more likely to choose an alternative (a home bread maker) after a relatively inferior option (a slightly better, but significantly more expensive home bread maker) is added to the available choice set.
•	Consumers are more likely to choose an alternative that appears to be a compromise in the particular choice set under consideration, even if it is not the best alternative on any one dimension.
•	The choices consumers make influence their assessment of their own tastes and preferences.
•	Getting people to focus their attention more on one of two considered alternatives tends to enhance the perceived attractiveness and choice probability of that alternative.
•	The way consumers compare products that vary in price and perceived quality (by features or brand name) and the way those products are displayed in the store (by brand or by model type) both affect their willingness to pay more for additional features or a better-known brand.
•	Consumers who think about the possibility that their purchase decisions will turn out to be wrong are more likely to choose better-known brands.
•	Consumers for whom possible feelings of regret about missing an opportunity have been made more relevant are more likely to choose a product currently on sale than wait for a better sale or buy a higher-priced item.
•	Consumers' choices are often influenced by subtle (and theoretically inconsequential) changes in the way alternatives are described.
•	Consumers who make purchases for later consumption appear to make systematic errors in predicting their future preferences.
•	Consumer's predictions of their future tastes are not accurate—they do not really know how they will feel after consuming the same flavor of yogurt or ice cream several times.
•	Consumers often overestimate the duration of their overall emotional reactions to future events (moves, financial windfalls, outcomes of sporting events).
•	Consumers often overestimate their future consumption, especially if there is limited availability (which may explain why Black Jack and other gums have higher sales when availability is limited to several months per year than when they are offered year round).
•	In anticipating future consumption opportunities, consumers often assume they will want or need more variety than they actually do.
•	Consumers are less likely to choose alternatives with product features or promotional premiums that have little or no value, even when these features and premiums are optional (like the opportunity to purchase a collector's plate) and do not reduce the actual value of the product in any way.
•	Consumers are less likely to choose products selected by others for reasons they find irrelevant, even when these other reasons do not suggest anything positive or negative about the product's values.
•	Consumers' interpretations and evaluations of past experiences are greatly influenced by the ending and trend of events. A positive event at the end of a service experience can color later reflections and evaluations of the experience as a whole.

product failure may lead a consumer to inflate the likelihood of a future product failure and make him more inclined to purchase a product warranty.

2. The **representativeness heuristic**—Consumers base their predictions on how representative or similar the outcome is to other examples. One reason package appearances may be so similar for different brands in the same product category is that marketers want their products to be seen as representative of the category as a whole.

Marketing Insight

Predictably Irrational

In a new book, Dan Ariely reviews some of his own research, as well as that of others, that shows that although consumers may think they are making well-reasoned, rational decisions, that is not often the case. As it turns out, a host of mental factors and unconscious cognitive biases conspire to result in seemingly irrational decision making in many different settings. Ariely believes these irrational decisions are not random but are systematic and predictable. As he says, we make the same "mistake" over and over. Some of the thought-provoking research insights he highlights include:

- When selling a new product, marketers should be sure to compare it with something consumers already know about, even if the new product is literally new-to-the-world with little direct comparisons. Consumers find it difficult to judge products in isolation and feel more comfortable if they base a new decision at least in part on a past decision.
- Consumers find the lure of "free" almost irresistible. In one experiment, consumers were offered normally high-priced Lindt chocolate truffles for 15 cents and ordinary Hershey kisses for a penny. Customers had to pick one or the other, not both. Seventy-three percent of the customers went for the truffles. When the prices were cut to 14 cents for the truffles and free for the kisses, however, 69 percent of customers went for the kisses, even though the truffles were actually a better deal.
- The "optimism bias" or "positivity illusion" is a pervasive effect that transcends gender, age, education, and nationality. People tend to overestimate their chances of experiencing a good outcome (having a successful marriage, healthy kids, or financial security) but underestimate their chances of experiencing a bad outcome (divorce, a heart attack, or a parking ticket).

In concluding his analysis, Ariely notes, "If I were to distill one main lesson from the research described in this book, it is that we are all pawns in a game whose forces we largely fail to comprehend."

Sources: Dan Ariely, *Predictably Irrational* (New York: Harper Collins, 2008; Dan Ariely, "The Curious Paradox of Optimism Bias," *BusinessWeek*, August 24 and 31, 2009, p. 48; Dan Ariely, "The End of Rational Economics," *Harvard Business Review*, July–August 2009, pp. 78–84; "A Managers Guide to Human Irrationalities," *MIT Sloan Management Review* (Winter 2009), pp. 53–59; Russ Juskalian, "Not as Rational as We Think We Are," *USA Today*, March 17, 2008; Elizabeth Kolbert, "What Was I Thinking?" *New Yorker*, February 25, 2008; David Mehegan, "Experimenting on Humans," *Boston Globe*, March 18, 2008.

3. The **anchoring and adjustment heuristic**—Consumers arrive at an initial judgment and then adjust it based on additional information. For services marketers, a strong first impression is critical to establish a favorable anchor so subsequent experiences will be interpreted in a more favorable light.

Note that marketing managers also may use heuristics and be subject to biases in their own decision making.

Framing

Decision framing is the manner in which choices are presented to and seen by a decision maker. A $200 cell phone may not seem that expensive in the context of a set of $400 phones but may seem very expensive if those phones cost $50. Framing effects are pervasive and can be powerful.

University of Chicago professors Richard Thaler and Cass Sunstein show how marketers can influence consumer decision making through what they call the *choice architecture*—the environment in which decisions are structured and buying choices are made. According to these researchers, in the right environment, consumers can be given a "nudge" via some small feature in the environment that attracts attention and alters behavior. They maintain Nabisco is employing a smart choice architecture by offering 100-calorie snack packs, which have solid profit margins, while nudging consumers to make healthier choices.[77]

MENTAL ACCOUNTING Researchers have found that consumers use mental accounting when they handle their money.[78] **Mental accounting** refers to the way consumers code, categorize, and evaluate financial outcomes of choices. Formally, it is "the tendency to categorize *funds* or items of value even though there is no logical *basis* for the categorization, e.g., individuals often segregate their savings into separate accounts to meet different goals even though funds from any of the accounts can be applied to any of the goals."[79]

Consider the following two scenarios:

1. Assume you spend $50 to buy a ticket for a concert.[80] As you arrive at the show, you realize you've lost your ticket. You decide to buy a replacement.
2. Assume you decided to buy a ticket to a concert at the door. As you arrive at the show, you realize somehow you lost $50 along the way. You decide to buy the ticket anyway.

Which one would you be more likely to do? Most people choose scenario 2. Although you lost the same amount in each case—$50—in the first case, you may have mentally allocated $50 for going to a concert. Buying another ticket would exceed your mental concert budget. In the second case, the money you lost did not belong to any account, so you had not yet exceeded your mental concert budget.

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

1. Consumers tend to *segregate gains.* When a seller has a product with more than one positive dimension, it's desirable to have the consumer evaluate each dimension separately. Listing multiple benefits of a large industrial product, for example, can make the sum of the parts seem greater than the whole.
2. Consumers tend to *integrate losses.* Marketers have a distinct advantage in selling something if its cost can be added to another large purchase. House buyers are more inclined to view additional expenditures favorably given the high price of buying a house.
3. Consumers tend to *integrate smaller losses with larger gains.* The "cancellation" principle might explain why withholding taxes from monthly paychecks is less aversive than large, lump-sum tax payments—the smaller withholdings are more likely to be absorbed by the larger pay amount.
4. Consumers tend to *segregate small gains from large losses.* The "silver lining" principle might explain the popularity of rebates on big-ticket purchases such as cars.

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

Mental accounting principles help predict whether consumers will or will not go to a concert after having lost a ticket or some money.

Summary

1. Consumer behavior is influenced by three factors: cultural (culture, subculture, and social class), social (reference groups, family, and social roles and statuses), and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality, and self-concept). Research into these factors can provide clues to reach and serve consumers more effectively.
2. Four main psychological processes that affect consumer behavior are motivation, perception, learning, and memory.
3. To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers, or users. Different marketing campaigns might be targeted to each type of person.
4. The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. The marketers' job is to understand the behavior at each stage. The attitudes of others, unanticipated situational factors, and perceived risk may all affect the decision to buy, as will consumers' levels of postpurchase product satisfaction, use and disposal, and the company's actions.
5. Consumers are constructive decision makers and subject to many contextual influences. They often exhibit low involvement in their decisions, using many heuristics as a result.

Applications

Marketing Debate

Is Target Marketing Ever Bad?

As marketers increasingly tailor marketing programs to target market segments, some critics have denounced these efforts as exploitive. They see the preponderance of billboards advertising cigarettes and alcohol in low-income urban areas as taking advantage of a vulnerable market segment. Critics can be especially harsh in evaluating marketing programs that target African Americans and other minority groups, claiming they often employ stereotypes and inappropriate depictions. Others counter that targeting and positioning is critical to marketing, and that these marketing programs are an attempt to be relevant to a certain consumer group.

Take a position: Targeting minorities is exploitive *versus* Targeting minorities is a sound business practice.

Marketing Discussion

Mental Accounts

What mental accounts do you have in your mind about purchasing products or services? Do you have any rules you employ in spending money? Are they different from what other people do? Do you follow Thaler's four principles in reacting to gains and losses?

Marketing Excellence

>>Disney

Few companies have been able to connect with a specific audience as well as Disney has. From its founding in 1923, the Disney brand has always been synonymous with quality entertainment for the entire family. The company, originally founded by brothers Walt Disney and Roy Disney, stretched the boundaries of entertainment during the 20th century to bring classic and memorable family entertainment around the world. Beginning with simple black-and-white animated cartoons, the company grew into the worldwide phenomenon that today includes theme parks, feature films, television networks, theatre productions, consumer products, and a growing online presence.

In its first two decades, Walt Disney Productions was a struggling cartoon studio that introduced the world to its most famous character ever, Mickey Mouse. Few believed in Disney's vision at the time, but the smashing success of cartoons with sound and the first-ever full-length animated film, *Snow White and the Seven Dwarfs*, in 1937 led, over the next three decades, to other animated classics including *Pinocchio*, *Bambi, Cinderella,* and *Peter Pan*, live action films such as *Mary Poppins* and *The Love Bug,* and television series like *Davy Crockett*.

When Walt Disney died in 1966, he was considered the best-known person in the world. By then the company had expanded the Disney brand into film, television, consumer products, and Disneyland in southern California, its first theme park, where families could experience the magic of Disney in real life. After Walt's death, Roy Disney took over as CEO and realized Walt's dream of opening the 24,000 acre Walt Disney World theme park in Florida. By the time of Roy's death in 1971, the two brothers had created a brand that stood for trust, fun, and entertainment that resonated with children, families, and adults through some of the most moving and iconic characters, stories, and memories of all time.

The company stumbled for a few years without the leadership of its two founding brothers. However, by the 1980s, The Walt Disney Company was back on its feet and thinking of new ways to target its core family-oriented consumers as well as expand into new areas that would reach an older audience. It launched the Disney Channel, Touchstone Pictures, and Touchstone Television. In addition, Disney featured classic films during *The Disney Sunday Night Movie* and sold classic Disney films on video at extremely low prices in order to reach a whole new generation of children. The brand continued to expand in the 1990s as Disney tapped into publishing, international theme parks, and theatrical productions that reached a variety of audiences around the world.

Today, Disney is comprised of five business segments: The Walt Disney Studios, which creates films, recording labels, and theatrical performances; Parks and Resorts, which focuses on Disney's 11 theme parks, cruise lines, and other travel-related assets; Disney Consumer Products, which sells all Disney-branded products; Media Networks, which includes Disney's television networks such as ESPN, ABC, and the Disney Channel; and Interactive Media.

Disney's greatest challenge today is to keep a 90-year-old brand relevant and current to its core audience while staying true to its heritage and core brand values. Disney's CEO Bob Iger explained, "As a brand that people seek out and trust, it opens doors to new platforms and markets, and hence to new consumers. When you deal with a company that has a great legacy, you deal with decisions and conflicts that arise from the clash of heritage versus innovation versus relevance. I'm a big believer in respect for heritage, but I'm also a big believer in the need to innovate and the need to balance that respect for heritage with a need to be relevant."

Internally, Disney has focused on the *Disney Difference*—"a value-creation dynamic based on high standards of quality and recognition that set Disney apart from its competitors." Disney leverages all aspects of its businesses and abilities to touch its audience in multiple ways, efficiently and economically. Disney's *Hannah Montana* provides an excellent example of how the company took a tween-targeted television show and moved it across its various creative divisions to become a significant franchise for the company, including millions of CD sales, video games, popular consumer products, box office movies, concerts around the world, and ongoing live performances at international Disneyland resorts like Hong Kong, India, and Russia.

Disney also uses emerging technologies to connect with its consumers in innovative ways. It was one of the first companies to begin regular podcasts of its television shows as well as release ongoing news about its products and interviews with Disney's employees, staff, and park officials. Disney's Web site provides insight into movie trailers, television clips, Broadway shows, virtual theme park experiences, and much more. And the company continues to explore ways to make Mickey Mouse and his peers more text-friendly and virtually exciting.

According to internal studies, Disney estimates that consumers spend 13 billion hours "immersed" with the Disney brand each year. Consumers around the world spend 10 billion hours watching programs on the Disney Channel, 800 million hours at Disney's resorts and theme parks, and 1.2 billion hours watching a Disney movie—at home, in the theatre, or on their computer. Today, Disney is the 63rd largest company in the world with revenues reaching nearly $38 billion in 2008.

Questions

1. What does Disney do best to connect with its core consumers?
2. What are the risks and benefits of expanding the Disney brand in new ways?

Sources: "Company History," Disney.com; "Annual Reports," Disney.com; Richard Siklosc, "The Iger Difference," Fortune, April 11, 2008; Brooks Barnes, "After Mickey's Makeover; Less Mr. Nice Guy," *New York Times*, November 4, 2009.

Marketing Excellence

>>IKEA

IKEA was founded in 1943 by a 17-year-old Swede named Ingvar Kamprad. The company, which initially sold pens, Christmas cards, and seeds from a shed on Kamprad's family farm, eventually grew into a retail titan in home furnishings and a global cultural phenomenon, what *BusinessWeek* called a "one-stop sanctuary for coolness" and "the quintessential cult brand."

IKEA inspires remarkable levels of interest and devotion from its customers. In 2008, 500 million visitors walked through IKEA stores, which are located all over the world. When a new location debuted in London in 2005, about 6,000 people arrived before the doors opened. A contest in Atlanta crowned five winners "Ambassador of Kul" (Swedish for "fun") who, in order to collect their prizes, had to live in the IKEA store for three full days before it opened, which they gladly did.

IKEA achieved this level of success by offering a unique value proposition to consumers: leading-edge Scandinavian design at extremely low prices. The company's fashionable bargains include products with unusual Swedish names such as Klippan loveseats for $279, BILLY bookcases for $60, and LACK side tables for $8. IKEA founder Kamprad, who was dyslexic, believed it was easier to remember product *names* rather than codes or numbers. The company is able to offer such low prices in part because most items come boxed and require the customer to completely assemble them at home. This strategy results in cheaper and easier transportation as well as more efficient use of store shelf space.

IKEA's vision is "to create a better everyday life for the many people." Its mission of providing value is predicated on founder Kamprad's statement that "People have very

thin wallets. We should take care of their interests." IKEA adheres to this philosophy by reducing prices across its products by 2 percent to 3 percent annually. Its focus on value also benefits the bottom line: IKEA enjoys 10 percent margins, higher than its competitors such as Target (7.7 percent) and Pier 1 Imports (5 percent). IKEA sources its products from multiple companies all over the world rather than a handful of suppliers as many furniture retailers do. This ensures the lowest price possible, and savings that are passed on to the consumer. Today, IKEA works with approximately 1,300 suppliers from 53 countries.

IKEA's stores are located a good distance from most city centers, which helps keep land costs down and taxes low. The average IKEA customer drives 50 miles roundtrip to visit an IKEA store. Many stores resemble a large box with few windows and doors and are painted bright yellow and blue—Sweden's national colors. They save energy with low-wattage lightbulbs and have unusually long hours of operation; some are 24-hour stores. When a consumer walks through an IKEA store, it is a very different experience than most furniture retailers. The floor plan is designed in a one-way format, so the consumer experiences the entire store first, then can grab a shopping cart, visit the warehouse, and pick up the desired items in a flat box.

Many IKEA products are sold uniformly throughout the world, but the company also caters to local tastes.

- In China, it stocked 250,000 plastic placemats with "Year of the Rooster" themes, which quickly sold out after the holiday.
- When employees realized U.S. shoppers were buying vases as drinking glasses because they considered IKEA's regular glasses too small, the company developed larger glasses for the U.S. market.
- IKEA managers visited European and U.S. consumers in their homes and learned that Europeans generally hang their clothes, whereas U.S. shoppers prefer to store them folded. Therefore, wardrobes for the U.S. market were designed with deeper drawers.
- Visits to Hispanic households in California led IKEA to add seating and dining space in its California stores, brighten the color palettes, and hang more picture frames on the walls.

IKEA has evolved into the largest furniture retailer in the world with approximately 300 stores in 38 countries and revenues topping €21.5 billion in 2009. Its top countries in terms of sales include Germany, 16 percent; United States, 11 percent; France, 10 percent; United Kingdom, 7 percent; and Italy, 7 percent.

Questions

1. What are some of the things IKEA is doing right to reach consumers in different markets? What else could it be doing?
2. IKEA has essentially changed the way people shop for furniture. Discuss the pros and cons of this strategy.

Sources: Kerry Capell, "IKEA: How the Swedish Retailer Became a Global Cult Brand," *BusinessWeek*, November 14, 2005, p. 96; "Need a Home to Go with That Sofa?" *BusinessWeek*, November 14, 2005, p. 106; Ellen Ruppel Shell, "Buy to Last," *Atlantic*, July/August 2009; Jon Henley, "Do You Speak IKEA?" *Guardian*, February 4, 2008; IKEA, www.ikea.com.

Chapter 7

From its Redwood Shores headquarters, Oracle introduces innovative marketing programs to satisfy its many business-to-business customers.

In This Chapter, We Will Address the Following Questions

1. What is the business market, and how does it differ from the consumer market?
2. What buying situations do organizational buyers face?
3. Who participates in the business-to-business buying process?
4. How do business buyers make their decisions?
5. How can companies build strong relationships with business customers?
6. How do institutional buyers and government agencies do their buying?

Analyzing Business Markets

Business organizations do not only sell; they also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies, and business services. According to the Census Bureau, there are roughly 6 million businesses with paid employees in the United States alone. To create and capture value, sellers need to understand these organizations' needs, resources, policies, and buying procedures.

Business-software giant Oracle became an industry leader by offering a whole range of products and services to satisfy customer needs for enterprise software. Known originally for its flagship database management systems, Oracle spent $30 billion in recent years to buy 56 companies, including $7.4 billion to buy Sun Microsystems, doubling the company's revenue to $24 billion and sending its stock soaring in the process.

To become a one-stop shop for all kinds of business customers, Oracle seeks to offer the widest ranges of products in the software industry. It now sells everything from server computers and data storage devices to operating systems, databases, and software for running accounting, sales, and supply-chain management. At the same time, Oracle has launched "Project Fusion" to unify its different applications, so customers can reap the benefits of consolidating many of their software needs with Oracle. Oracle's market power has sometimes raised both criticism from customers and concerns from government regulators. At the same time, its many long-time customers speak to its track record of product innovation and customer satisfaction.[1]

Some of the world's most valuable brands belong to business marketers: ABB, Caterpillar, DuPont, FedEx, GE, Hewlett-Packard, IBM, Intel, and Siemens, to name a few. Many principles of basic marketing also apply to business marketers. They need to embrace holistic marketing principles, such as building strong relationships with their customers, just like any marketer. But they also face some unique considerations in selling to other businesses. In this chapter, we will highlight some of the crucial similarities and differences for marketing in business markets.[2]

What Is Organizational Buying?

Frederick E. Webster Jr. and Yoram Wind define **organizational buying** as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.[3]

The Business Market versus the Consumer Market

The **business market** consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. The major industries making up the business market are agriculture, forestry, and fisheries; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services.

More dollars and items change hands in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes. Hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also buys many other goods and services to support its operations.

Given the highly competitive nature of business-to-business markets, the biggest enemy to marketers here is commoditization.[4] Commoditization eats away margins and weakens customer loyalty. It can be overcome only if target customers are convinced that meaningful differences exist in the marketplace, and that the unique benefits of the firm's offerings are worth the added expense. Thus, a critical step in business-to-business marketing is to create and communicate relevant differentiation from competitors. Here is how Navistar has adjusted its marketing to reflect the economic crisis and a different customer mind-set.

Navistar Navistar sells trucks and buses under the International and IC brands. Its diverse customer base includes bookkeepers, truck drivers, insurance people, large retailers, and so on. In recent years, these customers have been trying to cope with the harsh economic realities brought on by higher fuel prices, tougher federal regulation, and increased environmental consciousness. To address these customer concerns, Navistar devised a new marketing strategy and campaign. It introduced a new lineup of trucks and engines, including the first medium-duty hybrid truck and new diesel engines. To support new product development, Navistar launched an extensive multimedia marketing campaign that included an experiential truck stop and key industry event mobile tours, outbound video e-mail, brand advertising, and an outreach program to bloggers. It even shot a short documentary-style film, *Drive and Deliver*, which showcased three long-haul truckers driving around the country making deliveries using one of Navistar's new long-haul LoneStar truck models.[5]

Navistar's innovative LoneStar truck model was featured in a short film directed by an Academy Award nominee.

Business marketers face many of the same challenges as consumer marketers. In particular, understanding their customers and what they value is of paramount importance to both. A survey of top business-to-business firms identified the following as challenges they faced:[6]

1. Understanding deep customer needs in new ways;
2. Identifying new opportunities for organic business growth;
3. Improving value management techniques and tools;
4. Calculating better marketing performance and accountability metrics;
5. Competing and growing in global markets, particularly China;
6. Countering the threat of product and service commoditization by bringing innovative offerings to market faster and moving to more competitive business models; and
7. Convincing C-level executives to embrace the marketing concept and support robust marketing programs.

Business marketers contrast sharply with consumer markets in some ways, however:

- ***Fewer, larger buyers.*** The business marketer normally deals with far fewer, much larger buyers than the consumer marketer does, particularly in such industries as aircraft engines and defense weapons. The fortunes of Goodyear tires, Cummins engines, Delphi control systems, and other automotive part suppliers depends on getting big contracts from just a handful of major automakers.
- ***Close supplier–customer relationship.*** Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. Through its Supplier Added Value Effort ($AVE) program, Pittsburgh-based PPG industries challenges its suppliers of maintenance, repair, and operating (MRO) goods and services to deliver on annual value-added/cost-savings proposals equaling at least 5 percent of their total annual sales to PPG. One preferred supplier submitted a suggestion to $AVE that reduced costs for a lighting project by $160,000 by negotiating discounted prices for new fixtures and fluorescent bulbs.[7] Business buyers often select suppliers that also buy from them. A paper manufacturer might buy from a chemical company that buys a considerable amount of its paper.

- ***Professional purchasing.*** Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Many of the buying instruments—for example, requests for quotations, proposals, and purchase contracts—are not typically found in consumer buying. Professional buyers spend their careers learning how to buy better. Many belong to the Institute for Supply Management, which seeks to improve professional buyers' effectiveness and status. This means business marketers must provide greater technical data about their product and its advantages over competitors' products.
- ***Multiple buying influences.*** More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods. Business marketers need to send well-trained sales representatives and sales teams to deal with the well-trained buyers.
- ***Multiple sales calls.*** A study by McGraw-Hill found that it took four to four and a half calls to close an average industrial sale. In the case of capital equipment sales for large projects, it may take many attempts to fund a project, and the sales cycle—between quoting a job and delivering the product—is often measured in years.[8]
- ***Derived demand.*** The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of ultimate consumers. Pittsburgh-based Consol Energy's coal business largely depends on orders from utilities and steel companies, which, in turn, depend on broader economic demand from consumers for electricity and steel-based products such as automobiles, machines, and appliances. Business buyers must also pay close attention to current and expected economic factors, such as the level of production, investment, and consumer spending and the interest rate. In a recession, they reduce their investment in plant, equipment, and inventories. Business marketers can do little to stimulate total demand in this environment. They can only fight harder to increase or maintain their share of the demand.
- ***Inelastic demand.*** The total demand for many business goods and services is inelastic—that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor will they buy much less leather if the price rises unless they can find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost, such as shoelaces.
- ***Fluctuating demand.*** The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment necessary to produce the additional output. Economists refer to this as the *acceleration effect.* Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand for products in the next period; a 10 percent fall in consumer demand may cause a complete collapse in business demand.
- ***Geographically concentrated buyers.*** For years, more than half of U.S. business buyers have been concentrated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographical concentration of producers helps to reduce selling costs. At the same time, business marketers need to monitor regional shifts of certain industries.
- ***Direct purchasing.*** Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive such as mainframes or aircraft.

Buying Situations

The business buyer faces many decisions in making a purchase. *How* many depends on the complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. Three types of buying situations are the straight rebuy, modified rebuy, and new task.[9]

- ***Straight rebuy.*** In a straight rebuy, the purchasing department reorders supplies such as office supplies and bulk chemicals on a routine basis and chooses from suppliers on an approved list. The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. "Out-suppliers" attempt to offer something new or exploit dissatisfaction with a current supplier. Their goal is to get a small order and then enlarge their purchase share over time.

- ***Modified rebuy.*** The buyer in a modified rebuy wants to change product specifications, prices, delivery requirements, or other terms. This usually requires additional participants on both sides. The in-suppliers become nervous and want to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.
- ***New task.*** A new-task purchaser buys a product or service for the first time (an office building, a new security system). The greater the cost or risk, the larger the number of participants, and the greater their information gathering—the longer the time to a decision.[10]

The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situation. Over time, new-buy situations become straight rebuys and routine purchase behavior.

New-task buying is the marketer's greatest opportunity and challenge. The process passes through several stages: awareness, interest, evaluation, trial, and adoption.[11] Mass media can be most important during the initial awareness stage; salespeople often have their greatest impact at the interest stage; and technical sources can be most important during the evaluation stage. Online selling efforts may be useful at all stages.

In the new-task situation, the buyer must determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. Different participants influence each decision, and the order in which these decisions are made varies.

Because of the complicated selling required, many companies use a *missionary sales force* consisting of their most effective salespeople. The brand promise and the manufacturer's brand name recognition will be important in establishing trust and the customer's willingness to consider change.[12] The marketer also tries to reach as many key participants as possible and provide helpful information and assistance.

Once a customer has been acquired, in-suppliers are continually seeking ways to add value to their market offer to facilitate rebuys. Data storage leader EMC successfully acquired a series of computer software leaders to reposition the company to manage—and not just store—information, often by giving customers customized information.[13]

Customers considering dropping six or seven figures on one transaction for big-ticket goods and services want all the information they can get. One way to entice new buyers is to create a customer reference program in which satisfied existing customers act in concert with the company's sales and marketing department by agreeing to serve as references. Technology companies such as HP, Lucent, and Unisys have all employed such programs.

Business marketers are also recognizing the importance of their brand and how they must execute well in a number of areas to gain marketplace success. Boeing, which makes everything from commercial airplanes to satellites, implemented the "One Company" brand strategy to unify all its different operations with a one-brand culture. The strategy was based in part on a triple helix representation: (1) enterprising spirit (why Boeing does what it does), (2) precision performance (how Boeing gets things done), and (3) defining the future (what Boeing achieves as a company).[14] NetApp is another good example of the increased importance placed on branding in business-to-business marketing.

NetApp NetApp is a *Fortune* 1000 company providing data management and storage solutions to medium- and large-sized clients. Despite some marketplace success, the company found its branding efforts in disarray by 2007. Several variations of its name were in use, leading to a formal name change to NetApp in 2008. Branding consultants Landor also created a new identity, architecture, nomenclature, tone of voice, and tagline ("Go further, faster.") for the brand and its new name. Messages emphasized NetApp's superior technology, innovation, and customer-centric "get things done" culture. Some of the marketing efforts supporting the brand, however, still left some things to be desired. The Web sites were called "Frankensites" because they had been worked on and modified by so many developers over a 12-year period. Web site makeovers streamlined and organized the company's presentation and made it easier to make changes and updates. The new Web site was estimated to increase sales leads from inquiries by fourfold. Investing heavily in marketing communications despite the recession, NetApp ran print and online ads and tapped into a number of social media outlets—communities and forums, bloggers, Facebook, Twitter, and YouTube.[15]

Business-to-business technology leader NetApp has made a concerted effort to build its brand through a variety of marketing communications and activities.

Systems Buying and Selling

Many business buyers prefer to buy a total problem solution from one seller. Called *systems buying,* this practice originated with government purchases of major weapons and communications systems. The government solicited bids from *prime contractors* that, if awarded the contract, would be responsible for bidding out and assembling the system's subcomponents from *second-tier contractors.* The prime contractor thus provided a turnkey solution, so-called because the buyer simply had to turn one key to get the job done.

Sellers have increasingly recognized that buyers like to purchase in this way, and many have adopted systems selling as a marketing tool. One variant of systems selling is *systems contracting,* in which a single supplier provides the buyer with its entire requirement of MRO supplies. During the contract period, the supplier also manages the customer's inventory. Shell Oil manages the oil inventories of many of its business customers and knows when they require replenishment. The customer benefits from reduced procurement and management costs and from price protection over the term of the contract. The seller benefits from lower operating costs thanks to steady demand and reduced paperwork.

Systems selling is a key industrial marketing strategy in bidding to build large-scale industrial projects such as dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities, and even new towns. Customers present potential suppliers with a list of project specifications and requirements. Project engineering firms must compete on price, quality, reliability, and other attributes to win contracts. Suppliers, however, are not just at the mercy of customer demands. Ideally, they're active with customers early in the process to influence the actual development of the specifications. Or they can go beyond the specifications to offer additional value in various ways, as the following example shows.

Selling to the Indonesian Government

Selling to the Indonesian Government The Indonesian government requested bids to build a cement factory near Jakarta. A U.S. firm made a proposal that included choosing the site, designing the factory, hiring the construction crews, assembling the materials and equipment, and turning over the finished factory to the Indonesian government. A Japanese firm, in outlining its proposal, included all these services, plus hiring and training the workers to run the factory, exporting the cement through its trading companies, and using the cement to build roads and new office buildings in Jakarta. Although the Japanese proposal involved more money, it won the contract. Clearly, the Japanese viewed the problem as not just building a cement factory (the narrow view of systems selling) but as contributing to Indonesia's economic development. They took the broadest view of the customer's needs, which is true systems selling.

Participants in the Business Buying Process

Who buys the trillions of dollars' worth of goods and services needed by business organizations? Purchasing agents are influential in straight-rebuy and modified-rebuy situations, whereas other department personnel are more influential in new-buy situations. Engineering personnel usually have a major influence in selecting product components, and purchasing agents dominate in selecting suppliers.[16]

The Buying Center

Webster and Wind call the decision-making unit of a buying organization *the buying center.* It consists of "all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions."[17] The buying center includes all members of the organization who play any of the following seven roles in the purchase decision process.

1. ***Initiators***—Users or others in the organization who request that something be purchased.
2. ***Users***—Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
3. ***Influencers***—People who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives. Technical personnel are particularly important influencers.
4. ***Deciders***—People who decide on product requirements or on suppliers.
5. ***Approvers***—People who authorize the proposed actions of deciders or buyers.
6. ***Buyers***—People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers.
7. ***Gatekeepers***—People who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent salespersons from contacting users or deciders.

Several people can occupy a given role such as user or influencer, and one person may play multiple roles.[18] A purchasing manager, for example, often occupies the roles of buyer, influencer, and gatekeeper simultaneously: She can determine which sales reps can call on other people in the organization; what budget and other constraints to place on the purchase; and which firm will actually get the business, even though others (deciders) might select two or more potential vendors that can meet the company's requirements.

The typical buying center has a minimum of five or six members and often has dozens. Some may be outside the organization, such as government officials, consultants, technical advisors, and other members of the marketing channel. One study found that 3.5 more people on average were engaged in making a business purchase decision in 2005 than in 2001.[19]

Buying Center Influences

Buying centers usually include several participants with differing interests, authority, status, and persuasiveness, and sometimes very different decision criteria. Engineers may want to maximize the performance of the product; production people may want ease of use and reliability of supply; financial staff focus on the economics of the purchase; purchasing may be concerned with operating and replacement costs; union officials may emphasize safety issues.

Business buyers also have personal motivations, perceptions, and preferences influenced by their age, income, education, job position, personality, attitudes toward risk, and culture. Buyers definitely exhibit different buying styles. There are "keep-it-simple" buyers, "own-expert" buyers, "want-the-best" buyers, and "want-everything-done" buyers. Some younger, highly educated buyers are computer experts who conduct rigorous analyses of competitive proposals before choosing a supplier. Other buyers are "toughies" from the old school who pit competing sellers against one another, and in some companies, the purchasing powers-that-be are legendary.

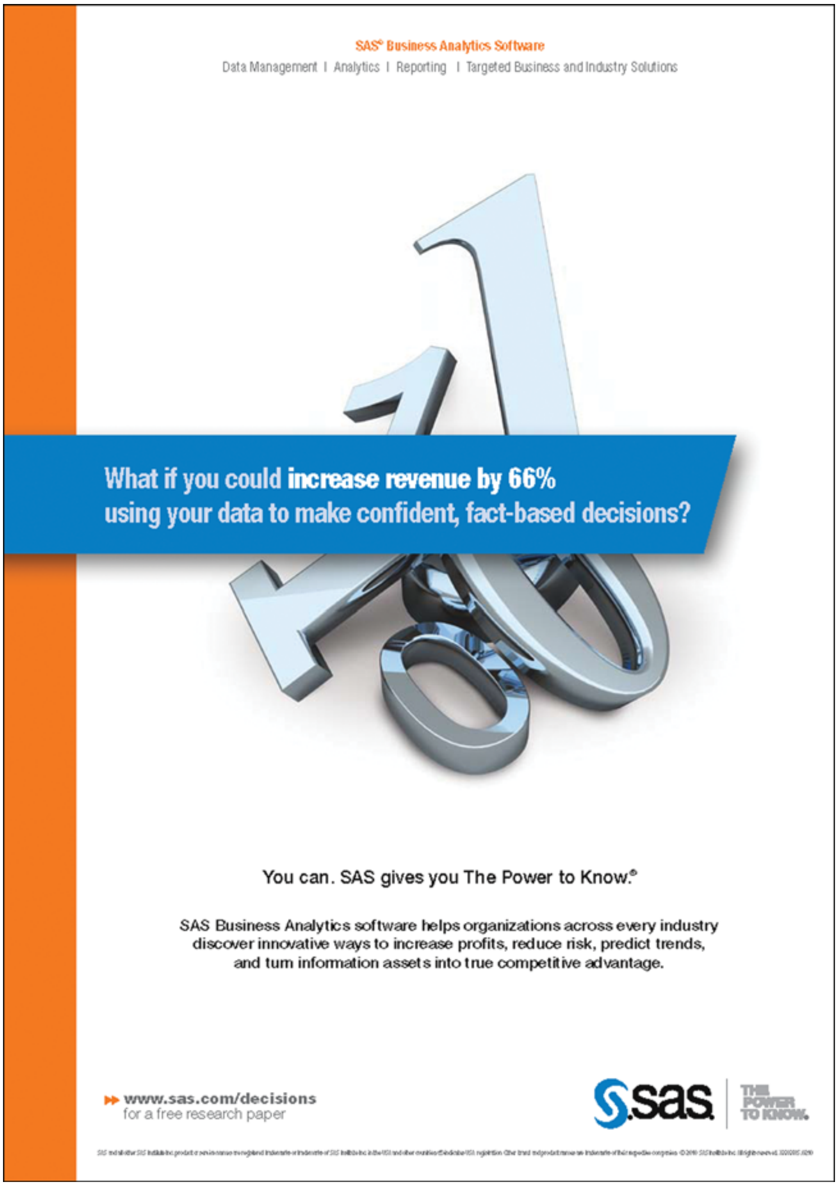
Webster cautions that ultimately individuals, not organizations, make purchasing decisions.[20] Individuals are motivated by their own needs and perceptions in attempting to maximize the rewards (pay, advancement, recognition, and feelings of achievement) offered by the organization. Personal needs motivate their behavior, but organizational needs legitimate the buying process and its outcomes. Thus, businesspeople are not buying "products." They are buying solutions to two problems: the organization's economic and strategic problem, and their own personal need for individual achievement and reward. In this sense, industrial buying decisions are both "rational" and "emotional"—they serve both the organization's and the individual's needs.[21]

Research by one industrial component manufacturer found that although top executives at its small- and medium-size customers were comfortable buying from other companies, they appeared to harbor subconscious insecurities about buying the manufacturer's product. Constant changes in technology had left them concerned about internal effects within the company. Recognizing this unease, the manufacturer retooled its selling approach to emphasize more emotional appeals and how its product line actually enabled the customer's employees to improve their performance, relieving management of the complications and stress of using components.[22]

Recognizing these extrinsic, interpersonal influences, more industrial firms have put greater emphasis on strengthening their corporate brand. At one time, Emerson Electric, a global provider of power tools, compressors, electrical equipment, and engineering solutions, was a conglomerate of 60 autonomous—and sometimes anonymous—companies. A new CMO aligned the brands under a new global brand architecture and identity, allowing Emerson to achieve a broader presence so it could sell locally while leveraging its global brand name. Record sales and stock price highs soon followed.[23] SAS is another firm that recognized the importance of its corporate brand.

SAS With sales of more than \$2.3 billion and a huge "fan club" of IT customers, SAS, the business analytics software firm, seemed to be in an enviable position in 1999. Yet its image was what one industry observer called "a geek brand." In order to extend the company's reach beyond IT managers with PhDs in math or statistical analysis, the company needed to connect with C-level executives in the largest companies—the kind of people who either didn't have a clue what SAS's software was and what to do with it, or who didn't think business analytics was a strategic issue. Working with its first outside ad agency ever, SAS emerged with a new logo, a new slogan, "The Power to Know®," and a series of TV spots and print ads in

Like many business-to-business firms, software giant SAS emphasizes its corporate brand in its marketing efforts.



business publications such as *BusinessWeek, Forbes,* and the *Wall Street Journal*. One TV spot that exemplifies SAS's rebranding effort ran like this:

> *The problem is not harvesting the new crop of e-business information. It's making sense of it. With e-intelligence from SAS, you can harness the information. And put the knowledge you need within reach. SAS. The Power to Know.*

Subsequent research showed that SAS had made the transition to a mainstream business decision-making support brand and was seen as both user-friendly and necessary. Highly profitable and now one of the world's largest privately owned software companies, more than doubling its revenue stream since the brand change, SAS has met with just as much success inside the company. For 14 years, *Fortune* magazine has ranked it one of the best U.S. companies to work for; in 2010 the company was number one.[24]

Targeting Firms and Buying Centers

Successful business-to-business marketing requires that business marketers know which types of companies to focus on in their selling efforts, as well as who to concentrate on within the buying centers in those organizations.

TARGETING FIRMS As we will discuss in detail in Chapter 8, business marketers may divide the marketplace in many different ways to decide on the types of firms to which they will sell. Finding those business sectors with the greatest growth prospects, most profitable customers, and most promising opportunities for the firm is crucial, as Timken found out.

Timken When Timken, which manufactures bearings and rotaries for companies in a variety of industries, saw its net income and shareholder returns dip compared to competitors, the firm became concerned that it was not investing in the most profitable areas. To identify businesses that operated in financially attractive sectors and would be most likely to value its offerings, the company conducted an extensive market study. It revealed that some customers generated a lot of business but had little profit potential, while for others the opposite was true. As a result, Timken shifted its attention away from the auto industry and into the heavy processing, aerospace, and defense industries, and it also addressed customers that were financially unattractive or minimally attractive. A tractor manufacturer complained that Timken's bearings prices were too high for its medium-sized tractors. Timken suggested the firm look elsewhere but continued to sell bearings for the manufacturer's large tractors to the satisfaction of both sides. By adjusting its products, prices, and communications to appeal to the right types of firms, Timken experienced record revenue of $5.7 billion in 2008.[25]

Timken has fine-tuned its marketing activities to sell its specialized bearing and rotary products only to the most promising prospects.

It's also true, however, that as a slowing economy has put a stranglehold on large corporations' purchasing departments, the small and midsize business markets are offering new opportunities for suppliers. See "Marketing Insight: Big Sales to Small Businesses," for more on this important B2B market.

Marketing Insight

Big Sales to Small Businesses

Small businesses—defined as those with fewer than 500 employees—represent 99.7 percent of all employer firms and employ about half of all private-sector employees. They have generated 60 percent to 80 percent of net new jobs annually over the past decade. According to the Small Business Administration's Office of Advocacy, nearly 640,000 small businesses opened in the United States in 2007. Those new ventures all need capital equipment, technology, supplies, and services. Look beyond the United States to new ventures around the world and you have a huge and growing B-to-B market. Here's how two top companies are reaching it:

- IBM counts small to midsize customers as 20 percent of its business and has launched Express, a line of hardware, software services, and financing, for this market. IBM sells through regional reps as well as independent software vendors and resellers, and it supports its small–midsize push with millions of dollars in advertising annually, including in publications such as *American Banker* and *Inc.* The company has also directly targeted gay business owners with ads in *The Advocate* and *Out* and has partnered with nonprofits to reach racial and ethnic minority segments.
- American Express has been steadily adding new features to its credit card for small business, which some small companies use to cover hundreds of thousands of dollars a month in cash needs. It has also created a small business network called OPEN Forum to bring together various services, Web tools, and discount programs with other giants such as FedEx, JetBlue, Hertz, and Hyatt. With OPEN Forum, American Express not only allows customers to save money on common expenses, it also encourages them to do much of their recordkeeping on its Web site and gain business insights.

Small and midsize businesses present huge opportunities and huge challenges. The market is large and fragmented by industry, size, and number of years in operation. Small business owners are notably averse to long-range planning and often have an "I'll buy it when I need it" decision-making style. Here are some guidelines for selling to small businesses:

- ***Don't lump small and midsize businesses together.*** There's a big gap between $1 million in revenue and $50 million, or between a start-up with 10 employees and a more mature business with 100 or more employees. IBM distinguishes its offerings to small and medium-sized businesses on its common Web site for the two.
- ***Do keep it simple.*** Simplicity means having one supplier point of contact for all service problems, or one bill for all services and products. AT&T serves millions of small business customers (fewer than 100 employees) with services that bundle Internet, local phone, long-distance phone, data management, business networking, Web hosting, and teleconferencing.
- ***Do use the Internet.*** Hewlett-Packard found that time-strapped small business decision makers prefer to buy, or at least research, products and services online. So it designed a site targeted to small and midsize businesses and pulls visitors through extensive advertising, direct mail, e-mail campaigns, catalogs, and events.
- ***Don't forget about direct contact.*** Even if a small business owner's first point of contact is via the Internet, you still need to offer phone or face time.
- ***Do provide support after the sale.*** Small businesses want partners, not pitchmen. When the DeWitt Company, a 100-employee landscaping products business, purchased a large piece of machinery from Moeller, the company's president paid DeWitt's CEO a personal visit and stayed until the machine was up and running properly.
- ***Do your homework.*** The realities of small or midsize business management are different from those of a large corporation. Microsoft created a small, fictional executive research firm, Southridge, and baseball-style trading cards of its key decision makers to help Microsoft employees tie sales strategies to small business realities.

Sources: Based on Barnaby J. Feder, "When Goliath Comes Knocking on David's Door," *New York Times,* May 6, 2003; Jay Greene, "Small Biz: Microsoft's Next Big Thing?" *BusinessWeek,* April 21, 2003, pp. 72–73; Jennifer Gilbert, "Small but Mighty," *Sales & Marketing Management* (January 2004), pp. 30–35; www.sba.gov; www.openforum.com; www-304.ibm.com/businesscenter/smb/us/en.

In developing selling efforts, business marketers can also consider their customers' customers, or end users, if these are appropriate. Many business-to-business transactions are to firms using the products they purchase as components or ingredients in products they sell to the ultimate end users. A sharper focus on end users helped propel Thomson Reuters to greater financial heights.

Thomson Reuters

Thomson Reuters Just before it acquired Reuters, global information services giant Thomson Corporation embarked on an extensive research study to better understand its ultimate customers. Thomson sold to businesses and professionals in the financial, legal, tax and accounting, scientific, and health care sectors, but it felt it knew much more about how a financial services manager made purchases for an entire department, for example, than about how individual brokers or investment bankers used Thomson data, research, and other resources to make day-to-day investment decisions for clients. Segmenting the market by these end users, rather than by purchasers, and studying how they viewed Thomson versus competitors allowed the firm to identify market segments that offered growth opportunities. To better understand these segments, Thomson conducted surveys and "day in the life" ethnographic research on how end users did their jobs. Using an approach called "three minutes," researchers combined observation with detailed interviews to understand what end users were doing three minutes before and after they used one of Thomson's products. Insights from the research helped the company develop new products and make acquisitions that led to significantly higher revenue and profits in the year that followed.[26]

TARGETING WITHIN THE BUSINESS CENTER Once it has identified the type of businesses on which to focus marketing efforts, the firm must then decide how best to sell to them. To target their efforts properly, business marketers need to figure out: Who are the major decision participants? What decisions do they influence? What is their level of influence? What evaluation criteria do they use? Consider the following example:

> A company sells nonwoven disposable surgical gowns to hospitals. The hospital staff who participate in this buying decision include the vice president of purchasing, the operating-room administrator, and the surgeons. The vice president of purchasing

A number of different people play a role in the purchase of hospital products such as surgical gowns; all these people have their own objectives and interests.

analyzes whether the hospital should buy disposable gowns or reusable gowns. If the findings favor disposable gowns, then the operating-room administrator compares various competitors' products and prices and makes a choice. This administrator considers absorbency, antiseptic quality, design, and cost and normally buys the brand that meets functional requirements at the lowest cost. Surgeons influence the decision retroactively by reporting their satisfaction with the particular brand.

The business marketer is not likely to know exactly what kind of group dynamics take place during the decision process, although whatever information he or she can obtain about personalities and interpersonal factors is useful.

Small sellers concentrate on reaching the *key buying influencers.* Larger sellers go for *multilevel in-depth selling* to reach as many participants as possible. Their salespeople virtually "live with" high-volume customers. Companies must rely more heavily on their communications programs to reach hidden buying influences and keep current customers informed.[27]

Business marketers must periodically review their assumptions about buying center participants. For years Kodak sold X-ray film to hospital lab technicians, but research indicated that professional administrators were increasingly making purchasing decisions. Kodak revised its marketing strategy and developed new advertising to reach out to these decision makers.

The Purchasing/Procurement Process

In principle, business buyers seek to obtain the highest benefit package (economic, technical, service, and social) in relation to a market offering's costs. To make comparisons, they will try to translate all costs and benefits into monetary terms. A business buyer's incentive to purchase will be a function of the difference between perceived benefits and perceived costs.[28] The marketer's task is to construct a profitable offering that delivers superior customer value to the target buyers.

Business marketers must therefore ensure that customers fully appreciate how the firm's offerings are different and better. *Framing* occurs when customers are given a perspective or point of view that allows the firm to "put its best foot forward." Framing can be as simple as making sure customers realize all the benefits or cost savings afforded by the firm's offerings, or becoming more involved and influential in the thought process behind how customers view the economics of purchasing, owning, using, and disposing product offerings. Framing requires understanding how business customers currently think of and choose among products and services, and then determining how they *should* ideally think and choose.

Supplier diversity is a benefit that may not have a price tag but that business buyers overlook at their risk. As the CEOs of many of the country's largest companies see it, a diverse supplier base is a business imperative. Minority suppliers are the fastest-growing segment of today's business landscape.

Pfizer

Pfizer One of the biggest names in pharmaceuticals, Pfizer, views its supplier-diversity program as an essential tool in connecting with customers. Chief Diversity Officer Karen Boykin-Towns directs diversity efforts that include recruitment and talent development inside the company, as well as engaging with customers and suppliers outside the company. For leadership, Pfizer also relies on a diversity and inclusion worldwide council and an infrastructure of "ambassadors" throughout the company. Pfizer concentrates its diversity efforts on women, LGBT, people with disabilities, Latino/Hispanics, Asian Pacific Islanders, U.S. Caribbeans, and African Americans. The company has spent about $700 million with 2,400 minority and women suppliers. Pfizer has even developed a mentoring program that identifies women and minority suppliers that need help growing, whether it's designing a better Web site or building a better business plan. Pfizer managers meet with the owners, often on-site, to figure out what they need.[29]

In the past, purchasing departments occupied a low position in the management hierarchy, in spite of often managing more than half the company's costs. Recent competitive pressures have led many companies to upgrade their purchasing departments and elevate administrators to vice presidential rank. These new, more strategically oriented purchasing departments have a mission to seek the best value from fewer and better suppliers. Some multinationals have even elevated them to "strategic supply departments" with responsibility for global sourcing and partnering. At Caterpillar, purchasing, inventory control, production scheduling, and traffic have been combined into one department. Here are other companies that have benefited from improving their business buying practices.

- Rio Tinto is a world leader in finding, mining, and processing the earth's mineral resources with a significant presence in North America and Australia. Coordinating with its suppliers was time consuming, so Rio Tinto embarked on an electronic commerce strategy with one key supplier. Both parties have reaped significant benefits from this new arrangement. In many cases, orders are being filled in the suppliers' warehouse within minutes of being transmitted, and the supplier is now able to take part in a pay-on-receipt program that has shortened Rio Tinto's payment cycle to around 10 days.[30]
- Mitsui & Co. Ltd is a leading Japanese trading firm that owns more than 850 companies and subsidiaries. When the firm took its purchase orders and payments transactions for one group online, it reduced the cost of purchase transactions by 50 percent and increased customer satisfaction due to greater process efficiencies.[31]
- Medline Industries, the largest privately owned manufacturer and distributor of health care products in the United States, used software to integrate its view of customer activity across online and direct sales channels. The results? The firm enhanced its product margin by 3 percent, improved customer retention by 10 percent, reduced revenue lost to pricing errors by 10 percent, and enhanced the productivity of its sales representatives by 20 percent.[32]

The upgrading of purchasing means business marketers must upgrade their sales staff to match the higher caliber of today's business buyers.

Leading mining and exploration company Rio Tinto has worked with its suppliers to streamline the way they get paid.

Stages in the Buying Process

We're ready to describe the general stages in the business buying-decision process. Patrick J. Robinson and his associates identified eight stages and called them *buyphases*.[33] The model in Table 7.1 is the *buygrid* framework.

In modified-rebuy or straight-rebuy situations, some stages are compressed or bypassed. For example, the buyer normally has a favorite supplier or a ranked list of suppliers and can skip the search and proposal solicitation stages. Here are some important considerations in each of the eight stages.

TABLE 7.1 Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses)

		Buyclasses		
		New Task	Modified Rebuy	Straight Rebuy
Buyphases	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. The internal stimulus might be a decision to develop a new product that requires new equipment and materials, or a machine that breaks down and requires new parts. Or purchased material turns out to be unsatisfactory and the company searches for another supplier, or lower prices or better quality. Externally, the buyer may get new ideas at a trade show, see an ad, or receive a call from a sales representative who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct mail, telemarketing, and calling on prospects.

General Need Description and Product Specification

Next, the buyer determines the needed item's general characteristics and required quantity. For standard items, this is simple. For complex items, the buyer will work with others—engineers, users—to define characteristics such as reliability, durability, or price. Business marketers can help by describing how their products meet or even exceed the buyer's needs.

The buying organization now develops the item's technical specifications. Often, the company will assign a product-value-analysis engineering team to the project. *Product value analysis (PVA)* is an approach to cost reduction that studies whether components can be redesigned or standardized or made by cheaper methods of production *without adversely impacting product performance*. The PVA team will identify overdesigned components, for instance, that last longer than the product itself. Tightly written specifications allow the buyer to refuse components that are too expensive or that fail to meet specified standards. When HP won ISRI's first Design for Recycling Award through an application of PVA methods, it received this accolade:

> HP has worked for many years to design products that are easier to recycle. The firm operates several recycling facilities, which allows it to determine the most effective design features to facilitate product recycling. HP has developed standards that integrate clear design guidelines and checklists into every product's design process to assess and improve recyclability. Hewlett-Packard's design process includes: Using modular design to allow components to be removed, upgraded, or replaced; eliminating glues and adhesives by using, for example, snap-in features; marking plastic parts weighing more than 25g according to ISO 11469 international standards, to speed up materials identification during recycling; reducing the number and types of materials used; using single plastic polymers; using recycled plastic; using moulded-in colours and finishes instead of paint, coatings, or plating.[34]

Suppliers can use product value analysis as a tool for positioning themselves to win an account. Regardless, it is important to eliminate excessive costs. Mexican cement giant Cemex is famed for "The Cemex Way," which uses high-tech methods to squeeze out inefficiencies.[35]

Supplier Search

The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, trade shows, and the Internet.[36] The move to Internet purchasing has far-reaching implications for suppliers and will change the shape of purchasing for years to come.[37] Companies that purchase over the Internet are utilizing electronic marketplaces in several forms:

- ***Catalog sites.*** Companies can order thousands of items through electronic catalogs distributed by e-procurement software, such as Grainger's.
- ***Vertical markets.*** Companies buying industrial products such as plastics, steel, or chemicals or services such as logistics or media can go to specialized Web sites (called e-hubs). Plastics.com allows plastics buyers to search the best prices among thousands of plastics sellers.
- ***"Pure Play" auction sites.*** Ritchie Bros. Auctioneers is the world's largest industrial auctioneer, with more than 40 auction sites worldwide. It sold $3.5 billion of used and unused equipment at more than 300 unreserved auctions in 2009, including a wide range of heavy equipment, trucks, and other assets for the construction, transportation, agricultural, material handling, mining, forestry, petroleum, and marine industries. While most people prefer to bid in person at Ritchie Bros. auctions, they are also able to bid online in real time at rbauction.com—the

The world's largest industrial auctioneer, Ritchie Bros., sells a wide range of heavy equipment.

Company's multilingual Web site. In 2009, 33 percent of the bidders at Ritchie Bros. auctions bid over the Internet; online bidders purchased $830 million of equipment.[38]

- ***Spot (or exchange) markets.*** On spot electronic markets, prices change by the minute. ChemConnect.com is an online exchange for buyers and sellers of bulk chemicals such as benzene, and it's a B2B success in an arena littered with failed sites. First to market, it is now the biggest online exchange for chemical trading, with 1 million barrels traded daily. Customers such as Vanguard Petroleum Corp. in Houston conduct about 15 percent of their spot purchases and sales of natural gas liquids on ChemConnect's commodities trading site.
- ***Private exchanges.*** Hewlett-Packard, IBM, and Walmart operate private exchanges to link with specially invited groups of suppliers and partners over the Web.
- ***Barter markets.*** In barter markets, participants offer to trade goods or services.
- ***Buying alliances.*** Several companies buying the same goods can join together to form purchasing consortia to gain deeper discounts on volume purchases. TopSource is an alliance of firms in the retail and wholesale food-related businesses.

Online business buying offers several advantages: It shaves transaction costs for both buyers and suppliers, reduces time between order and delivery, consolidates purchasing systems, and forges more direct relationships between partners and buyers. On the downside, it may help to erode supplier–buyer loyalty and create potential security problems.

E-PROCUREMENT Web sites are organized around two types of e-hubs: *vertical hubs* centered on industries (plastics, steel, chemicals, paper) and *functional hubs* (logistics, media buying, advertising, energy management). In addition to using these Web sites, companies can use e-procurement in other ways:

- ***Set up direct extranet links to major suppliers.*** A company can set up a direct e-procurement account at Dell or Office Depot, for instance, and its employees can make their purchases this way.
- ***Form buying alliances.*** A number of major retailers and manufacturers such as Acosta, Ahold, Best Buy, Carrefour, Family Dollar Stores, Lowe's, Safeway, Sears, SUPERVALU, Target, Walgreens, Walmart, and Wegmans Food Markets are part of a data-sharing alliance called 1SYNC. Several auto companies (GM, Ford, Chrysler) formed Covisint for the same reason. Covisint is the leading provider of services that can integrate crucial business information and processes between partners, customers, and suppliers. The company has now also targeted health care to provide similar services.
- ***Set up company buying sites.*** General Electric formed the Trading Process Network (TPN), where it posts *requests for proposals (RFPs),* negotiates terms, and places orders.

Moving into e-procurement means more than acquiring software; it requires changing purchasing strategy and structure. However, the benefits are many: Aggregating purchasing across multiple departments yields larger, centrally negotiated volume discounts, a smaller purchasing staff, and less buying of substandard goods from outside the approved list of suppliers.

LEAD GENERATION The supplier's task is to ensure it is considered when customers are—or could be—in the market and searching for a supplier. Identifying good leads and converting them to sales requires the marketing and sales organizations to take a coordinated, multichannel approach to the role of trusted advisor to prospective customers. Marketing must work together with sales to define what makes a "sales ready" prospect and cooperate to send the right messages via sales calls, trade shows, online activities, PR, events, direct mail, and referrals.[39]

Marketing must find the right balance between the quantity and quality of leads. Too many leads, even of high quality, and the sales force may be overwhelmed and allow promising opportunities to fall through the cracks; too few or low-quality leads and the sales force may become frustrated or demoralized.[40] To proactively generate leads, suppliers need to know about their customers. They can obtain background information from vendors such as Dun & Bradstreet and InfoUSA or information-sharing Web sites such as Jigsaw and LinkedIn.[41]

Suppliers that lack the required production capacity or suffer from a poor reputation will be rejected. Those that qualify may be visited by the buyer's agents, who will examine the suppliers' manufacturing facilities and meet their staff. After evaluating each company, the buyer will end up with a short list of qualified suppliers. Many professional buyers have forced suppliers to change their marketing to increase their likelihood of making the cut.

Proposal Solicitation

The buyer next invites qualified suppliers to submit proposals. If the item is complex or expensive, the proposal will be written and detailed. After evaluating the proposals, the buyer will invite a few suppliers to make formal presentations.

Business marketers must be skilled in researching, writing, and presenting proposals. Written proposals should be marketing documents that describe value and benefits in customer terms. Oral presentations must inspire confidence and position the company's capabilities and resources so they stand out from the competition. Proposals and selling are often team efforts. Pittsburgh-based Cutler-Hammer developed "pods" of salespeople focused on a particular geographic region, industry, or market concentration. Salespeople can leverage the knowledge and expertise of coworkers instead of working in isolation.[42]

Supplier Selection

Before selecting a supplier, the buying center will specify and rank desired supplier attributes, often using a supplier-evaluation model such as the one in Table 7.2.

TABLE 7.2 An Example of Vendor Analysis

Attributes	Rating Scale				
	Importance Weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				x
Supplier reputation	.20			x	
Product reliability	.30				x
Service reliability	.10		x		
Supplier flexibility	.10			x	
Total Score: .30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5					

To develop compelling value propositions, business marketers need to better understand how business buyers arrive at their valuations.[43] Researchers studying how business marketers assess customer value found eight different *customer value assessment (CVA)* methods. Companies tended to use the simpler methods, although the more sophisticated ones promise to produce a more accurate picture of CPV (see "Marketing Memo: Developing Compelling Customer Value Propositions").

The choice of attributes and their relative importance varies with the buying situation. Delivery reliability, price, and supplier reputation are important for routine-order products. For procedural-problem products, such as a copying machine, the three most important attributes are technical service, supplier flexibility, and product reliability. For political-problem products that stir rivalries in the organization (such as the choice of a computer system), the most important attributes are price, supplier reputation, product reliability, service reliability, and supplier flexibility.

OVERCOMING PRICE PRESSURES The buying center may attempt to negotiate with preferred suppliers for better prices and terms before making the final selection. Despite moves toward strategic sourcing, partnering, and participation in cross-functional teams, buyers still spend a large chunk of their time haggling with suppliers on price. The number of price-oriented buyers can vary by country, depending on customer preferences for different service configurations and characteristics of the customer's organization.[44]

marketing Memo: Developing Compelling Customer Value Propositions

To command price premiums in competitive B2B markets, firms must create compelling customer value propositions. The first step is to research the customer. Here are a number of productive research methods:

1. *Internal engineering assessment*—Have company engineers use laboratory tests to estimate the product's performance characteristics. Weakness: Ignores the fact that the product will have different economic value in different applications.
2. *Field value-in-use assessment*—Interview customers about how costs of using a new product compare to those of using an incumbent. The task is to assess how much each cost element is worth to the buyer.
3. *Focus-group value assessment*—Ask customers in a focus group what value they would put on potential market offerings.
4. *Direct survey questions*—Ask customers to place a direct dollar value on one or more changes in the market offering.
5. *Conjoint analysis*—Ask customers to rank their preferences for alternative market offerings or concepts. Use statistical analysis to estimate the implicit value placed on each attribute.
6. *Benchmarks*—Show customers a "benchmark" offering and then a new-market offering. Ask how much more they would pay for the new offering or how much less they would pay if certain features were removed from the benchmark offering.
7. *Compositional approach*—Ask customers to attach a monetary value to each of three alternative levels of a given attribute. Repeat for other attributes, then add the values together for any offer configuration.
8. *Importance ratings*—Ask customers to rate the importance of different attributes and their suppliers' performance on each.

Having done this research, you can specify the customer value proposition, following a number of important principles. First, clearly substantiate value claims by concretely specifying the differences between your offerings and those of competitors on the dimensions that matter most to the customer. Rockwell Automation determined the cost savings customers would realize from purchasing its pump instead of a competitor's by using industry-standard metrics of functionality and performance: kilowatt-hours spent, number of operating hours per year, and dollars per kilowatt-hour. Also, make the financial implications obvious.

Second, document the value delivered by creating written accounts of costs savings or added value that existing customers have actually captured by using your offerings. Chemical producer Akzo Nobel conducted a two-week pilot on a production reactor at a prospective customer's facility to document points-of-parity and points-of-difference of its high-purity metal organics product.

Finally, make sure the method of creating a customer value proposition is well implemented within the company, and train and reward employees for developing a compelling one. Quaker Chemical conducts training programs for its managers that include a competition to develop the best proposals.

Sources: James C. Anderson, Nirmalya Kumar, and James A. Narus, *Value Merchants: Demonstrating and Documenting Superior Value in Business Markets.* (Boston: Harvard Business School Press, 2007); James C. Anderson, James A. Narus, and Wouter van Rossum, "Customer Value Propositions in Business Markets," *Harvard Business Review,* March 2006, pp. 2–10; James C. Anderson and James A. Narus, "Business Marketing: Understanding What Customers Value," *Harvard Business Review,* November 1998, pp. 53–65.

Marketers can counter requests for a lower price in a number of ways. They may be able to show evidence that the total cost of ownership, that is, the life-cycle cost of using their product, is lower than for competitors' products. They can cite the value of the services the buyer now receives, especially if they are superior to those offered by competitors. Research shows that service support and personal interactions, as well as a supplier's know-how and ability to improve customers' time to market, can be useful differentiators in achieving key-supplier status.[45]

Improving productivity helps alleviate price pressures. Burlington Northern Santa Fe Railway has tied 30 percent of employee bonuses to improvements in the number of railcars shipped per mile.[46] Some firms are using technology to devise novel customer solutions. With Web technology and tools, Vistaprint printers can offer professional printing to small businesses that previously could not afford it.[47]

Some companies handle price-oriented buyers by setting a lower price but establishing restrictive conditions: (1) limited quantities, (2) no refunds, (3) no adjustments, and (4) no services.[48]

- Cardinal Health set up a bonus-dollars plan and gave points according to how much the customer purchased. The points could be turned in for extra goods or free consulting.
- GE is installing diagnostic sensors in its airline engines and railroad engines. It is now compensated for hours of flight or railroad travel.
- IBM is now more of a "service company aided by products" than a "product company aided by services." It can sell computer power on demand (like video on demand) as an alternative to selling computers.

Solution selling can also alleviate price pressure and comes in different forms. Here are three examples.[49]

- ***Solutions to Enhance Customer Revenues.*** Hendrix UTD has used its sales consultants to help farmers deliver an incremental animal weight gain of 5 percent to 10 percent over competitors.
- ***Solutions to Decrease Customer Risks.*** ICI Explosives formulated a safer way to ship explosives for quarries.
- ***Solutions to Reduce Customer Costs.*** W.W. Grainger employees work at large customer facilities to reduce materials-management costs.

More firms are seeking solutions that increase benefits and reduce costs enough to overcome any low-price concerns. Consider the following example.

Lincoln Electric

Lincoln Electric Lincoln Electric has a decades-long tradition of working with its customers to reduce costs through its Guaranteed Cost Reduction Program. When a customer insists that a Lincoln distributor lower prices to match competitors, the company and the distributor may guarantee that, during the coming year, they will find cost reductions in the customer's plant that meet or exceed the price difference between Lincoln's products and the competition's. The Holland Binkley Company, a major manufacturer of components for tractor trailers, had been purchasing Lincoln Electric welding wire for years. When Binkley began to shop around for a better price on wire, Lincoln Electric developed a package of reducing costs and working together that called for a $10,000 savings but eventually led to a six-figure savings, a growth in business, and a strong, long-term partnership between customer and supplier.[50]

Risk and gain sharing can offset price reductions that customers request. Suppose Medline, a hospital supplier, signs an agreement with Highland Park Hospital promising $350,000 in savings over the first 18 months in exchange for getting a tenfold increase in the hospital's share of supplies. If Medline achieves less than this promised savings, it will make up the difference. If Medline achieves substantially more than promised, it participates in the extra savings. To make such arrangements work, the supplier must be willing to help the customer build a historical database, reach an agreement for measuring benefits and costs, and devise a dispute resolution mechanism.

NUMBER OF SUPPLIERS Companies are increasingly reducing the number of their suppliers. Ford, Motorola, and Honeywell have cut their number of suppliers 20 percent to 80 percent. These companies want their chosen suppliers to be responsible for a larger component system, they want them to achieve continuous quality and performance improvement, and at the same time they want them to lower prices each year by a given percentage. They expect their suppliers to work closely with them during product development, and they value their suggestions.

There is even a trend toward single sourcing, though companies that use multiple sources often cite the threat of a labor strike as the biggest deterrent to single sourcing. Companies may also fear single suppliers will become too comfortable in the relationship and lose their competitive edge.

Order-Routine Specification

After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on. Many industrial buyers lease heavy equipment such as machinery and trucks. The lessee gains a number of advantages: the latest products, better service, the conservation of capital, and some tax advantages. The lessor often ends up with a larger net income and the chance to sell to customers that could not afford outright purchase.

In the case of maintenance, repair, and operating items, buyers are moving toward blanket contracts rather than periodic purchase orders. A blanket contract establishes a long-term relationship in which the supplier promises to resupply the buyer as needed, at agreed-upon prices, over a specified period of time. Because the seller holds the stock, blanket contracts are sometimes called *stockless purchase plans.* The buyer's computer automatically sends an order to the seller when stock is needed. This system locks suppliers in tighter with the buyer and makes it difficult for out-suppliers to break in unless the buyer becomes dissatisfied with prices, quality, or service.

Companies that fear a shortage of key materials are willing to buy and hold large inventories. They will sign long-term contracts with suppliers to ensure a steady flow of materials. DuPont, Ford, and several other major companies regard long-term supply planning as a major responsibility of their purchasing managers. For example, General Motors wants to buy from fewer suppliers, who must be willing to locate close to its plants and produce high-quality components. Business marketers are also setting up extranets with important customers to facilitate and lower the cost of transactions. Customers enter orders that are automatically transmitted to the supplier.

Some companies go further and shift the ordering responsibility to their suppliers in systems called *vendor-managed inventory* (VMI). These suppliers are privy to the customer's inventory levels and take responsibility for replenishing automatically through *continuous replenishment programs.* Plexco International AG supplies audio, lighting, and vision systems to the world's leading automakers. Its VMI program with its 40 suppliers resulted in significant time and cost savings and allowed the company to use former warehouse space for productive manufacturing activities.[51]

Performance Review

The buyer periodically reviews the performance of the chosen supplier(s) using one of three methods. The buyer may contact end users and ask for their evaluations, rate the supplier on several criteria using a weighted-score method, or aggregate the cost of poor performance to come up with adjusted costs of purchase, including price. The performance review may lead the buyer to continue, modify, or end a supplier relationship.

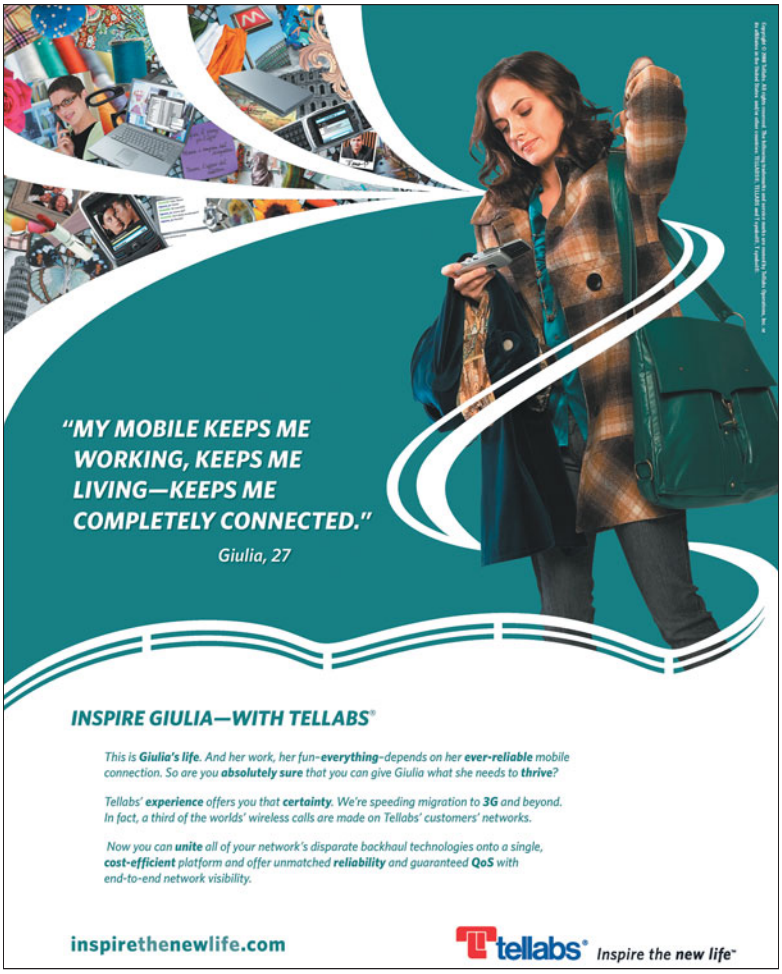
Many companies have set up incentive systems to reward purchasing managers for good buying performance, in much the same way sales personnel receive bonuses for good selling performance. These systems lead purchasing managers to increase pressure on sellers for the best terms.

Managing Business-to-Business Customer Relationships

To improve effectiveness and efficiency, business suppliers and customers are exploring different ways to manage their relationships.[52] Closer relationships are driven in part by supply chain management, early supplier involvement, and purchasing alliances.[53] Cultivating the right relationships with business is paramount for any holistic marketing program.

Business-to-business marketers are avoiding "spray and pray" approaches to attracting and retaining customers in favor of honing in on their targets and developing one-to-one marketing approaches. They are increasingly using online social media in the form of company blogs, online press releases, and forums or discussion groups to communicate with existing as well as prospective customers.

Tellabs Competing with industry giants Alcatel-Lucent and Cisco Systems, Tellabs is a telecommunications equipment design and research company that provides equipment to transmit voice, video, and data across communication networks. To differentiate itself, Tellabs decided to develop a marketing campaign that would focus on tech-savvy end users of products its *customers* sold. The campaign, "Inspire the New Life," targeted telecommunication service providers to show how Tellabs understood the new generation of technology users and provided solutions to meet their needs. After research showed users were five times more likely to listen to an audio podcast than to read a white paper, and twice as likely to watch a video than listen to a podcast, Tellabs decided to use six-minute video "technology primers" instead of traditional case studies and white papers. Its videos posted on YouTube, Google Video, and the company's Web site were downloaded 100,000 times. Adding a new podcast once or twice a month, the company estimated that the campaign generated three times the exposure, for the cost, than a traditional ad-based Web campaign.[54]



Tellabs differentiates itself by its focus on the customers of its customers.

The Benefits of Vertical Coordination

Much research has advocated greater vertical coordination between buying partners and sellers, so they can transcend merely transacting and instead engage in activities that create more value for both parties.[55] Building trust is one prerequisite to healthy long-term relationships. "Marketing Insight: Establishing Corporate Trust, Credibility, and Reputation" identifies some key dimensions of such trust. Knowledge that is specific and relevant to a relationship partner is also an important factor in the strength of inter-firm ties.[56]

A number of forces influence the development of a relationship between business partners.[57] Four relevant factors are availability of alternatives, importance of supply, complexity of supply, and supply market dynamism. Based on these we can classify buyer–supplier relationships into eight categories:[58]

1. ***Basic buying and selling***—These are simple, routine exchanges with moderate levels of cooperation and information exchange.
2. ***Bare bones***—These relationships require more adaptation by the seller and less cooperation and information exchange.
3. ***Contractual transaction***—These exchanges are defined by formal contract and generally have low levels of trust, cooperation, and interaction.
4. ***Customer supply***—In this traditional custom supply situation, competition rather than cooperation is the dominant form of governance.
5. ***Cooperative systems***—The partners in cooperative systems are united in operational ways, but neither demonstrates structural commitment through legal means or adaptation.
6. ***Collaborative***—In collaborative exchanges, much trust and commitment lead to true partnership.

Marketing Insight

Establishing Corporate Trust, Credibility, and Reputation

Corporate credibility is the extent to which customers believe a firm can design and deliver products and services that satisfy their needs and wants. It reflects the supplier's reputation in the marketplace and is the foundation for a strong relationship.

Corporate credibility depends on three factors:

- *Corporate expertise*—the extent to which a company is seen as able to make and sell products or conduct services.
- *Corporate trustworthiness*—the extent to which a company is seen as motivated to be honest, dependable, and sensitive to customer needs.
- *Corporate likability*—the extent to which a company is seen as likable, attractive, prestigious, dynamic, and so on.

In other words, a credible firm is good at what it does; it keeps its customers' best interests in mind and is enjoyable to work with.

Trust is the willingness of a firm to rely on a business partner. It depends on a number of interpersonal and interorganizational factors, such as the firm's perceived competence, integrity, honesty, and benevolence. Personal interactions with employees of the firm, opinions about the company as a whole, and perceptions of trust will evolve with experience. A firm is more likely to be seen as trustworthy when it:

- Provides full, honest information
- Provides employees incentives that are aligned to meet with customer needs
- Partners with customers to help them learn and help themselves
- Offers valid comparisons with competitive products

Building trust can be especially tricky in online settings, and firms often impose more stringent requirements on their online business partners than on others. Business buyers worry that they won't get products of the right quality delivered to the right place at the right time. Sellers worry about getting paid on time—or at all—and how much credit they should extend. Some firms, such as transportation and supply chain management company Ryder System, use automated credit-checking applications and online trust services to determine the creditworthiness of trading partners.

Sources: Bob Violino, "Building B2B Trust," *Computerworld,* June 17, 2002, p. 32; Richard E. Plank, David A. Reid, and Ellen Bolman Pullins, "Perceived Trust in Business-to-Business Sales: A New Measure," *Journal of Personal Selling and Sales Management* 19, no. 3 (Summer 1999), pp. 61–72; Kevin Lane Keller and David A. Aaker, "Corporate-Level Marketing: The Impact of Credibility on a Company's Brand Extensions," *Corporate Reputation Review* 1 (August 1998), pp. 356–78; Robert M. Morgan and Shelby D. Hunt, "The Commitment–Trust Theory of Relationship Marketing," *Journal of Marketing* 58, no. 3 (July 1994), pp. 20–38; Christine Moorman, Rohit Deshpande, and Gerald Zaltman, "Factors Affecting Trust in Market Research Relationships," *Journal of Marketing* 57 (January 1993), pp. 81–101; Glen Urban, "Where Are You Positioned on the Trust Dimensions?" *Don't Just Relate-Advocate: A Blueprint for Profit in the Era of Customer Power* (Upper Saddle River, NJ: Pearson Education/Wharton School Publishers, 2005).

7. ***Mutually adaptive***—Buyers and sellers make many relationship-specific adaptations, but without necessarily achieving strong trust or cooperation.
8. ***Customer is king***—In this close, cooperative relationship, the seller adapts to meet the customer's needs without expecting much adaptation or change in exchange.

Over time, however, relationship roles may shift or be activated under different circumstances.[59] Some needs can be satisfied with fairly basic supplier performance. Buyers then neither want nor require a close relationship with a supplier. Likewise, some suppliers may not find it worth their while to invest in customers with limited growth potential.

One study found the closest relationships between customers and suppliers arose when the supply was important to the customer and there were procurement obstacles, such as complex purchase requirements and few alternate suppliers.[60] Another study suggested that greater vertical coordination between buyer and seller through information exchange and planning is usually necessary only when high environmental uncertainty exists and specific investments (described next) are modest.[61]

Business Relationships: Risks and Opportunism

Researchers have noted that establishing a customer–supplier relationship creates tension between safeguarding (ensuring predictable solutions) and adaptation (allowing for flexibility for unanticipated events). Vertical coordination can facilitate stronger customer–seller ties but at the same time may increase the risk to the customer's and supplier's specific investments. *Specific investments* are those expenditures tailored to a particular company and value chain partner (investments in company-specific training, equipment, and operating procedures or systems).[62] They help firms grow profits and achieve their positioning.[63] Xerox worked closely with its suppliers to develop customized processes and components that reduced its copier manufacturing costs by 30 percent to 40 percent. In return, suppliers received sales and volume guarantees, an enhanced understanding of their customer's needs, and a strong position with Xerox for future sales.[64]

Specific investments, however, also entail considerable risk to both customer and supplier. Transaction theory from economics maintains that because these investments are partially sunk, they lock firms into a particular relationship. Sensitive cost and process information may need to be exchanged. A buyer may be vulnerable to holdup because of switching costs; a supplier may be more vulnerable because it has dedicated assets and/or technology/knowledge at stake. In terms of the latter risk, consider the following example.[65]

> An automobile component manufacturer wins a contract to supply an under-hood component to an original equipment manufacturer (OEM). A one-year, sole-source contract safeguards the supplier's OEM-specific investments in a dedicated production line. However, the supplier may also be obliged to work (noncontractually) as a partner with the OEM's internal engineering staff, using linked computing facilities to exchange detailed engineering information and coordinate frequent design and manufacturing changes over the term of the contract. These interactions could reduce costs and/or increase quality by improving the firm's responsiveness to marketplace changes. But they could also magnify the threat to the supplier's intellectual property.

When buyers cannot easily monitor supplier performance, the supplier might shirk or cheat and not deliver the expected value. *Opportunism* is "some form of cheating or undersupply relative to an implicit or explicit contract."[66] It may entail blatant self-serving and deliberate misrepresentation that violates contractual agreements. In creating the 1996 version of the Ford Taurus, Ford Corporation chose to outsource the whole process to one supplier, Lear Corporation. Lear committed to a contract that, for various reasons, it knew it was unable to fulfill. According to Ford, Lear missed deadlines, failed to meet weight and price objectives, and furnished parts that did not work.[67] A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances.

Opportunism is a concern because firms must devote resources to control and monitoring that they could otherwise allocate to more productive purposes. Contracts may become inadequate to govern supplier transactions when supplier opportunism becomes difficult to detect, when firms make specific investments in assets they cannot use elsewhere, and when contingencies are harder to anticipate. Customers and suppliers are more likely to form a joint venture (instead of signing a simple contract) when the supplier's degree of asset specificity is high, monitoring the supplier's behavior is difficult, and the supplier has a poor reputation.[68] When a supplier has a good reputation, it is more likely to avoid opportunism to protect this valuable intangible asset.

The presence of a significant future time horizon and/or strong solidarity norms typically causes customers and suppliers to strive for joint benefits. Their specific investments shift from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).[69]

New Technology and Business Customers

Top firms are comfortable using technology to improve the way they do business with their business-to-business customers. Here are some examples of how they are redesigning Web sites, improving search results, leveraging e-mails, engaging in social media, and launching Webinars and podcasts to improve their business performance.

- Chapman Kelly provides audit and other cost containment products to help firms reduce their health care and insurance costs. The company originally tried to acquire new customers through traditional cold calling and outbound selling techniques. After it redesigned its Web site and optimized the site's search engine so the company's name moved close to the top of relevant online searches, revenue nearly doubled.[70]
- Hewlett-Packard launched a "Technology at Work" e-mail newsletter to focus on retention of its current customers. The newsletter's content and format were based on in-depth research to find out what customers wanted. Hewlett-Packard measures the effects of the newsletter carefully and found that e-mailing product updates helped avoid inbound service calls, saving millions of dollars.[71]

Health care cost-containment service provider Chapman Kelly finds its online marketing efforts have provided bottom-line rewards.

- Emerson Process Management makes automation systems for chemical plants, oil refineries, and other types of factories. The company blog about factory automation is visited by thousand of readers who like to hear and swap factory war stories. It attracts 35,000 to 40,000 regular visitors each month, generating five to seven leads a week. Given that the systems sell for up to millions, ROI on the blog investment is immense.[72]
- Machinery manufacturer Makino builds relationships with end-user customers by hosting an ongoing series of industry-specific Webinars, producing an average of three a month. The company uses highly specialized content, such as how to get the most out of machine tools and how metal-cutting processes work, to appeal to different industries and different styles of manufacturing. Makino's database created from Webinar participants has allowed the firm to cut marketing costs and improve its effectiveness and efficiency.[73]
- Acquired by IBM in January 2008, Cognos provides business intelligence and performance management software and services to help companies manage their financial and operational performance. To increase their visibility and improve customer relations, Cognos launched BI radio, an RSS-enabled series of 30-minute podcasts released every six weeks addressing a range of topics such as marketing, leadership, business management, and "killer apps." Attracting 60,000 subscribers, the podcasts are thought to have directly or indirectly led to $7 million in deals.[74]

Institutional and Government Markets

Our discussion has concentrated largely on the buying behavior of profit-seeking companies. Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit, because the food is provided as part of the total service package; nor is cost minimization the sole objective, because poor food will cause patients to complain and hurt the hospital's reputation. The hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate sales division to cater to institutional buyers' special needs and characteristics. Heinz produces, packages, and prices its ketchup differently to meet the requirements of hospitals, colleges, and prisons. ARAMARK, which provides food services for stadiums, arenas, campuses, businesses, and schools, also has a competitive advantage in providing food for the nation's prisons, a direct result of refining its purchasing practices and supply chain management.

ARAMARK

ARAMARK Where ARAMARK once merely selected products from lists provided by potential suppliers, it now collaborates with suppliers to develop products customized to meet the needs of individual segments. In the corrections segment, quality has historically been sacrificed to meet food cost limits that operators outside the market would find impossible to work with. "When you go after business in the corrections field, you are making bids that are measured in hundredths of a cent," says John Zillmer, president of ARAMARK's Food & Support Services, "so any edge we can gain on the purchasing side is extremely valuable." ARAMARK sourced a series of protein products with unique partners at price points it never could have imagined before. These partners were unique because they understood the chemistry of proteins and knew how to lower the price while still creating a product acceptable to ARAMARK's customers, allowing ARAMARK to drive down costs. Then ARAMARK replicated this process with 163 different items formulated exclusively for corrections. Rather than reducing food costs by 1 cent or so a meal as usual, ARAMARK took 5 to 9 cents off—while maintaining or even improving quality.[75]

In most countries, government organizations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder. In some cases, they will make allowance for superior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in complex projects with major R&D costs and risks and those where there is little competition.

A major complaint of multinationals operating in Europe is that each country shows favoritism toward its nationals despite superior offers from foreign firms. Although such practices are fairly entrenched, the European Union is attempting to remove this bias.

Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about bureaucracy, regulations, decision-making delays, and frequent shifts in procurement staff. But the fact remains that the U.S. government bought goods and services valued at $220 billion in fiscal year 2009, making it the largest and therefore most potentially attractive customer in the world.

It is not just the dollar figure that is large, but the number of individual acquisitions. According to the General Services Administration Procurement Data Center, over 20 million individual contract actions are processed every year. Although most items purchased cost between $2,500 and $25,000, the government also makes purchases in the billions, many in technology.

Government decision makers often think vendors have not done their homework. Different types of agencies—defense, civilian, intelligence—have different needs, priorities, purchasing styles, and time frames. In addition, vendors do not pay enough attention to cost justification, a major activity for government procurement professionals. Companies hoping to be government contractors need to help government agencies see the bottom-line impact of products. Demonstrating useful experience and successful past performance through case studies, especially with other government organizations, can be influential.[76]

Just as companies provide government agencies with guidelines about how best to purchase and use their products, governments provide would-be suppliers with detailed guidelines describing how to sell to the government. Failure to follow the guidelines or to fill out forms and contracts correctly can create a legal nightmare.[77]

Fortunately for businesses of all sizes, the federal government has been trying to simplify the contracting procedure and make bidding more attractive. Reforms place more emphasis on buying off-the-shelf items instead of items built to the government's specs, communicating with vendors online to eliminate the massive paperwork, and giving vendors who lose a bid a "debriefing" from the appropriate government agency to increase their chances of winning the next time around.[78] More purchasing is being done online via Web-based forms, digital signatures, and electronic procurement cards (P-cards).[79] Several federal agencies that act as purchasing agents for the rest of the government have launched Web-based catalogs that allow authorized defense and civilian agencies to buy everything from medical and office supplies to clothing online. The General Services Administration, for example, not only sells stocked merchandise through its Web site but also creates direct links between buyers and contract suppliers. A good starting point for any work with the U.S. government is to make sure the company is in the Central Contractor Registration (CCR) database (www.ccr.gov), which collects, validates, stores, and disseminates data in support of agency acquisitions.[80]

In spite of these reforms, for a number of reasons many companies that sell to the government have not used a marketing orientation. Some, though, have pursued government business by establishing separate government marketing departments. Companies such as Gateway, Rockwell, Kodak, and Goodyear anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce strong communications to describe and enhance their companies' reputations.

Summary

1. Organizational buying is the decision-making process by which formal organizations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others.
2. Compared to consumer markets, business markets generally have fewer and larger buyers, a closer customer supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price inelastic. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing.
3. The buying center is the decision-making unit of a buying organization. It consists of initiators, users, influencers, deciders, approvers, buyers, and gatekeepers. To influence these parties, marketers must be aware of environmental, organizational, interpersonal, and individual factors.
4. The buying process consists of eight stages called buyphases: (1) problem recognition, (2) general need description, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification, and (8) performance review.
5. Business marketers must form strong bonds and relationships with their customers and provide them added value. Some customers, however, may prefer a transactional relationship. Technology is aiding the development of strong business relationships.
6. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Buyers for government organizations tend to require a great deal of paperwork from their vendors and to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

Applications

Marketing Debate

How Different Is Business-to-Business Marketing?

Many business-to-business marketing executives lament the challenges of business-to-business marketing, maintaining that many traditional marketing concepts and principles do not apply. For a number of reasons, they assert that selling products and services to a company is fundamentally different from selling to individuals. Others disagree, claiming marketing theory is still valid and only requires some adaptation in marketing tactics.

Take a position: **Business-to-business marketing requires a special, unique set of marketing concepts and principles *versus* Business-to-business marketing is really not that different, and the basic marketing concepts and principles apply.**

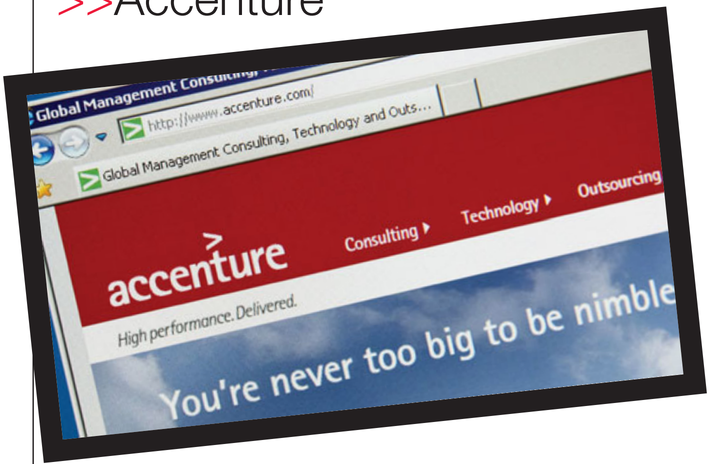
Marketing Discussion

B-to-C & B-to-B Concepts

Consider some of the consumer behavior topics for business-to-consumer (B-to-C) marketing from Chapter 6. How might you apply them to business-to-business (B-to-B) settings? For example, how might noncompensatory models of choice work? Mental accounting?

Marketing Excellence

>>Accenture



Accenture began in 1942 as Administrative Accounting Group, the consulting arm of accounting firm Arthur Andersen. In 1989, it launched as a separate business unit focused on IT consulting and bearing the name Andersen Consulting. At that time, though it was earning $1 billion annually, Andersen Consulting had low brand awareness among information technology consultancies and was commonly mistaken for its accounting corporate parent. To build its brand and separate itself from the accounting firm, Andersen Consulting launched the first large-scale advertising campaign in the professional services area. By the end of the decade, it was the world's largest management and technology consulting organization.

In 2000, following arbitration against its former parent, Andersen Consulting was granted its full independence from Arthur Andersen—but it had to relinquish the Andersen name. Andersen Consulting was given three months to find a name that was able to be trademarked in 47 countries, effective and inoffensive in over 200 languages, and acceptable to employees and clients—*and* that corresponded with an available URL. The effort that followed was one of the largest—and most successful—rebranding campaigns in corporate history.

As luck would have it, the company's new name came from a consultant at the company's Oslo office, who submitted "Accenture" as part of an internal name-generation initiative dubbed "Brandstorming." The consultant coined the Accenture name because it rhymed with "adventure" and connoted an "accent on the future." The name also retained the "Ac" of the original Andersen Consulting name (echoing the Ac.com Web site), which would help the firm retain some of its former brand equity. On midnight, December 31, 2000, Andersen Consulting officially adopted the Accenture name and launched a global marketing campaign targeting senior executives at

Accenture's clients and prospects, all Accenture partners and employees, the media, leading industry analysts, potential recruits, and academia.

The results of the advertising, marketing, and communications campaigns were quick and impressive. Overall, Accenture's brand equity increased 11 percent, and the number of firms inquiring about its services increased 350 percent. Awareness of Accenture's breadth and depth of services achieved 96 percent of its previous level. Globally, awareness of Accenture as a provider of management and technology consulting services was 76 percent of levels for the former Andersen Consulting name. These results enabled Accenture to successfully complete a $1.7 billion IPO in July 2001.

In 2002, Accenture unveiled a new positioning to reflect its new role as a partner to aid execution of strategy, summarized succinctly by the tagline "Innovation Delivered." This tagline was supported by the statement, "From innovation to execution, Accenture helps accelerate your vision." Accenture surveyed senior executives from different industries and countries and confirmed that they saw inability to execute and deliver on ideas as the number one barrier to success.

Accenture saw its differentiator as the ability both to provide innovative ideas—ideas grounded in business processes as well as IT—and to execute them. Competitors such as McKinsey were seen as highly specialized at developing strategy, whereas other competitors such as IBM were seen as highly skilled in technological implementation. Accenture wanted to be seen as excelling at both. As Ian Watmore, its UK chief, explained: "Unless you can provide both transformational consulting and outsourcing capability, you're not going to win. Clients expect both."

In 2002, the business climate changed. After the dot-com crash and the economic downturn, innovation was no longer enough. Executives wanted bottom-line results. As part of its new commitment to helping clients achieve their business objectives, Accenture introduced a policy whereby many of its contracts contained incentives that it realized only if specific business targets were met. For instance, a contract with British travel agent Thomas Cook was structured such that Accenture's bonus depended on five metrics, including a cost-cutting one.

In late 2003, Accenture built upon the "Innovation Delivered" theme and announced its new tagline, "High Performance. Delivered," along with a campaign that featured golf superstar Tiger Woods as spokesperson. When Accenture sought Woods out, the athlete was at the top of his game—the world's best golfer with an impeccable image. What better symbol for high performance? Accenture's message communicated that it could help client companies become "high-performing business leaders," and the Woods endorsement drove home the importance of high performance.

Over the next six years, Accenture spent nearly $300 million in ads that mostly featured Tiger Woods, alongside slogans such as "We know what it takes to be a Tiger" and "Go on. Be a Tiger." The campaign capitalized on Woods's international appeal, ran all over the world, and became the central focus of Accenture-sponsored events such as the World Golf Championships and the Chicago Marathon.

That all changed when the scandal surrounding Tiger Woods, his extramarital affairs, and his indefinite absence from golf hit the press in late 2009. Accenture dropped Woods as a spokesperson, saying he was no longer a good fit for its brand. Indeed, focus groups showed that consumers were too distracted by the scandal to focus on Accenture's strategic message. Accenture quickly searched for a new concept that not only resonated across the world, translated appropriately into different cultures, but also cut its ties with Woods.

The result came after the firm dusted off some previous concepts, tested them with focus groups of business professionals, and launched a $50 million campaign featuring animals and the same slogan, "High Performance. Delivered." In one ad, an elephant is pictured surfing alongside copy that reads, "Who says you can't be big and nimble?" In a later ad, a lizard tries to catch a butterfly by transforming its tongue into the design of a flower. The copy stated, "If you innovate, they will come."

Today, Accenture continues to excel as a global management consulting, technology services, and outsourcing company. Its clients include 99 of the *Fortune* Global 100 and more than three-quarters of the *Fortune* Global 500. The company ended fiscal 2009 with revenues of $21.5 billion.

Questions

1. What has Accenture done well to target its B-to-B audience?
2. Has Accenture done the right thing by dropping Tiger Woods as its spokesperson? Discuss the pros and cons of its decision.

Sources: "Annual Reports," *Accenture.com*; "Lessons Learned from Top Firms' Marketing Blunders," *Management Consultant International*, December 2003, p. 1; Sean Callahan, "Tiger Tees Off in New Accenture Campaign," *BtoB Magazine*, October 13, 2003, p. 3; "Inside Accenture's Biggest UK Client," *Management Consultant International*, October 2003, pp. 1–3; "Accenture's Results Highlight Weakness of Consulting Market," *Management Consultant International*, October 2003, pp. 8–10; "Accenture Re-Branding Wins UK Plaudits," *Management Consultant International*, October 2002, p. 5; Mary Ellen Podmolik, "Accenture Turns to Tiger for Global Marketing Effort," *BtoB Magazine*, October 25, 2004; Sean Callahan, "Tiger Tees Off in New Accenture Campaign," *BtoB Magazine*, October 13, 2003; Emily Steel, "After Ditching Tiger, Accenture Tries New Game," *Wall Street Journal*, January 14, 2010.

Marketing Excellence

>>GE

General Electric (GE) is made up of five major divisions that operate in a wide range of industries: Energy (Energy, Oil & Gas, Water and Process Technologies), Technology Infrastructure (Aviation, Enterprise Solutions, Healthcare, Transportation), GE Capital (Commercial Lending & Leasing, Consumer Financing, Energy Financial Services, GE Capital Aviation Services, Real Estate Financing), NBC Commercial (Cable, Film, Networks, Parks & Resorts), and Consumer & Industrial (Appliances, Consumer Electronics, Electrical Distribution, Lighting). As a result, GE sells a diverse array of products and services from home appliances to jet engines, security systems, wind turbines, and financial services. GE's revenues topped $161 billion in 2009, making it so large that if each of its five business units were ranked separately, they all would appear in the *Fortune* 200. If GE were its own country, it would be the 50th largest in the world, ahead of Kuwait, New Zealand, and Iraq.

Thomas Edison originally founded the company as the Edison Electric Light Company in 1878. The company, which soon changed its name to General Electric, became an early pioneer in lightbulbs and electrical appliances and served the electrical needs of various industries, such as transportation, utilities, manufacturing, and broadcasting. GE became the acknowledged pioneer in business-to-business marketing in the 1950s and 1960s under the tagline "Progress Is Our Most Important Product."

As the company diversified its business-to-business product lines in the 1970s and 1980s, it created new corporate campaigns, including "Progress for People" and "We Bring Good Things to Life." In 1981, Jack Welch succeeded Reginald Jones as GE's eighth CEO. Over Welch's two decades of leadership, he helped grow GE from an "American manufacturer into a global services giant," and increased the company's market value from $12 billion in 1981 to $280 billion in 2001, making it the world's most valuable corporation at the time.

In 2003, GE and the company's new CEO, Jeffrey Immelt, faced a fresh challenge; how to promote its diversified brand with a unified global message. After extensive consumer research, the company launched a major new campaign called "Imagination at Work," which highlighted its renewed focus on innovation and new technology. The award-winning campaign promoted units such as GE Aircraft Engines, GE Medical Systems, and GE Plastics, focusing on the breadth of GE's product offerings. GE initially spent over $150 million on corporate advertising, a significant expenditure but one that created efficiencies by focusing on the core GE brand. The goal was to unify these divisions under the GE brand while giving them a voice. "When you're a company like ours, with 11 different businesses, brand is really important in pulling the identity of the company together," said former Chief Marketing Officer Beth Comstock. "Integration was important in communicating the brand across the organization and to all of our constituents."

The new integrated campaign got results. "Research indicates GE is now being associated with attributes such as being high tech, leading edge, innovative, contemporary, and creative," stated Judy Hu, GE's general manager for global advertising and branding. In addition, survey respondents continued to associate GE with some of its traditional attributes, including trust and reliability.

In 2005, the company extended the campaign with its next initiative, "Ecomagination," which highlighted the company's efforts to develop environmentally friendly "green" technologies such as solar energy, lower-emission engines, and water purification technologies. The company leveraged the "Imagination" tagline again with a 2006 campaign called "Health Care Re-Imagined" that featured innovative GE health care products for detecting, preventing, and curing diseases.

Immelt made some strategic restructuring decisions that helped the company survive the worldwide recession of 2008 and 2009 and also helped shift it even more in the B2B direction. GE moved from 11 divisions to 5 and sold off some of its consumer-focused businesses, including 51 percent of NBC Universal (sold to Comcast). This shift allowed GE to spend more resources on innovation, green initiatives, and its growing businesses such as power generation, aviation, medical-imaging, and cell technologies. GE continued to use the Ecomagination campaign and introduced "Healthymagination," which communicated its advances in medical technologies around the world.

GE's recent corporate campaigns have united its business units, but its success rests on its ability to understand the business market and the business buying process, putting itself in the shoes of its business customers. Consider its approach to pricing its aircraft engines. GE knows that purchasing an aircraft engine is a multimillion-dollar expenditure, and one that doesn't end with the purchase. Customers (the airlines) face substantial maintenance costs to meet FAA guidelines and ensure reliability of the engines. So in 1999, GE pioneered a new pricing option called "Power by the Hour." This concept gives customers an opportunity to pay a fixed fee each time they run the engine. In return, GE performs all the maintenance and guarantees the engine's reliability. When demand for air travel is uncertain, "Power by the Hour" provides GE's customers with a lower cost of ownership.

This kind of B-to-B marketing savvy has helped GE cement its top position in the *Financial Times*'s "World's Most Respected Companies" survey for years. Its understanding of the business markets, its way of doing business, and its brand marketing have kept GE's brand equity growing. Indeed, its brand equity was ranked fourth and valued at $48 billion in the 2009 Interbrand/*BusinessWeek* ranking of the "Top 100 Global Brands." "The GE brand is what connects us all and makes us so much better than the parts," Chief Marketing Officer Comstock said.

Questions

1. Discuss the importance of B-to-B marketing and a strong B-to-B brand to GE.
2. Have "Imagination at Work," "Ecomagination," and "Healthymagination" successfully communicated GE's focus on its newer endeavors? Why or why not?

Sources: Geoffrey Colvin, "What Makes GE Great?" *Fortune*, March 6, 2006, pp. 90–104; Thomas A. Stewart, "Growth as a Process," *Harvard Business Review*, June 2006, pp. 60–70; Kathryn Kranhold, "The Immelt Era, Five Years Old, Transforms GE," *Wall Street Journal*, September 11, 2006; Daniel Fisher, "GE Turns Green," *Forbes*, August 15, 2005, pp. 80– 85; John A. Byrne, "Jeff Immelt," *Fast Company*, July 2005, pp. 60–65; Rachel Layne, "GE's NBC Sale Brings Immelt Cash, Scrutiny," *BusinessWeek*, December 3, 2009.

Chapter 8

In This Chapter, We Will Address the Following Questions

1. What are the different levels of market segmentation?
2. In what ways can a company divide a market into segments?
3. What are the requirements for effective segmentation?
4. How should business markets be segmented?
5. How should a company choose the most attractive target markets?

Club Med has gone upscale to target new market segments.

Identifying Market Segments and Targets

Companies cannot connect with all customers in large, broad, or diverse markets. But they can divide such markets into groups of consumers or segments with distinct needs and wants. A company then needs to identify which market segments it can serve effectively. This decision requires a keen understanding of consumer behavior and careful strategic thinking. To develop the best marketing plans, managers need to understand what makes each segment unique and different. Identifying and satisfying the right market segments is often the key to marketing success.

One of the most famous leisure travel brands in the world, France's Club Méditerranée, better known as Club Med, has targeted several different customer groups through the years. Started in 1950 and long a pioneer in the concept of the all-inclusive resort, Club Med originally used exotic locations, bare-bones accommodations, and the advertising theme "The antidote to civilization" to target singles, young couples, and others seeking sea, sand, and a good time. Rooms did not have phones, TVs, fans, or locks on the doors. To transcend its hedonistic image and broaden its clientele, Club Med decided to add family-friendly resort locations and services in the 1970s. Depending on location, the resorts, known as villages, offer a wide range of activities, from flying-trapeze clinics to body building to snow skiing. Club Med staff are called "GOs," or Gentil Organisateurs ("gracious/nice organizers"); clients are called "GMs," or Gentils Membres ("gracious/nice guests/members"). An informal atmosphere has GOs and GMs dining, drinking, dancing, and playing together.

An attempt to move outside the leisure-travel business to become a broader services company proved ill-fated; a series of urban bar/restaurants flopped. Combined with a post-9/11 economic recession and increased competition, the failure left Club Med reeling in 2001–2002. Under the new leadership of Henri Giscard d'Estaing (son of the former president of France), the company invested hundreds of millions of dollars to move upscale and attract wealthier customers by crafting a more sophisticated image. For the firm's 60th anniversary in 2010, advertising proclaimed that Club Med was "Where Happiness Means the World," which was backed by an extensive online marketing effort.[1]

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing efforts, they're focusing on those consumers they have the greatest chance of satisfying.

Effective target marketing requires that marketers:

1. Identify and profile distinct groups of buyers who differ in their needs and wants (market segmentation).
2. Select one or more market segments to enter (market targeting).
3. For each target segment, establish and communicate the distinctive benefit(s) of the company's market offering (market positioning).

This chapter will focus on the first two steps. After reviewing some important branding concepts in Chapter 9, Chapter 10 discusses the third step, market positioning.

Bases for Segmenting Consumer Markets

Market segmentation divides a market into well-defined slices. A *market segment* consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target.

We use two broad groups of variables to segment consumer markets. Some researchers try to define segments by looking at descriptive characteristics: geographic, demographic, and psychographic. Then they examine whether these customer segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars," and other groups toward, say, "safety" as a product benefit.

Other researchers try to define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands. The researcher then sees whether different characteristics are associated with each consumer-response segment. For example, do people who want "quality" rather than "low price" in an automobile differ in their geographic, demographic, and psychographic makeup?

Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to recognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 8.1.

Geographic Segmentation

Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called *grassroots marketing,* such activities concentrate on getting as close and personally relevant to individual customers as possible.

Much of Nike's initial success comes from engaging target consumers through grassroots marketing efforts such as sponsorship of local school teams, expert-conducted clinics, and provision of shoes, clothing, and equipment. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics. Curves, an exercise chain aimed at middle-aged women, places paper bags where consumers can place a form asking for more information about Curves in local businesses such as ice cream shops, pizza parlors, and other places where guilt can strike the weight-conscious shopper. Retail firms such as Starbucks, Costco, Trader Joe's, and REI have all found great success emphasizing local marketing initiatives, but other types of firms have also jumped into action.[2]

Bed Bath & Beyond

Bed Bath & Beyond

Home furnishing retailer Bed Bath & Beyond's ability to cater to local tastes has fueled its phenomenal growth. The firm's managers pick 70 percent of their own merchandise, and this fierce local focus has helped the chain evolve from bed linens to the "beyond" part—products from picture frames and pot holders to imported olive oil and designer doormats. In Manhattan stores, for instance, managers are beginning to stock wall paint. You won't find paint in suburban stores, where customers can go to Home Depot or Lowe's. One manager says several customers have been surprised to find out the store is part of a national chain and not a mom-and-pop operation. For Bed Bath & Beyond, that's the ultimate compliment.[3]

More and more, regional marketing means marketing right down to a specific zip code.[4] Many companies use mapping software to pinpoint the geographic locations of their customers, learning, say, that most customers are within a 10-mile radius of the store and are further concentrated within certain zip+4 areas. By mapping the densest areas, the retailer can rely on *customer cloning,* assuming the best prospects live where most of the customers already come from.

TABLE 8.1 Major Segmentation Variables for Consumer Markets

Geographic region	Pacific Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000+
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic age	Under 6, 6–11, 12–17, 18–34, 35–49, 50–64, 64+
Family size	1–2, 3–4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young; married, youngest child 6 or older; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under $10,000; $10,000–$15,000; $15,000–$20,000; $20,000–$30,000; $30,000–$50,000; $50,000–$100,000; $100,000+
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic
Generation	Silent Generation, Baby boomers, Gen X, Gen Y
Nationality	North American, Latin American, British, French, German, Italian, Chinese, Indian, Japanese
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Nielsen Claritas has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets) NE that classifies over half a million U.S. residential neighborhoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.[5] The groupings take into consideration 39 factors in five broad categories: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility. The neighborhoods are broken down by zip code, zip+4, or census tract and block group. The clusters have descriptive titles such as *Blue Blood Estates, Winner's Circle, Hometown Retired, Shotguns and Pickups,* and *Back Country Folks.* The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines. Table 8.2 has examples of four PRIZM clusters.

Marketers can use PRIZM to answer questions such as: Which geographic areas (neighborhoods or zip codes) contain our most valuable customers? How deeply have we already penetrated these segments? Which distribution channels and promotional media work best in reaching our target clusters in each area? Geoclustering captures the increasing diversity of the U.S. population.

TABLE 8.2 Examples of PRIZM clusters

- **Young Digerati.** Young Digerati are the nation's tech-savvy singles and couples living in fashionable neighborhoods on the urban fringe. Affluent, highly educated, and ethnically mixed, they live in areas typically filled with trendy apartments and condos, fitness clubs and clothing boutiques, casual restaurants, and all types of bars—from juice to coffee to microbrew.
- **Beltway Boomers.** One segment of the huge baby boomer cohort—college-educated, upper-middle-class, and home-owning—is Beltway Boomers. Like many of their peers who married late, these boomers are still raising children in comfortable suburban subdivisions and pursuing kid-centered lifestyles.
- **The Cosmopolitans.** Educated, midscale, and multiethnic, The Cosmopolitans are urbane couples in America's fast-growing cities. Concentrated in a handful of metros—such as Las Vegas, Miami, and Albuquerque—these households feature older home owners, empty nesters, and college graduates. A vibrant social scene surrounds their older homes and apartments, and residents love the nightlife and enjoy leisure-intensive lifestyles.
- **Old Milltowns.** Once-thriving mining and manufacturing towns have aged—as have the residents in Old Milltowns communities. Today, the majority of residents are retired singles and couples, living on downscaled incomes in pre-1960 homes and apartments. For leisure, they enjoy gardening, sewing, socializing at veterans clubs, and eating out at casual restaurants.

Source: *Nielsen*, www.claritas.com.

A number of organizations have applied this service to their marketing. The U.S. Army uses a custom Claritas system to help in recruiting. Sodexho Marriott uses a system to select menu offerings for its nationwide college food program. Wendy's and PETCO rely on Claritas to help decide where to put new stores. When Ace Hardware launched a customer loyalty program called the Helpful Hardware Club a few years ago, it assigned a Claritas cluster code to every one of the 7 million members. When Ace found that 12 clusters generated most of its business, it targeted them with specific promotions.[6]

Marketing to microsegments has become possible even for small organizations as database costs decline, software becomes easier to use, and data integration increases.[7] Those who favor such localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if the product and message are different in different localities.

Demographic Segmentation

In demographic segmentation, we divide the market on variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. One reason demographic variables are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in nondemographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently.

Here's how marketers have used certain demographic variables to segment markets.

AGE AND LIFE-CYCLE STAGE Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+). Indirect age effects also operate for some products. One study of kids aged 8–12 found that 91 percent decided or influenced clothing or apparel buys, 79 percent grocery purchases, and 54 percent vacation choices, while 14 percent even made or swayed vehicle decisions.[8]

Nevertheless, age and life cycle can be tricky variables.[9] The target market for some products may be the *psychologically* young. To target 21-year-olds with its boxy Element, which company officials described as a "dorm room on wheels," Honda ran ads depicting sexy college kids partying near the car at a beach. So many baby boomers were attracted to the ads, however, that the average age of Element buyers turned out to be 42! With baby boomers seeking to stay young, Honda decided the lines between age groups were getting blurred. When it was ready to launch a new subcompact called the Fit, the firm deliberately targeted Gen Y buyers as well as their empty-nest parents.

Avon's marketing is laser-focused on women.

LIFE STAGE People in the same part of the life cycle may still differ in their life stage. **Life stage** defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, deciding to buy a new home, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns.

GENDER Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.[10] Women tend to be more communal-minded and men more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.[11]

According to some studies, women in the United States and the United Kingdom control or influence over 80 percent of consumer goods and services, make 75 percent of the decisions about buying new homes, and purchase outright 60 percent of new cars. Gender differentiation has long been applied in clothing, hairstyling, cosmetics, and magazines. Avon, for one, has built a $6 billion–plus business selling beauty products to women. Marketers can now reach women more easily via media like Lifetime, Oxygen, and WE television networks and scores of women's magazines and Web sites; men are more easily found at ESPN, Comedy Central, Fuel, and Spike TV channels and through magazines such as *Maxim* and *Men's Health*.[12]

Some traditionally more male-oriented markets, such as the automobile industry, are beginning to recognize gender segmentation and changing the way they design and sell cars.[13] Women shop differently for cars than men; they are more interested in environmental impact, care more about interior than exterior styling, and view safety in terms of features that help drivers survive an accident rather than help avoid one.[14]

Victoria's Secret Victoria's Secret, purchased by Limited Brands in 1982, has become one of the most identifiable brands in retailing through skillful marketing of women's clothing, lingerie, and beauty products. Most U.S. women a generation ago did their underwear shopping in department stores and owned few items that could be considered "lingerie." After witnessing women buying expensive lingerie as fashion items from small boutiques in Europe, Limited Brands founder Leslie Wexner felt a similar store model could work on a mass scale in the United States, though it was unlike anything the average shopper would have encountered amid the bland racks at department stores. Wexner, however, had reason to believe U.S. women would relish the opportunity to have a European-style lingerie shopping experience. "Women need underwear, but women want lingerie," he observed. Wexner's assumption proved correct: A little more than a decade after he bought the business, Victoria's Secret's average customer bought 8 to 10 bras per year, compared with the national average

Lessons learned from its European customers have helped Victoria's Secret to successfully target women in North America and other markets.

of two. To enhance its upscale reputation and glamorous appeal, the brand is endorsed by high-profile supermodels in ads and fashion shows. Through the years, Victoria's Secret has often delivered 25 percent or more annual sales growth, selling through its stores, catalogs, and company Web site, and posted $5.1 billion in revenues in 2008.[15]

INCOME Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy these sets than to go to movies and restaurants.

Many marketers are deliberately going after lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty.[16] Procter & Gamble launched two discount-priced brand extensions in 2005—Bounty Basic and Charmin Basic—whose success led to the introduction in 2009 of Tide Basic, although this extension was later withdrawn from the market. At the same time other marketers are finding success with premium-priced products. When Whirlpool launched a pricey Duet washer line, sales doubled their forecasts in a weak economy, due primarily to middle-class shoppers who traded up.

Increasingly, companies are finding their markets are hourglass shaped as middle-market U.S. consumers migrate toward both discount *and* premium products.[17] Companies that miss out on this new market risk being "trapped in the middle" and seeing their market share steadily decline. Recognizing that its channel strategy emphasized retailers like Sears selling primarily to the middle class, Levi-Strauss introduced premium lines such as Levi's Capital E to upscale retailers Bloomingdales and Nordstrom, and the less-expensive Signature by Levi Strauss & Co. line to mass market retailers Walmart and Target. "Marketing Insight: Trading Up, Down, and Over" describes the factors creating this trend and what it means to marketers.

Marketing Insight

Trading Up, Down, and Over

Michael Silverstein and Neil Fiske, the authors of *Trading Up*, observed an increasing number of middle-market consumers periodically trading up to what they call "New Luxury" products and services "that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach." For example, consumers might trade up to such brands as Starbucks coffee, Aveda shampoo, or Viking ranges, depending in part on the emotional benefits they gain in the trade.

Thanks to the trading-up trend, New Luxury goods sell at higher volumes than traditional luxury goods, although priced higher than conventional middle-market items. The authors identify three main types of New Luxury products:

- *Accessible superpremium products*, such as Victoria's Secret underwear and Kettle gourmet potato chips, carry a significant premium over middle-market brands, yet consumers can readily trade up to them because they are relatively low-ticket items in affordable categories.
- *Old Luxury brand extensions* extend historically high-priced brands down-market while retaining their cachet, such as the Mercedes-Benz C-class and the American Express Blue card.
- *Masstige goods*, such as Kiehl's skin care and Kendall-Jackson wines, are priced between average middle-market brands and superpremium Old Luxury brands. They are "always based on emotions, and consumers have a much stronger emotional engagement with them than with other goods."

To trade up to brands that offer these emotional benefits, consumers often "trade down" by shopping at discounters such as Walmart and Costco for staple items or goods that confer no emotional benefit but still deliver quality and functionality. As one consumer explained in rationalizing why her kitchen boasted a Sub-Zero refrigerator, a state-of-the-art Fisher & Paykel dishwasher, and a $900 warming drawer but a giant 12-pack of Bounty paper towels from a warehouse discounter: "When it comes to this house, I didn't give in on anything. But when it comes to food shopping or cleaning products, if it's not on sale, I won't buy it."

In a subsequent book titled *Treasure Hunt*, Silverstein notes that 82 percent of U.S. consumers trade down in five or more categories (what he calls "treasure hunting"), whereas 62 percent focus on trading up in the two categories that provide the most emotional benefits. This makes the new consumer "part martyr and part hedonist," willingly sacrificing on a number of purchases in order to experience enhanced benefits from a handful of others.

Silverstein believes successful firms will offer one of two kinds of value: New Luxury or Treasure Hunting. Brands that offer opportunities to trade up, such as Coach, Victoria's Secret, Grey Goose, and Bath &

Body Works, or to trade down, such as Best Value Inn, Kohl's, Dollar General, and IKEA, are optimally positioned to deliver the value modern consumers seek. The remaining firms, occupying the middle market and lacking the economic, functional, and emotional value modern consumers are searching for, will see their market share shrink as they get "trapped in the middle." Traditional grocers and department stores are already suffering, with market share declines of 30 percent and 50 percent, respectively.

Market research firm Mintel observes that consumers have also been "trading over" by switching spending from one category to another, buying a new home theater system, say, instead of a new car. In the recent economic downturn, consumers were "making substitutions that work for recession-minded lifestyles" while still preserving a desired experience. Mintel cites as examples Starbucks VIA Ready Brew coffee, a new, home-based Starbucks experience that's more affordable than coffee at one of the company's outlets, and Tide TOTALCARE, which enables users to obtain certain dry-cleaning-type results at home with prices below those of professional dry cleaners.

Sources: Michael J. Silverstein, *Treasure Hunt: Inside the Mind of the New Consumer* (New York: Portfolio, 2006); Jeff Cioletti, "Movin' on Up," *Beverage World* (June 2006), p. 20; Michael J. Silverstein and Neil Fiske, *Trading Up: The New American Luxury* (New York: Portfolio, 2003); Linda Tischler, "The Price Is Right," *Fast Company*, November 2003; Sarah Mahoney, "Top Consumer Trends: Trust, Control, . . . Playfulness," *Marketing Daily*, September 4, 2009; David Orgel, "Quality Trumps Quantity in New Product Releases," *Supermarket News*, May 25, 2009.

GENERATION Each generation or *cohort* is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and have similar outlooks and values. Marketers often advertise to a cohort by using the icons and images prominent in its experiences. They also try to develop products and services that uniquely meet the particular interests or needs of a generational target. Here is how one bank targeted Gen Y consumers.

PNC's Virtual Wallet

PNC's Virtual Wallet In early 2007, PNC bank hired design consultants IDEO to study Gen Y—defined by PNC as 18- to 34-year-olds—and help develop a marketing plan to appeal to them. IDEO's research found this cohort (1) didn't know how to manage money and (2) found bank Web sites clunky and awkward to use. PNC thus chose to introduce a new offering, Virtual Wallet, that combined three accounts—"Spend" (regular checking), "Reserve" (backup checking that garners interest), and "Grow" (savings)—with a slick personal finance tool. Customers can drag money from account to account on one screen. Instead of seeing a traditional ledger, they view balances on a calendar that displays estimated future cash flow based on when they are paid, when they pay bills, and their spending habits. Customers also can set a "Savings Engine" tool to transfer money to savings when they receive a paycheck and get their account balances by text messages. Despite offering subscribers financial returns that were nothing out of the ordinary, PNC was able to sign up 20,000 mostly Gen Y consumers within the first few months.[18]

Consumers have been "trading over" to Tide TOTALCARE to obtain dry-cleaning type results at home.

Although the beginning and ending birth dates of any generation are always subjective—and generalizations can mask important differences within the group—here are some general observations about the four main generation cohorts of consumers, from youngest to oldest.[19]

Millennials (or Gen Y) Born between 1979 and 1994, Millennials, also called Gen Y, number 78 million with annual spending power estimated at $187 billion. If you factor in career growth and household and family formation, and multiply by another 53 years of life expectancy, trillions of dollars in consumer spending are at stake over their life spans. It's not surprising that market researchers and advertisers are racing to get a bead on Gen Y's buying behavior.

Also known as the Echo Boomers, these consumers have been "wired" almost from birth—playing computer games, navigating the Web, downloading music, connecting with friends via instant messaging and mobile phones. They have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents. Yet they are highly socially conscious and concerned about environmental issues. They are selective, confident, and impatient.

TABLE 8.3 Profiling U.S. Generation Cohorts

Generational Cohort	Birth Range	Approximate Size	Defining Features
Millennials (Gen Y)	1979–1994	78 million	Raised with relative affluence, technologically plugged in and concerned with the environment and social issues, they also have a strong sense of independence and a perceived immunity from marketing.
Gen X	1964–1978	50 million	Sometimes seen as falling between the generational cracks, they bridge the technological savvy of Gen Y with the adult realities of the baby boomers.
Baby Boomers	1946–1964	76 million	Still largely in the prime of their consumption cycle, they embrace products and lifestyles that allow them to turn back the hands of time.
Silent Generation	1925–1945	42 million	Defying their advancing age, they maintain active lives and products and marketing that help them to achieve that.

Sources: Kenneth Gronbach, "The 6 Markets You Need to Know Now," *Advertising Age*, June 2, 2008, p. 21; Geoffrey E. Meredith and Charles D. Schewe, *Managing by Defining Moments: America's 7 Generational Cohorts, Their Workplace Values, and Why Managers Should Care* (New York: Hungry Minds, 2002).

Because Gen Y members are often turned off by overt branding practices and "hard sell," marketers have tried many different approaches to reach and persuade them.[20]

1. ***Online buzz***—Rock band Foo Fighters created a digital street team that sends targeted e-mail blasts to members who "get the latest news, exclusive audio/video sneak previews, tons of chances to win great Foo Fighters prizes, and become part of the Foo Fighters Family."
2. ***Student ambassadors***—Red Bull enlisted college students as Red Bull Student Brand Managers to distribute samples, research drinking trends, design on-campus marketing initiatives, and write stories for student newspapers.
3. ***Unconventional sports***—Chick-fil-A sponsored the National Amateur Dodgeball Association, "a recreational pursuit for nontraditional sport enthusiasts."
4. ***Cool events***—Hurley, which defined itself as an authentic "Microphone for Youth" brand rooted in surf, skate, art, music, and beach cultures, became the title sponsor of the U.S. Open of Surfing. Other sponsors included Casio, Converse, Corona, Paul Mitchell, and Southwest Airlines.

Hurley reinforces its strong identification with Gen Y consumers through its sponsorship of the U.S. Open of Surfing.

5. ***Computer games***—Product placement is not restricted to movies or TV: Mountain Dew, Oakley, and Harley-Davidson all made deals to put logos on Tony Hawk's *Pro Skater 3* from Activision.
6. ***Videos***—Burton ensures its snowboards and riders are clearly visible in any videos that are shot.
7. ***Street teams***—As part of an antismoking crusade, the American Legacy Foundation hires teens as the "Truth Squad" to hand out T-shirts, bandanas, and dog tags at teen-targeted events.

Although some saw rock band Nirvana as a defining symbol of Gen X, subsequent portrayals reveal a more complex picture of this cohort.

Gen X Often lost in the demographic shuffle, the 50 million or so Gen X consumers, named for a 1991 novel by Douglas Coupland, were born between 1964 and 1978. The popularity of Kurt Cobain, rock band Nirvana, and the lifestyle portrayed in the critically lauded film *Slacker* led to the use of terms like *grunge* and *slacker* to characterize Gen X teens and young adults. It was an unflattering image of a disaffected group with short attention spans and little work ethic.

These stereotypes slowly disappeared. Gen X was certainly raised in more challenging times, when working parents relied on day care or left "latchkey kids" on their own after school, and corporate downsizing led to the threat of layoffs and economic uncertainty. At the same time, social and racial diversity were accepted and technology rapidly changed the way people lived and worked. Although Gen Xers created new norms in educational achievement, they were also the first generation to find surpassing their parents' standard of living a serious challenge.

These realities had a profound impact. Gen Xers feel self-sufficiency and the ability to handle any circumstance are key. Technology is an enabler for them, not a barrier. Unlike the more optimistic, team-oriented Gen Yers, Gen Xers are more pragmatic and individualistic. As consumers, they are wary of hype and pitches that seem inauthentic or patronizing. Direct appeals where value is clear often works best, especially as Gen Xers become parents raising families.[21]

Baby Boomers Baby boomers are the approximately 76 million U.S. consumers born between 1946 and 1964. Though they represent a wealthy target, possessing $1.2 trillion in annual spending power and controlling three-quarters of the country's wealth, marketers often overlook them. In network television circles, because advertisers are primarily interested in 18- to 49-year-olds, viewers over 50 are referred to as "undesirables."

With many baby boomers moving into their 60s and even the last and youngest wave bearing down on 50, demand has exploded for products to turn back the hands of time. According to one survey, nearly one in five boomers was actively resisting the aging process, driven by the mantra, "Fifty is the new thirty." As they search for the fountain of youth, sales of hair replacement and hair coloring aids, health club memberships, home gym equipment, skin-tightening creams, nutritional supplements, and organic foods have all soared.

Interestingly, because so many members of the Gen Y "Echo Boomers" are living with their boomer parents, parents are being influenced by what demographers are calling a "boom-boom effect." The same products that appeal to 21-year-olds are appealing to youth-obsessed baby boomers. The multiseason success of MTV's reality show *The Osbournes,* starring heavy-metal rocker Ozzy Osbourne and his family, was fueled as much by boomer parents as by their MTV-loving kids.

Contrary to conventional marketing wisdom that brand preferences of consumers over 50 are fixed, one study found 52 percent of boomers are willing to change brands, in line with the total population. Although they love to buy things, they hate being sold to, and as one marketer noted, "You have to earn your stripes every day." But abundant opportunity exists. Boomers are also less likely to associate retirement with "the beginning of the end" and see it instead as a new chapter in their lives with new activities, interests, careers, or even relationships.[22]

Silent Generation Those born between 1925 and 1945—the "Silent Generation"—are redefining what *old age* means. To start with, many people whose chronological age puts them in this category don't see themselves as old. One survey found that 60 percent of respondents over 65 said they felt younger than their actual age. A third aged 65 to 74 said they felt 10 to 19 years younger, and one in six felt at least 20 years younger than their actual age.[23]

The hit reality show *The Osbournes* tapped into baby boomers' rock-and-roll sensibilities and their parental responsibilities.

Consistent with what they say, many older consumers lead very active lives. As one expert noted, it is if they were having a second middle age before becoming elderly. Advertisers have learned that older consumers don't mind seeing other older consumers in ads targeting them, as long as they appear to be leading vibrant lives. But marketers have learned to avoid clichés like happy older couples riding bikes or strolling hand-in-hand on a beach at sunset.

Emphasizing their roles as grandparents is universally well-received. Many older consumers not only happily spend time with their grandkids, they often provide for their basic needs or at least occasional gifts. The founders of eBeanstalk.com, which sells children's learning toys online, thought their business would be largely driven by young consumers starting families. They were surprised to find that up to 40 percent of their customers were older consumers, mainly grandparents. These customers are very demanding, but also more willing to pay full price than their younger counterparts.[24]

RACE AND CULTURE *Multicultural marketing* is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities, and that a mass market approach is not refined enough for the diversity of the marketplace. Consider that McDonald's now does 40 percent of its U.S. business with ethnic minorities. Its highly successful "I'm Lovin' It" campaign was rooted in hip-hop culture but has had an appeal that transcended race and ethnicity.[25]

The Hispanic American, African American, and Asian American markets are all growing at two to three times the rate of nonmulticultural populations, with numerous submarkets, and their buying power is expanding. Multicultural markets also vary in whether they are first and second (or more) generation, and whether they are immigrants or born and raised in the United States.

The norms, language nuances, buying habits, and business practices of multicultural markets need to be factored into the initial formulation of a marketing strategy, rather than added as an afterthought. All this diversity also has implications for marketing research; it takes careful sampling to adequately profile target markets.[26]

Multicultural marketing can result in different marketing messages, media, channels, and so on. Specialized media exists to reach virtually any cultural segment or minority group, though some companies have struggled to provide financial and management support for fully realized programs.

Members of the oldest generation, the Silent Generation, take much pride in their roles as grandparents.

Fortunately, as countries become more culturally diverse, many marketing campaigns targeting a specific cultural group can spill over and positively influence others. An ad for Tide in which an African American man wearing a wedding ring was drying his son off after a bath was well regarded by both African Americans and the market as a whole.[27] Boost Mobile has leveraged a shared interest in youth culture to create a diverse customer base of young adults made up of 35 percent African Americans, 27 percent Hispanic Americans, and 32 percent Caucasians.[28]

Next, we consider issues in the three largest multicultural markets—Hispanic Americans, African Americans, and Asian Americans. Table 8.4 lists some important facts and figures about them.[29]

Hispanic Americans Hispanic Americans have become the largest minority in the country with annual purchasing power estimated to be more than $1 trillion in 2010. By 2020, 17 percent of Americans are projected to be of Hispanic origin.

The Hispanic American market holds a wide variety of subsegments, with roughly two dozen nationalities including Cuban, Mexican, Puerto Rican, Dominican, and other Central and South American groups, and a mix of cultures, physical types, racial backgrounds, and aspirations.[30] To meet these divergent needs, Goya, the United States' largest Hispanic food company, sells 1,600 products ranging from bags of rice to ready-to-eat, frozen empanadas. The company sells 38 varieties of beans alone.[31]

Although Hispanics suffered from greater unemployment and diminished disposable income in the recession, they were still an attractive target because they had lower mortgage and credit card debt, two or more income earners, and a greater propensity to buy advertised brands.[32] Companies such as Johnson & Johnson,

TABLE 8.4 Multicultural Market Profile

	Hispanic Americans	Asian Americans	African Americans
Estimated population—2007	46.9 million	15.2 million	40.7 million
Estimated population—2050	132.8 million	40.6 million	65.7 million
Number of minority-owned businesses in 2002	1.6 million	1.1 million	1.2 million
Revenue generated by minority-owned businesses in 2002	$222 billion	$326 billion	$89 billion
Median household income in 2007	$38,679	$66,103	$33,916
Poverty rate in 2007	21.5%	10.20%	24.50%
Percentage of those aged >25 with at least a high school education in 2008	62%	86%	82%
Number of veterans of U.S. armed forces	1,100,000	277,751	2,400,000
Median age in 2008	27.7	35.4	30.3
Percent of population under 18 years old in 2008	34%	26%	30%
Buying power—2008	$863 billion	$847 billion	$509 billion

Sources: www.selig.uga.edu. and www.census.gov.

Verizon, and General Mills all significantly increased their advertising investment in the Hispanic market during the last recession.

State Farm After trailing its main competitor for years, State Farm decided to make its Hispanic American marketing a priority in 2008. The firm sponsored local Latino community events, soccer matches, the Latin Music Awards, and Univision's highly rated Saturday night variety show, *Sabádo Gigante*. Perhaps State Farm's most original marketing activity, however, was the support and sponsorship of a new band. Los Felinos de la Noche (The Felines of the Night), as the six men (primarily Hispanic immigrants) are called, play the percussion heavy pop-rock sound of Norteño or Northern Mexico regional music. With State Farm's support, the band recorded singles, shot music videos, and played live concerts to make a name for themselves. State Farm, however, chose a subtle approach to its sponsorship. Although the band's Web site did not display the State Farm logo or contain marketing messages, the band did praise the company for the opportunity it gave them in many of the posted interviews. The color red in the band's uniforms was meant to tie in State Farm's familiar color. Targeting first-generation Hispanics with an emotional appeal showed that State Farm understood the needs of the Hispanic community. Positively received, the campaign has been credited with helping to change opinions of that market.[33]

Hispanic Americans often share strong family values—several generations may reside in one household—and strong roots to their original country of origin. They have a need for respect, brand loyalty, and a keen interest in product quality. Procter & Gamble's research revealed that Hispanic consumers believe "*lo barato sale caro*" ("cheap can be expensive," or in the English equivalent, "you get what you pay for"). P&G found Hispanic consumers were so value-oriented they would even do their own product tests at home. One woman was using different brands of tissues and toilet paper in different rooms and bathrooms to see which her family liked best.[34]

State Farm's musical sponsorship of the band Los Felinos de la Noche reflects the company's increased emphasis on Hispanic marketing.

Marketers are reaching out to Hispanic Americans with targeted promotions, ads, and Web sites but need to be careful to capture the nuances of cultural and market trends.[35] The California Milk Processor Board (CMPB) had to change its famed "got milk?" ad campaign when targeting the Hispanic market.

Got Milk?

Got Milk? In 2001, Hispanics represented 32.5 percent of California's total population, a number that was growing every year. They were also heavy milk drinkers, spending more on milk than any other demographic segment. Initial consumer testing of the "got milk?" ads revealed, however, that Spanish-speaking households did not find the commercials funny when translated directly to Spanish. As CMPB Executive Director Jeff Manning explained, "We found out that not having milk or rice in Hispanic households is not funny: running out of milk means you failed your family." In addition, "got milk?" translated in Spanish roughly means "Are you lactating?"

As a result, the CMPB and its Hispanic ad agency, Anita Santiago Advertising, created a series of ads focused on milk as a sacred ingredient, often using the tagline "Familia, Amor y Leche" (Family, Love, and Milk). When the campaign did use the "Got Milk?" tagline, it was left untranslated. Awareness rose among the Hispanic population, and in 2002 the CMPB tested its first Spanish-language television spot, featuring La Llorona, a mythical Hispanic character. Hispanic consumers were thrilled that the commercial understood their culture and targeted them specifically.[36]

U.S.-born Hispanic Americans also have different needs and tastes than their foreign-born counterparts and, though bilingual, often prefer to communicate in English. With two-thirds of U.S. Hispanics considered "bicultural" and comfortable with both Spanish- and English-speaking cultures, most firms choose not to risk alienating the English-speaking audience on national TV and to run Spanish-only ads just on Hispanic networks Univision, Telemundo, and Telefutura.

Some marketers such as General Motors and Toyota have used a "Spanglish" approach in their ads, mixing some Spanish naturally in with English in conversations among Hispanic families.[37] Companies such as Continental Airlines, General Mills, and Sears have recently been using mobile marketing to reach Hispanics.[38] With a mostly younger population and less access to Internet or landline service, Hispanics are much more likely to consume content on their cell phones than the general market.

African Americans African Americans have had a significant economic, social, and cultural impact on U.S. life, influencing inventions, art, music, sports, fashion, and literature. Like many cultural segments, they are deeply rooted in the U.S. landscape while also proud of their heritage and respectful of family ties.[39]

Based on survey findings, African Americans are the most fashion-conscious of all racial and ethnic groups but strongly motivated by quality and selection. They're also more likely to be influenced by their children when selecting a product for purchase, and less likely to buy unfamiliar brands. African Americans watch television and listen to the radio more than other groups, and they buy more DVDs than any other multicultural segment except Hispanics.[40]

Many companies have successfully tailored products to meet the needs of African Americans. In 1987, Hallmark Cards launched its African American–targeted Mahogany line with only 16 greeting cards; today it offers 800 cards and a line of stationery. Sara Lee Corporation's L'eggs discontinued its separate line of pantyhose for black women; now shades and styles popular among black women make up half the company's general-focus sub-brands.

Ad messages must also be seen as relevant. In a campaign for Lawry's Seasoned Salt targeting African Americans, images of soul food appeared; a campaign for Kentucky Fried Chicken showed an African American family gathered at a reunion—demonstrating an understanding of both the market's values and its lifestyle.[41]

Cigarette, liquor, and fast-food firms have been criticized for targeting urban African Americans. As one writer noted, with obesity a problem, it is disturbing that it is easier to find a fast-food restaurant than a grocery store in many black neighborhoods.[42]

Asian Americans According to the U.S. Census Bureau, "Asian" refers to people having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. Six countries represent 79 percent of the Asian American population: China (21 percent), the Philippines

(18 percent), India (11 percent), Vietnam (10 percent), Korea (10 percent), and Japan (9 percent). The diversity of these national identities limits the effectiveness of pan-Asian marketing appeals.

The Asian American market has been called the "invisible market" because, compared to Hispanic Americans and African Americans, it has traditionally received a disproportionally small fraction of U.S. companies' total multicultural marketing expenditure.[43] Yet it is getting easier and easier to reach this market. The number of media outlets targeting Asian Americans has grown from 200 in the 1980s to between 700 and 800 by 2007.

Philadelphia-based Sovereign Bank has been successful targeting Boston's Chinese American community with a 100 percent Chinese American–staffed branch. Not only do employees speak Cantonese, they know that in financial planning for Chinese Americans it is appropriate to acknowledge the need to care for elderly parents.[44] Traditional packaged-good firms have also been getting in the act. Here is how Kraft got its start.

Kraft Kraft's initial Asian American marketing efforts began in 2005 with an integrated marketing campaign featuring in-language ads, in-store product demos/tastings, and a Web site with recipes and tips for healthy living. Kraft's research revealed that Asian American shoppers did not want more Asian-style products from Kraft. Rather, they wanted to learn how to prepare Western-style meals using Kraft products. Kraft's marketing communications used Mandarin and Cantonese, two of the more commonly spoken dialects of Asian immigrants, and targeted immigrant moms as the cultural gatekeepers of their families at home, striking a balance between Western and Eastern cultures. One print ad used the Chinese proverb "Life has a hundred flavors" to show an array of Kraft products brightly arranged on a platter. To further connect with shoppers, Kraft deployed Chinese-speaking representatives to supermarkets. The reps conducted cooking demos of Western recipes using Kraft products, handed out product samples, and offered suggestions for convenient kid-friendly school lunches. Kraft also launched a Web site (www.krafthealthyliving.com) to promote tips for healthy eating, such as "sip your tea" for better health benefits.[45]

Kraft has actively targeted Asian Americans with its brands and products.

Asian Americans tend to be more brand-conscious than other minority groups yet are the least loyal to particular brands. They also tend to care more about what others think (for instance, whether their neighbors will approve of them) and share core values of safety and education. Comparatively affluent and well-educated, they are an attractive target for luxury brands. The most computer-literate group, Asian Americans are more likely to use the Internet on a daily basis.[46]

Lesbian, Gay, Bisexual, and Transgender (LGBT) The lesbian, gay, bisexual, and transgender (LGBT) market is estimated to make up 5 percent to 10 percent of the population and have approximately $700 billion in buying power.[47] Many firms have recently created initiatives to target this market. American Airlines created a Rainbow Team with a dedicated LGBT staff and Web site that has emphasized community-relevant services such as an event calendar of gay-themed national events. According to one survey of the gay and lesbian community, Absolut, Apple, Levi's, and Bravo and Showtime television networks are seen as among the most gay-friendly businesses.[48]

Logo, MTV's television channel for a gay and lesbian audience, has 150 advertisers in a wide variety of product categories and is available in 40 million homes. Increasingly, advertisers are using digital efforts to reach the market. Hyatt's online appeals to the LGBT community targets social sites and blogs where customers share their travel experiences.

Some firms, however, worry about backlash from organizations that will criticize or even boycott firms supporting gay and lesbian causes. Although Pepsi, Campbell's, and Wells Fargo have all experienced such boycotts, they continue to advertise to the gay community.

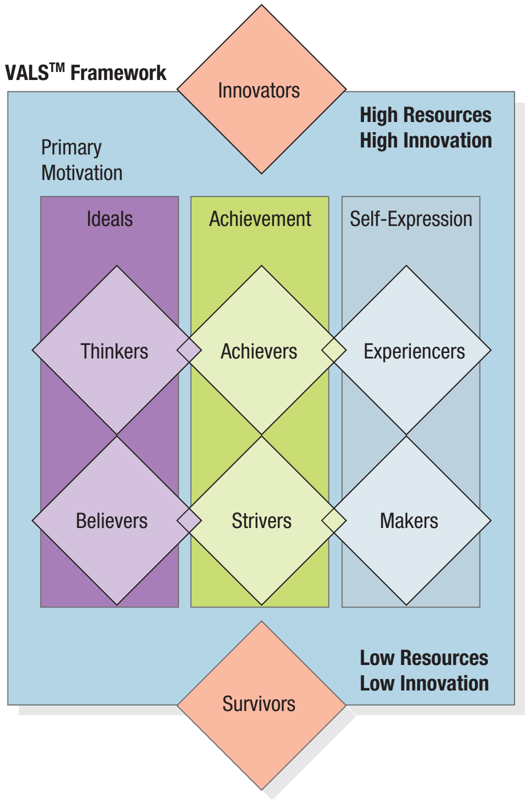
Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In *psychographic segmentation,* buyers are divided into different groups on the basis of

|Fig. 8.1|

The VALS Segmentation System: An Eight-Part Typology

Source: VALS™ © Strategic Business Insights (SBI), www.strategicbusinessinsights.com/VALS. Used with permission.



psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS™ framework. VALS, signifying values and lifestyles, classifies U.S. adults into eight primary groups based on responses to a questionnaire featuring 4 demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 8.1). You can find out which VALS type you are by going to the SBI Web site.[49]

The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

The four groups with higher resources are:

1. ***Innovators***—Successful, sophisticated, active, "take-charge" people with high self-esteem. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products and services.
2. ***Thinkers***—Mature, satisfied, and reflective people motivated by ideals and who value order, knowledge, and responsibility. They seek durability, functionality, and value in products.
3. ***Achievers***—Successful, goal-oriented people who focus on career and family. They favor premium products that demonstrate success to their peers.
4. ***Experiencers***—Young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment, and socializing.

The four groups with lower resources are:

1. ***Believers***—Conservative, conventional, and traditional people with concrete beliefs. They prefer familiar, U.S.-made products and are loyal to established brands.
2. ***Strivers***—Trendy and fun-loving people who are resource-constrained. They favor stylish products that emulate the purchases of those with greater material wealth.
3. ***Makers***—Practical, down-to-earth, self-sufficient people who like to work with their hands. They seek U.S.-made products with a practical or functional purpose.
4. ***Survivors***—Elderly, passive people concerned about change and loyal to their favorite brands.

Marketers can apply their understanding of VALS segments to marketing planning. For example, Transport Canada, the agency that operates major Canadian airports, found that Actualizers, who desire to express independence and taste, made up a disproportionate percentage of air travelers. Given that segment's profile, stores such as Sharper Image and Nature Company were expected to do well in the firm's airports.

Psychographic segmentation schemes are often customized by culture. The Japanese version of VALS, Japan VALS™, divides society into 10 consumer segments on the basis of two key concepts: life orientation (traditional ways, occupations, innovation, and self-expression) and attitudes to social change (sustaining, pragmatic, adapting, and innovating).

Behavioral Segmentation

In behavioral segmentation, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

NEEDS AND BENEFITS Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation is a widely used approach because it identifies distinct market segments with clear marketing implications. Constellation Brands identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).[50]

- ***Enthusiast*** *(12 percent of the market).* Skewing female, their average income is about $76,000 a year. About 3 percent are "luxury enthusiasts" who skew more male with a higher income.
- ***Image Seekers*** *(20 percent).* The only segment that skews male, with an average age of 35. They use wine basically as a badge to say who they are, and they're willing to pay more to make sure they're getting the right bottle.
- ***Savvy Shoppers*** *(15 percent).* They love to shop and believe they don't have to spend a lot to get a good bottle of wine. Happy to use the bargain bin.
- ***Traditionalist*** *(16 percent).* With very traditional values, they like to buy brands they've heard of and from wineries that have been around a long time. Their average age is 50 and they are 68 percent female.
- ***Satisfied Sippers*** *(14 percent).* Not knowing much about wine, they tend to buy the same brands. About half of what they drink is white zinfandel.
- ***Overwhelmed*** *(23 percent).* A potentially attractive target market, they find purchasing wine confusing.

Constellation Brands has adopted a needs-based market segmentation plan to sell its premium wines.

DECISION ROLES It's easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment and women choose their pantyhose; but even here marketers must be careful in making targeting decisions, because buying roles change. When ICI, the giant British chemical company, discovered that women made 60 percent of decisions on the brand of household paint, it decided to advertise its Dulux brand to women.

People play five roles in a buying decision: *Initiator, Influencer, Decider, Buyer,* and *User.* For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used