MBA

MBA MARKETING

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With thanks to all my colleagues for their wisdom.
– Malcolm

With thanks to my family for their unfailing support.
– Ailsa

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INTRODUCTION

IN THIS CHAPTER WE STUDY:

- define marketing
- develop a model of the marketing process
- expand on each of the component parts of the model
- emphasize the inherently cross-functional nature of the marketing process

This book is for MBA students with little or no prior knowledge of marketing. Unlike the plethora of textbooks on the market that follow the well-trodden path of one chapter/one topic, this book aims to provide a *value creation* approach to the essential principles of marketing. It is structured around a model of marketing that places centrally the creation of value for a range of stakeholders (customers, suppliers, distributors, collaborators, agents and society, to name but a few). Reading this textbook will not transform you into a skilled marketer overnight. It will, however, enable you to understand the core principles of marketing and, crucially, *know what questions to ask* the marketing team in your organization. Traditionally, marketing was thought to be only relevant to the private sector, however its relevance to the public and third sectors is being recognized increasingly. This book is appropriate for marketing in all types of organizations and contexts.

We define marketing as 'the creation of value by aligning organizational assets with consumer demands such that the latter is satisfied'. Value creation is a continuous activity, thus our conception of marketing is a *process* involving the analysis of the various options available and choosing those which promise optimal outcomes. Choices are constrained and informed by external conditions and the nature and strength of an organization's own asset value. By 'asset value' we mean both *tangible* assets, such as plant equipment, stock and financial holdings; and *intangible* assets, such as the skills and ingenuity of employees, brand equity, performance of managerial and operational systems; in other words, asset value extends beyond the balance sheet value to encompass all those qualities and abilities to which value may be attributed. We see asset value in action, for example, during corporate acquisitions, when companies are valued at sums that far exceed their tangible asset value. Because asset value is core to marketing, a thorough understanding is essential to chart organizational development and marketing success.

To start with, organizations must understand *who* they need to satisfy, w*hat* value is required and *how* best to deliver this value on a sustainable basis in line with overall corporate objectives. Marketing is thus a process for:

- Defining markets, and more specifically, target markets/segments;
- Identifying the value consumers seek by quantifying the needs of specific homogeneous groups or market segments;
- Creating value propositions to meet consumer needs, involving setting marketing objectives and strategies;
- Communicating these value propositions to everyone in the organization responsible for delivering them and securing their commitment and co-operation;

- Delivering these value propositions through products/services, supported by appropriate customer communications and customer service;
- Monitoring the value actually delivered against that required, utilizing information, knowledge and performance measures;
- Enhancing value by adjusting corporate ethos, ethics, culture and structure, if necessary, as a result of experiential learning and marketing research.

In an effort to assist organizations to gain a fuller understanding of the meaning and 'mechanics' of marketing, we have developed a map of the marketing process (Figure 0.1) which is intended to simplify some of the complexities of marketing and to provide a 'point of entry' to understand marketing. In simplifying complexities, it is not our intention to diminish the significance or scale of the many activities, principles and beliefs that constitute the marketing process.

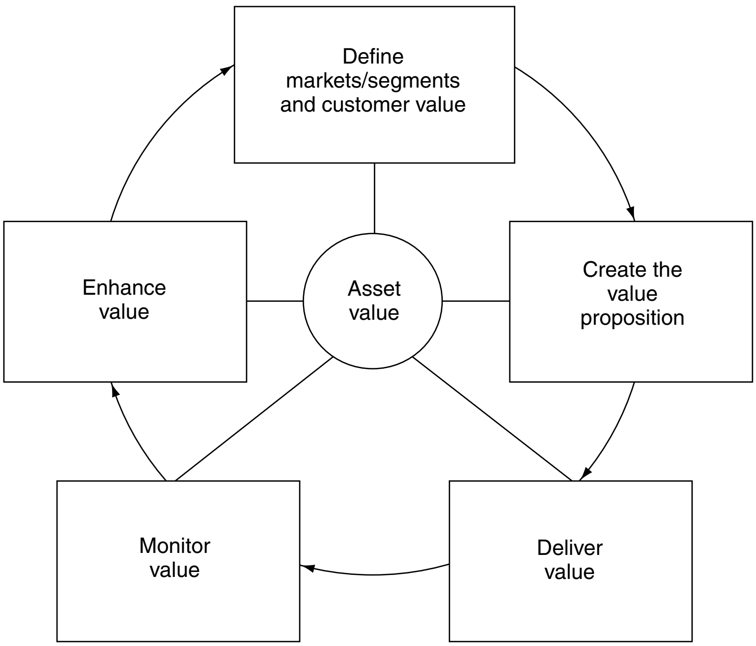

Figure 0.1 The marketing map

It should be noted that:

The map is inherently cross-functional: 'Deliver value', for example, involves every aspect of the organization. This is most important and is illustrated in Figure 0.2.

The map represents best practice, not common practice: Well-embedded processes in even the most sophisticated companies do not address explicitly many aspects of the map. Hence, it is crucial to identify best practice.

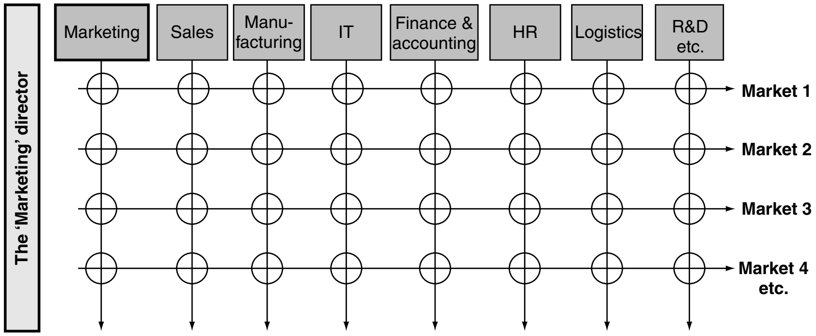

Figure 0.2 Cross-functional investment in delivering customer value

The map is evolving: The web and electronic customer relationship management (eCRM) require a radically different sales process; hence, exploiting new media requires a substantial shift in thinking which goes far beyond information systems and processes.

From the marketing map, it is clear that (i) the marketing process is cyclical, (ii) organizations need to understand the value stakeholders seek, (iii) continuous monitoring is required of value delivered and (iv) value is enhanced through continual capacity building. The cycle may be predominantly annual, but, equally, changes throughout the year may involve rapid iterations around the cycle to respond to particular opportunities or problems. The cycle contains five value-oriented sub-processes: define, create, deliver, monitor and enhance, all of which are integral elements of successful marketing.

The first two sub-processes, 'define markets/segments and customer value' and 'create the value proposition', are concerned with strategic marketing planning; that is, developing marketing strategies. The next two, 'deliver value' and 'monitor value', relate to actual delivery and outcome measurement. The fifth, 'enhance value', refers to learning derived from experience and the assimilation of this learning into the organization's operations to improve its marketing performance (and, by implication, asset value).

It is well known that not all of these marketing activities are under the control of the marketing department, whose role varies enormously. Typically, it would be in charge of defining markets/segments and customer value, and creating the value proposition. Responsibility for delivering value is shared by the whole organization, however, requiring cross-functional expertise and collaboration, for example, in the areas of product development, manufacturing, purchasing, sales promotion, distribution, sales and customer service. Similarly, the final sub-processes, monitoring and enhancing value, occur throughout the organization and involve every employee, function and unit.

The five arrows connecting the sub-processes comprise both inputs and outputs. For example, the output of 'defining markets/segments and customer value' is the target of prospective customers the organization wishes to reach and the associated value expectation. This then becomes the input to shape and drive the creation of the value proposition. In turn, the output of that sub-process is the marketing plan, which becomes the input to 'deliver value', and so on. The dual role played by these connectors highlights the seamless integration of the sub-processes that comprise the marketing process.

Let us consider briefly each sub-process in detail, focusing upon how they all work together to create and deliver customer value – and consequently, augment the organization's asset value.

DEFINE MARKETS/SEGMENTS AND CUSTOMER VALUE

This is the starting point, whether the objective is to develop or review the marketing process. It involves defining the markets in which the organization operates, or wishes to operate, and mapping how these markets may be divided into segments of customers with similar needs. Choice of markets is influenced by the organization's corporate objectives and asset value. To identify markets and segments, the organization needs information about market characteristics, such as the market's size and growth, current profitability and estimated future potential.

Once each market or segment has been defined, it is necessary to understand what value the customers within the segment want or need; that is, the benefits sought through product ownership. This involves identifying customers' current requirements and making predictions about future needs. Knowledge about customers' purchase history, lifestyle and life stage can be helpful in developing patterns of likely buyer behaviour, which can then be used to pursue proactive as well reactive marketing strategies. It may emerge that subsets of the customers within a market have very different requirements, in which case the market may need to be segmented further.

The organization must also establish how well it and its competitors currently deliver the value the customers seek in order to understand competitor value positioning. From these market and competitive analyses, the relative attractiveness of the different markets or segments can be evaluated.

CREATE THE VALUE PROPOSITION

This concerns selecting and prioritizing the range of markets and market segments in which the organization is to operate, and accordingly creating appropriate value propositions. These decisions will take into account both market/segment attractiveness and the organization's actual and potential ability to meet the needs of customers within those market/segments. They will also be shaped by corporate objectives. The setting of marketing objectives and strategies, and the production of marketing plans to articulate them, therefore dominate this sub-process.

Organizations normally start by defining the value they wish to receive from the market or segment in terms of market share, market volume, market value or profit contribution by segment. They must also define the value to be delivered to the customer in return, or the product/service benefits the customer cares about. These price/value propositions must then be set in a realistic context; that is, they must be accompanied by a definition of how the customer value is to be communicated and delivered.

Once these issues have been resolved, an estimate of the expected results of the marketing strategies can be made in terms of the costs to the organization and the impact of the price/value proposition on sales. This final step closes the loop from the earlier step of setting marketing objectives, as it may be that iteration is required if the strategies that have been defined are now considered insufficient to meet the financial objectives.

The output from the 'create the value proposition' sub-process is typically a strategic marketing plan, or plans, covering a period of at least three years. In some cases, specific plans are produced for each of the four 'P's, such as a pricing plan, a distribution plan, a customer service plan or a promotions plan. However, even when no marketing plans are produced, the organization takes decisions implicitly about what constitutes the offer to the customer and how this offer is to be communicated and delivered. The content of the marketing plans has to be communicated to, and agreed with, all departments or functions responsible for delivering the customer value articulated in the plans.

DELIVER VALUE

This sub-process puts the plans into action. It focuses on the tactical, value-delivering activities of inbound logistics, operations, outbound logistics and service. Encapsulating these activities is the overall discipline of relationship management. The need to manage customer relationships effectively is driven by the fact that it is customers, not products, that generate profits, and there is a direct link between customer retention and profitability.

Value delivery thus concerns how the offer is communicated to the customer, and how a two-way dialogue is facilitated with the customer. Inherent within this are a number of decisions, including which media and channels to use, and whether or not (and how) they should be integrated; what level of service should be provided, given the need for individualization as well as cost-effectiveness; what is the requisite size and nature of the sales force; and how can business be developed through customer-retention programmes.

MONITOR VALUE

The delivery of value through the implementation of the marketing plans results in performance, which then needs to be monitored closely for quality gaps and improvement opportunities. The organization must seek to establish whether the value identified as *required* by customers was indeed *delivered*, and whether the company *received* the expected return on investment. Value delivered can be monitored against the value proposition defined during 'create the value proposition'. As all aspects of value should be measured in terms of the customer's perspective, so customer feedback is important in order to understand the value *perceived* by customers as well as overall effectiveness of the marketing strategies by which the value was delivered.

By monitoring performance against internal indicators and industry standards, the organization will be able to ascertain the scope and level of its professionalism. To be 'future robust' in an increasingly challenging marketing environment requires substantial competence, skills, courage and conviction. Ensuring that such qualities and aptitudes exist in an organization is crucial for maintaining commercial viability as well as growing asset value.

ENHANCE VALUE

This builds on current levels of professionalism in order to enhance value and thus raise the organization's market potential. It brings the marketing process full circle. While most organizations profess to learn from experience, surprisingly few demonstrate serious commitment to examine their performance and processes, and take the action required to redress weaknesses and reinforce strengths. Furthermore, the source of learning need not be confined to the organization itself. Other organizations in similar or disparate industries can also provide valuable lessons and guidance.

The key areas open to improvement include the structure and culture of the organization, and the ethos and ethics by which it operates. The way in which departments and functions are constructed, and the extent to which they collaborate and integrate, can have a marked impact on the organization's ability to enhance value. For example, the sharing of information, ideas and expertise across functions and processes is what enables augmented value to be realized. Careful management is needed to maximize the use of limited resources in achieving customer-based objectives. Strong leadership is required to overcome natural resistance to change and the barriers presented by outdated attitudes and practices. The maxim 'average products deserve average success' might also be applied to organizations.

SUMMARY

Marketing is a dynamic *process* that requires constant input and monitoring. There are five component sub-processes (define/create/deliver/monitor/enhance), each of which makes a specific contribution to the marketing process, and this is explained clearly by breaking the sub-process down into manageable parts. The sub-processes interact and interrelate, giving the map a dynamic, iterative dimension. Attention must therefore be paid to *all* the sub-processes, for ultimate value emanates from their coalescence.

This map will be repeated at the beginning of each section in order to remind the reader how far they have progressed in the process of learning about marketing.

Before getting into the core of the book, however, there are a number of important issues concerning the different contexts in which marketing is practised, and each of these will be explained briefly in Chapter 1. Thereafter, the book deals mainly with core principles, tools and techniques of marketing from a value proposition perspective. The perspective is generalist, rather than specialist; it must be remembered that this is a book specially written for MBA students, general managers and other functional specialists who wish to gain understanding of the role of marketing in organizations.

PART I

DEFINING THE MARKET, TARGET AUDIENCES AND CUSTOMER VALUE

CHAPTER 1
TYPES OF MARKETING

IN THIS CHAPTER WE STUDY:

- consumer marketing
- services marketing
- industrial marketing
- capital goods marketing
- trade marketing

INTRODUCTION

Marketing takes place in a variety of contexts. While the casual observer might think automatically of consumer marketing, there are numerous others. In this chapter, we introduce the most common forms of marketing; there are other, more specialist variants which are beyond the scope of this book.

CONSUMER MARKETING

Consumer products are those which are sold to individuals and then consumed by them or someone to whom they are passed. Consumer marketing is probably the most accessible to those new to the study of marketing. Each of us is a consumer, so all of us have first-hand experience of consumer marketing. As consumers, we know that we want good quality products, at a reasonable price, that perform as we anticipate. In other words, we want products that have inherent value that will perform the task for which they were purchased, thereby satisfying our needs. The success or failure of any consumer product depends not only upon the organization that ultimately sells them, but also upon all the other companies involved in their production and distribution. Consumer products thus occupy a crucial position at the head of value chains that lead right back through retailers, distributors and manufacturers to the producers of the basic raw materials. Their success relies upon the whole value chain performing well, thus those managing consumer product marketing also determine the survival of that value chain. This sense of mutual dependency applies equally to consumer services.

The key marketing issue for anyone providing consumer goods or services is the large number of potential customers. Particularly now that the Internet enables global reach, the key task facing companies in consumer markets is how to make contact with customers when there are so many people who might be persuaded to buy their products in preference to a competitor's. This difficulty is compounded when those potential consumers are geographically dispersed or where they represent a small proportion of each community within a market. Over the years, this issue has been tackled in numerous ways and is an area of significant innovation, particularly in relation to retailing and branding. We shall explore this marketing fundamental in some depth throughout Parts I–III of this book.

This issue of who to target and how to reach them applies equally to companies supplying consumer durables such as refrigerators and fast-moving consumer goods (FMCGs) such as toiletries or food. The main differences between these two categories are frequency of purchase, absolute cost and degree of involvement in the purchase. For FMCGs, acceptance or rejection occurs in a relatively short space of time, which has implications for the way these products are marketed. Consumer durables, on the other hand, tend to be infrequent purchases but of some significance to a household, therefore the purchase tends to be a much more protracted and considered process, requiring a supplier to adapt their marketing accordingly. Whatever the category, consumer products have to be presented to the market; traditionally, this has happened in physical retail locations, but brands, manufacturers, retailers and – of course – consumers are turning to the Internet in droves.

RETAIL OUTLETS

Consumer products are offered to the market by retailers. For manufacturers wishing to get their goods to market, it is crucial to select appropriate retailers in suitable locations (whether in the physical or virtual worlds) and to maintain good relations with them. Indeed, for some grocery products, simply being on the right shelf in the right part of the right chain of supermarkets is almost enough to guarantee success for a product line. The power of such retailers has given rise to a particular type of marketing referred to as trade marketing, as well as retailers' 'own label' product lines.

In recent years, the Internet has expanded retailing by enabling organizations to reach a much more geographically dispersed group of customers. Amazon needs no introduction as a leading example of a highly diversified online retailer with global reach. In terms of multi-channel retailing, Tesco is an example of a retailer exploiting innovative technologies alongside traditional channels to meet customer needs. Expanding into South Korea, whose consumers have a reputation for being hard-working and time-poor, Tesco harnessed mobile technologies to enable commuters to buy products from virtual Home Plus aisles at subway stations and bus stops. Using smartphones, shoppers can scan items (using QR – Quick Response – codes) and arrange home delivery. Tesco's Homeplus smartphone app is now the most popular shopping app in South Korea; Home Plus has grown rapidly to become the dominant online, and second most popular offline, grocery retailer. In this way, the Internet facilitates consumer marketing by making the right product available in the right (convenient and accessible) place at the right time.

BRANDS

Consumer markets are crowded and competitive, so a strong brand is increasingly essential for grabbing attention and maintaining relationships with consumers without the need for personal contact. Strong brands are those that have a personality with which consumers can identify or that evoke a feeling that matches the buyer's personal values, aspirations and lifestyle. Some leading brands are so powerful that consumers not only associate strongly with the branded product (or service), but internalize the brand in such a way that they 'live and breathe it', rejecting all other options. Such people are easily recognizable. For example, someone possessing an iMac, Macbook Air, iPad, iPod and iPhone, or dressed head to toe in Nike sports apparel is doing more than simply using the branded products; they are demonstrating – very publicly – a close affiliation of personal and brand values.

Strong brands, therefore, wield significant power (see Chapter 10), and manufacturers and service suppliers who own them are able to exert considerable influence on retailers in terms of price, shelf location, competitor positioning, merchandizing, promotions policy, acceptance of new products and many other areas. Distinct retail brands are similarly able to influence lesser branded suppliers and to gain favourable locations and terms for their outlets. For these reasons, brand strategy is often at the heart of the marketing strategy of any company supplying consumer products.

SERVICES MARKETING

Services can be conceptualized along a continuum, from 'pure play' at one extreme to an addition to tangible products which augment the core product. These characteristics, together with the deregulation of many professional and government services, have forced organizations to reconsider the traditional accepted philosophy of a product/service dichotomy. Is services marketing fundamentally different from product marketing, an extension of product marketing, or is the entire product marketing focus passé?

Services have become an increasingly significant sector of most advanced economies, so much so that during the last decade or so there has been a lot of academic interest in the application of a 'service-dominant logic' to the entire marketing discipline. Based upon the fundamental concepts of the centricity of the consumer, value creation and co-creation (the latter involving all parties in the production – consumption process), physical products are conceptualized as value-creating entities in the process of value co-creation rather than an end in themselves. It is certainly the case that the nature of many service-based products dictates greater emphasis upon certain elements of the marketing process. It is very important that organizations understand these elements and how they potentially affect the marketing tasks faced.

Defining a service for marketing purposes is not always straightforward as it will inevitably involve some degree of physicality or tangibility. Indeed, it is debatable whether intangibility can truly be demarcated and disassociated from tangible entities. The diversity of organizations involved in services and the tendency to highlight the service elements of an 'offer' for competitive purposes mean that they are sometimes hard to classify. One important element that merits consideration is the degree of tangibility involved in any service offering. Table 1.1 identifies four categories, varying from a 'pure' tangible product to a 'pure' service.

A pure tangible product	A tangible offer, such as sugar, coal or tea. No services are bought with the product
A tangible product with accompanying services such as commissioning, training and maintenance	The offer has built-in services to enhance its customer appeal, e.g. computers, machine tools
An intangible product with accompanying minor goods	The offer is basically a service, but has a physical element, e.g. property surveyors, whose expert inspection is encapsulated in a report. Similarly, airlines offer in-flight meals or entertainment
A pure intangible product, where one buys expertise	The offer is a stand-alone service such as market research, psychoanalysis or ski-instruction

Table 1.1 Variations in product tangibility

From this perspective, a continuum of tangible–intangible products emerges as illustrated in Figure 1.1. Point 'a' on the left-hand side of this figure illustrates an offer where there is no service element and the product is highly tangible. At the other end of the spectrum, point 'd' illustrates a product which is entirely a service and is therefore highly intangible. Points 'b' and 'c' show varying

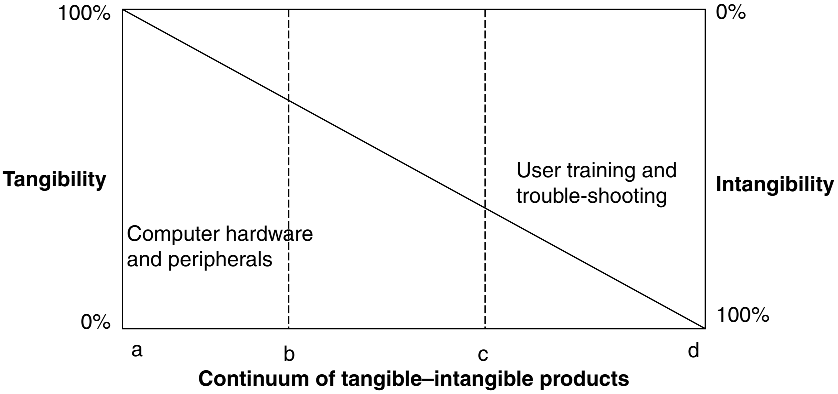

Figure 1.1 Continuum of tangible–intangible products

mixes. For example, point 'b' illustrates the mix of tangibility for a computer company.

Computer hardware and peripherals are highly tangible and can be regarded as commodities, whereas the service elements of user-training and troubleshooting are largely intangible.

The intangibility of a service leads to a number of other differences of significance for marketing, as follows:

- Services can easily be copied by competitors, since they cannot be patented and specified with drawings.
- Quality can be difficult to guarantee since services are not previously produced under controlled conditions. Instead, they are produced and delivered at the time of consumption.
- A service cannot be stored on a shelf or taken down and used at a later time. Services are therefore highly perishable.
- People are an intrinsic part of most services and are difficult to separate from the product.
- The true value of a service can only be assessed on consumption. Thus, the purchase of a service involves a high component of trust.
- Services are often very personal in their nature and can involve the customer in their delivery and consumption, as in the case of a golf lesson or making a purchase at IKEA.

The relationship between customer and supplier is therefore crucial to the success of services marketing. The close link between production and consumption, and the personal nature of many service products, emphasize this aspect. Where no personal relationship exists, the contrast between membership-type organizations and automated services is stark, leading any businesses to seek a means of marketing more concrete affiliations as a substitute. In looking at ways and means of marketing the specific features of service products, management of the relationship with the customer is, thus, always important. Additionally, since the nature of a service is difficult to convey to a customer prior to purchase or consumption, ongoing relationships become of paramount importance. Unlike a car, a service cannot be test-driven; it is hard for a potential customer to assess a bank before opening an account; and a stay in a hotel can only be judged during or after the event.

Product quality and integrity are also crucial to marketing services. As such, it is crucial, as far as possible, to provide tangible evidence of product quality. This highlights the need for careful attention to the 'product promise', such as the initial points of contact, descriptive literature and the peripherals that provide clues to product integrity. It is no coincidence that professional service businesses often have plush reception areas, holiday brochures are a masterpiece of presentation and spa-based health clubs make a big show of testing the water. The problems associated with service evaluation can also be addressed by focusing on reputation, or by enhancing the value of a service through the provision of extra benefits such as free offers. Here, word of mouth or third-party endorsements become particularly influential, particularly in the online sphere. These can come from existing customers, referral markets and media institutions, all of whom can provide powerful testimony to the quality or value of an organization's offering.

Since many services rely heavily on a personal interaction between the service provider and customer, or depend on individuals exercising judgement when creating the service, considerable heterogeneity between purchases becomes possible, such that customer experiences can vary enormously. Thus, the performance of a waiter or shop assistant will have a great impact on customer experiences of the core benefits sought. Since so much of service quality delivery lies in the hands of those delivering the service, employees become a vital concern for effective services marketing. Obviously, recruitment policies are important as well as service modelling which identifies people-related 'fail points' in service delivery.

The process of service delivery requires careful specification, including identification of the skills necessary to reduce heterogeneity as a consequence of 'people problems'. It should also be noted that both the intangibility and heterogeneity of services mean that attention to detail becomes central to marketing effectiveness. It is often relatively minor factors that influence consumer perceptions and experiences of service quality. Details, however, are also that part of the process of delivering the service most influenced by individual employees, thereby giving further weight to the focus on process design and human resource management.

The fact that a service will require the customer's involvement in its creation and delivery enhances the need for efficient management of this customer–provider interaction. Unlike manufacturers, service providers cannot check quality prior to delivery. One solution has been to utilize technology to enhance consistency and improve accessibility, such as the introduction of e-tickets across a range of industries. Another approach entails staff empowerment, in which front-line staff are given decision-making authority. A further method involves creating holistic customer management (CRM) systems to ensure satisfactory service delivery.

For marketing managers, the perishability of a service places extra emphasis on understanding demand patterns and why such fluctuations exist. However, matching demand at all times is rarely possible or, indeed, cost-effective. In the end, the only alternatives are to try to change patterns of demand or to generate increased capacity at peak times. The techniques for managing demand revolve around incentives, such as offering better value and other sales promotion activities to encourage off-peak use, or using pricing mechanisms, such as premiums or discounts. Capacity can be enhanced by using part-time staff, subcontractors and shared facilities, or by carrying overheads in the form of staff, or assets, which are redundant at certain times. Managers, therefore, have to ensure careful coordination to balance the overall offer with the market's preferred pattern of utilization.

Services are sold into a whole range of markets, including industrial, consumer, government and not-for-profit. While each market creates its own unique marketing requirements, for services it is the distinct characteristics of the product which provide the major marketing challenges. In particular, it would seem to demand an expanded marketing mix beyond the four Ps of product, price, place and promotion, to include people, processes and customer service. These three additional elements significantly affect the success or otherwise of a service-based offering and will benefit from discrete programmes and action plans being developed for them. The features of service products also underline the importance of third-party markets such as recruitment, referral, influencer and internal markets, plus the overall concept of relationship marketing. Indeed, it has been argued that the recent interest in relationship marketing first grew from developments initiated within service businesses.

MICRO MARKETING

Large numbers of potential consumers with similar needs lead many consumer marketing organizations to a mass marketing approach which tries to satisfy the majority of the market with an undiscriminating product, brand or approach as classically practised by Coca-Cola or McDonald's. Modern consumer marketers are, however, increasingly finding that markets are fragmenting as consumers become more sophisticated, individualistic and demanding. With the potential for varying the offer increasing as information technology becomes more sophisticated, micro marketing is increasing in significance. Micro marketing embraces mass customization, in which consumers configure their product or service from a series of modular offerings around a generic core. The relaunched Mini, designed and produced by BMW, is a good example of this. The base product is devoid of extras, which will add 50 per cent to the retail price once added, but allows purchasers to customize their car. The challenge for players in consumer markets is to find ways of keeping base costs low, while exploiting new, direct channels and satisfying consumer demand for customized products and services in innovative, customer-friendly ways.

VALUE CHAIN MANAGEMENT

The competitive world of consumer marketing has led many suppliers and retailers to pay closer attention to the value chain at whose head they sit. These organizations have recognized that advantage can be gained by exerting influence across all those who affect their products and their ability to supply. These advantages include lower cost, higher quality, better availability, product innovation, speed to market and a host of other important competitive factors.

In industries such as automotive manufacture, management of aspects of the value chain is sometimes delegated to a small group of key suppliers who are expected to influence and coordinate other suppliers in the chain. In others, such as the computer supply industry, businesses like Dell are working directly with suppliers right down to the component level and beyond in seeking efficiency and innovation for competitive advantage.

MARKETING INDUSTRIAL PRODUCTS

Whatever an organization is offering, whether commercial products, public services or charity, the fundamental principles of marketing always apply. Despite this, most organizations in industrial markets instinctively know that their markets are different and that marketing industrial products requires a different set of approaches to consumer marketing. To operate effectively in industrial markets, it is important to understand what these differences are since they highlight the areas upon which the organization must focus.

That stated, there is no simple or clear divide between industrial and consumer products and markets. On the product side, some products are sold in the same form to both industrial and consumer markets. Examples of this include bank accounts, motor cars, personal computers and parts for washing machines. In terms of markets, some consumer-goods manufacturers will only sell directly to other businesses, that is, trade sales. As a consequence, industrial marketing cannot be defined simply by the products involved or by the fact that it involves business-to-business selling.

The best way to conceptualize industrial marketing is to look at it as a continuum with obvious slow-moving industrial products at one end and fast-moving consumer products at the other. In the middle of the continuum are faster-moving industrial products and slower-moving consumer products, as illustrated in Figure 1.2.

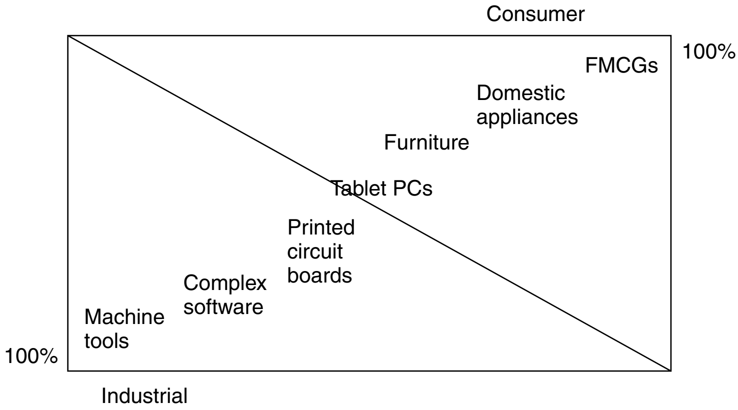

Figure 1.2 Continuum of industrial marketing

The existence of this continuum also illustrates the possibility of transferring marketing approaches between these different markets. While the context of their usage and the way in which they are applied may vary, no idea should be ignored because it is thought to be more appropriate to the realm of one market or product than another. Brands, for instance, are usually thought of as most appropriate for consumer product marketing. However, efforts by Intel and the success of Caterpillar provide contrary examples. Earth moving equipment is an unlikely candidate for branding, yet Caterpillar has established the stylish yellow-tabbed CAT logo as the symbol of the leading global manufacturer of off-road trucks, tractors and other multi-terrain vehicles. The power of the brand is demonstrated by its easy transfer to a range of high-priced heavy duty designer boots and associated apparel sold to the general public. The latter, though the smaller of the two businesses by far, trades off its sibling's well-established brand values of rugged, durable and dependable performance.

ISSUES IN INDUSTRIAL MARKETING

The first issue concerns the way in which an industrial purchaser views a product it wishes to buy. Industrial products are often thought of as being more complex than the equivalent consumer products, which is obviously not always the case. What is different is the attention paid to the details of a product. Even a commodity product, such as sheet steel, cement or a simple component, will be considered in much greater detail by an industrial purchaser. This is because it will be used in more complex ways or that small variations will have potentially harmful consequences. As an example, the wrong grade of steel will not machine properly and may put cost up and quality down. Similarly, a personal computer with a slightly wrong specification may make previous software purchases obsolete or networking with existing machines impossible.

The implications of such detailed product evaluations are that industrial purchasers have greater information needs than consumer purchasers, both before and after a purchase is made. In turn, this implies larger numbers of people being involved in the purchase decision. Consequently, organizations marketing industrial products have to cope with a larger and more diverse decision-making unit and a greater degree of formalization in the procedures applied to a purchase. It also implies that a greater degree of personal contact between the supplier and buyer will be necessary, since this is the best way of providing complete information. Personal contact is necessary to isolate *who needs to know what* and *at what point in the decision-making process*, in order to improve the chances of a sale or continued sales.

Apart from costly and infrequently purchased capital goods, the volumes bought by an industrial purchaser are also likely to be higher than by individuals or families in a consumer market. This makes the loss of a supply agreement to both supplier and purchaser more significant. If a supplier fails to deliver the right quantity, the purchaser will find it difficult to continue their business. On the other hand, if a purchaser stops buying, this will have a significant impact on the supplier's income. In industrial markets, therefore, there is often a high degree of interdependence. Both supplier and purchaser will rely on each other for their continued existence. The loss of one purchaser in a consumer market is not nearly so significant. This situation is further complicated by the fact that it is difficult in the industrial context to find mass markets. Apart from there being smaller numbers of customers, one buying organization is likely to differ significantly from the next in their buying requirements. This means that segmentation in industrial markets has to be conducted on a different basis.

A further implication is that the degree of product variability required can also be greater. In some cases, a single customer can form an entire segment and can consequently demand a high degree of customization. In others, the consumer variables for segmentation such as demography, life-stage and lifestyle need to be replaced by alternatives such as size, applications and competitive positioning. Such heterogeneity is an important factor for the organization marketing industrial products.

In trying to understand, and give some structure to, the markets which industrial suppliers face, it must be recognized that their customers also have customers of their own, who may in turn have customers! Unless the customer is a country's Defence Ministry or some similar body, all industrial products will eventually translate into a consumer purchase. This means that the structure of the market in which an industrial organization operates can be complex, with a whole series of intermediaries or 'value adders' between them and the final consumer. Industrial suppliers are thus faced with a situation of derived demand for their goods and services. The way they perceive their market and the way in which opportunities are identified and defined can therefore become a very complicated process.

Paradoxically, these factors combine to make market research in industrial markets sometimes more problematic, and sometimes easier, than consumer market research. Because of their low numbers, potential customers are likely to be difficult to find, extract information from and generalize about. One cannot simply stand in shopping centres and stop passers-by or ring at random from the telephone directory. In addition, the influences on demand are likely to be more complex and remote from each organization, making them difficult to interpret. Where an organization has existing customers, however, market research is often easier since the people who hold valuable information and opinions should already be known and are usually quite willing to be approached.

INDUSTRIAL MARKETING AND GENERAL MANAGEMENT

One of the consequences of the complexities which exist in the buyer–seller relationship in industrial markets is that many different functions within the selling organization are required to interact with various aspects of the customer organization. This can include service or maintenance sections, the design team, installation group, training, delivery and finance departments, as well as senior directors and the sales people. While many of these are also points of contact in consumer marketing, these contacts tend to be extensive and of greater significance in industrial markets.

Such complexity has also given rise to a need for Key Account Management (see Chapter 13). Supply relationships that are significant for both parties can easily falter if left on a simple transactional basis. Key Account Managers who take a relationship perspective on an organization-wide basis are more likely to ensure that potential problems are avoided.

The management of marketing in industrial organizations, therefore, tends towards a general management function with small decisions in one area having a greater impact on the customer and business success. This is not to say that such coordination is inappropriate for consumer markets, but that closer attention to building a marketing approach across the management functions has a higher profile.

In general, then, marketing industrial products is a diverse area which can utilize a number of the approaches developed by consumer marketing organizations. What is important is a recognition of the differences which exist in industrial markets and the implications these hold for the supplying organization. In particular, the way that the relationship between supplier and customer is managed takes on a different perspective, but one which must be well understood and nurtured over time for the achievement of continuing and successful business.

MARKETING CAPITAL GOODS

The marketing of capital goods presents suppliers with some special concerns. These are generated by the nature of the products and the circumstances under which they are bought and sold. Capital goods can be pieces of plant and equipment, such as large machines, boilers or storage facilities or complete systems such as refineries, telecommunications networks or civil engineering projects. Customers will similarly be large organizations and may be either private or public sector. Whichever the case, the purchase will be a significant event for both the customer and the supplier in terms of the amounts of money involved and the benefits that the products will be required to deliver. Such high stakes mean that a systematic approach to marketing is required so that the risks involved are carefully managed.

By their nature, orders for capital goods tend to be few in number, even for the 'faster-moving' capital goods such as machine tools. In addition, their high cost also makes them very prone to economic fluctuations. Suppliers are thus often faced with a 'feast or famine' situation whereby they either have no orders and are standing around idle, or they are overwhelmed with enquiries and find it difficult to meet delivery or completion schedules. This is further exacerbated by the fact that each purchase is usually supplied against a different specification. It is unlikely that such large and complex products will be used in the same way, or serve exactly the same purpose, from one customer to another. Such a situation prohibits the creation of finished stock except at a very early stage in the manufacture or construction process.

The risk associated with the supply and purchase of capital goods also creates pressures which militate against the use of innovative technologies or approaches. On the supplier side, the consequence of product failure in terms of financial penalties or loss of reputation can be very high. Similarly, from the customer's point of view, a capital purchase will frequently have strategic, or at least operational, significance and buyers are likely to be anxious to reduce the chances of something going wrong by sticking to proven technologies or methodologies. Where innovation does occur, its adoption is therefore likely to be a slow process and the recovery of development costs a long-term activity.

The consequences of these factors for marketing cover a number of areas. High levels of customization plus the complexity of (particularly) larger products will mean that a product specification will take time to evolve and will typically be the result of much negotiation between supplier and customer. This will require suppliers to resource such negotiations and to maintain the ability to understand a customer's perspectives so that they can translate the benefits that customers seek into a product specification. Protracted negotiations and the absence of finished goods stock will create long order lead times, which will also require suppliers to maintain sales relationships over time. Without this, suppliers may risk losing an order through issues such as:

- changes in personnel;
- loss of interest;
- situational changes that will alter the product specification;
- the activities of competitors.

The size of an order may also require suppliers to join together, sometimes as international consortia, to be able to fulfil the requirements of a customer. Managing such relationships in a way which presents customers with a unified face is a distinct skill, but one which is important for the maintenance of relationships with customers. Such relationships, however, will also need to be continued after a sale has been made since capital goods usually involve lengthy construction and/or installation. Although repeat business is not as significant a feature of capital goods marketing as it is for other types of industrial products, client or customer referrals and references *are* an important aspect of selling and good relationships will be needed to ensure that these are forthcoming.

DECISION-MAKING IN THE PURCHASE OF CAPITAL GOODS

The size and significance of a capital purchase will mean that large numbers of people are likely to combine to form the decision-making unit. Since relationships are an important factor in capital goods sales, personal contacts and the ability to keep and develop such relationships is a critical factor for success. Similarly, having the flexibility to maintain different types of relationships with different people is also important. The significance of capital purchases, however, can mean that governments will also have an interest in the product. Indeed, for some products, governments *are* the customer. Thus, there can be a political, as well as a commercial, influence in the decision to buy.

Thus, in some instances, such as a defence project, high levels of confidentiality may be required. In others, such as a large infrastructural civil engineering project, awareness of a country's development plans, the involvement of national suppliers or some 'tit-for-tat' investment by the supplier or the supplier's government may be a prerequisite for a successful sale. This political aspect, plus the complex nature of the 'buy-centre', may require a lot of 'politics' and building of credibility along a number of different dimensions for an organization to be a viable contender for a piece of business.

Marketing capital goods is, therefore, conducted in a complex market environment. Marketers are faced with long lead times and extended product life cycles, which make it difficult to innovate. In contrast, they are also faced with volatile demand and large variations between one purchase and the next. This is further complicated by the need to develop good relationships with customers, but with the likelihood that any relationship will only be temporary since any one customer is only likely to purchase once or, at best, infrequently. This demands that suppliers are able to be flexible in terms of relationships, capacity and the product they supply. It also demands that they take a long-term perspective on several counts including sales negotiations, product design and development, relationship management, profit planning and funding issues.

TRADE MARKETING

In the marketing of consumer products and 'fast-moving' industrial goods, much effort is applied to 'pull' activities (i.e. creating demand among large numbers of users that will 'pull' products through the supply chain). This is the logic behind most branding strategies, sales calls and promotional activities such as couponing or distributing free samples through the door. An alternative or even complementary approach is to adopt a 'push' strategy focusing on intermediaries (the trade) and 'pushing' products through the supply chain to consumers. The power and influence of these trade intermediaries in developed economies has grown significantly over the last 30 years. Indeed, the ability to have your product on the shelves or in the catalogues of the more prominent intermediaries is often a key factor to gaining position and advantage in many end-use markets. Focusing marketing effort on these intermediaries is termed trade marketing. As its significance has increased, many organizations have had to develop new approaches to marketing and relationship management to be effective.

THE RISE OF INTERMEDIARIES

Factors that have contributed to the increasing importance of trade intermediaries for suppliers of mass market goods and services are as follows:

Retail power

As has already happened in North America and much of Western Europe, retailing and some aspects of industrial distribution have become dominated by a small number of large organizations such as Walmart in the United States, Tesco in the United Kingdom and Carrefour in France. Suppliers relying on these intermediaries for sales-to-end users can easily be denied access to such markets even if only one intermediary decides not to stock their products. Effective marketing to these intermediaries therefore takes on much greater significance. The strategy can no longer be a reliance on large sales forces placing their products in a wide range of different retailers or distributors in a 'hit or miss' fashion, but one which sustains effective presence in these outlets.

Brand differentiation

In some markets, consumers are finding it increasingly difficult to differentiate between leading brands or suppliers. This is particularly true in markets for banking, mobile telephony or personal computing, but it is also observable in traditional fast-moving consumer areas such as washing powders or tinned foods. The result of this growing brand parity is that consumers more frequently purchase on the basis of availability and price within their chosen 'retail set'.

Market fragmentation

As markets become more competitive and customers grow in sophistication, demands for individualized supply similarly increase. Demand consequently fragments making it less effective to adopt mass marketing techniques. While this has encouraged organizations such as Heinz, Amazon and wine importers to experiment with more direct and individualized marketing methods, it has also emphasized the value of reaching out to customers at the point of purchase. This requires trade promotions to encourage preferential stocking and point-of-sale support.

E-commerce

Advances in information technology have meant that suppliers can be in direct contact with an intermediary on a real-time basis. This has enabled retailers and other intermediaries to reduce cost and increase efficiency by effectively delegating inventory responsibilities to a small number of key suppliers. Establishing oneself as one of these key suppliers in the eyes of intermediaries therefore becomes a priority for many manufacturers.

Brand management deficiencies

Brand managers in many organizations are often young and ambitious people trying to leave their mark on a brand's performance. The most effective way of achieving short-term position is often through trade promotions since brand value enhancement in the eyes of the consumer is more difficult and inevitably a longer-term proposition. Trade marketing therefore becomes more valuable to a brand manager's career than brand development.

TRADE MARKETING STRATEGIES

Traditionally, tactics for trade marketing have centred on the marketing mix elements of promotion and price. Table 1.2 provides an overview of the most commonly employed tactics in trade marketing.

As intermediaries have become an increasing focus for suppliers, tactical approaches have given way to more strategic marketing approaches. At the heart of this is an understanding of how both supplier and intermediary can mutually benefit from a well-managed long-term relationship.

One manifestation of this is the product profitability studies that analyse in great detail the way that cost attaches itself to a product during manufacture, distribution and handling within the retail environment. Thus, packaging that allows items to be transported around a retail outlet and deposited straight onto the shelves without the need to unpack and stack will save time, effort and, therefore, cost for the retailer. Another is the development of category management whereby a single supplier takes responsibility for a product category such as hair care or chocolate bar confectionery within a retailer's store. They will check the display effectiveness, restock routines and

Promotion	Price
Point of sale material	Additional discounts
Merchandizing support	Supplying to retailer price points
Cooperative advertising	Supporting buyer margin targets
Joint trade fair representation	Price promotions
	Incentives to staff of intermediaries

Table 1.2 Tactics for trade marketing

generally ensure they and the retailer are making the most from stocking the product.

Where category management has become widespread, as in the case of the United States, Germany and the United Kingdom, suppliers vie with each other to become 'category leaders', which has caused a need to adjust significantly the structure of many suppliers' brand portfolios.

The strategic importance of trade marketing has also led to heavy investment in information technology by many suppliers to enable logistics and communications to proceed as smoothly as possible. Other aspects of the relationship will be enshrined in joint product development plans, the sharing of 'best-practice' information and a long-term view of category development such as the introduction of new products, range extensions, brand development, supply arrangements, managing seasonal variations and so on. A typical example might be a decision to introduce more organic produce, different labelling information or recyclable packaging.

The factors that have led to the expansion of trade marketing have also stimulated many suppliers to reassess their relationship with end users. While some suppliers have concentrated on better marketing relationships with intermediaries, others have sought to strengthen their brand franchise so that retail or product categories will be weakened without the inclusion of their brand. This is quite apparent in a number of areas such as fashionable sports wear, pet foods and some aspects of the soft drinks market. It is also a major part of Intel's long-term strategy with their global 'Intel Inside' campaign.

At the same time, there has been an upsurge of 'direct' provision in many areas, particularly in the financial services arena. The advent of the Internet is dramatically fuelling this trend. While some retailers have added this to the range of services they offer, the possibility of direct provision for manufacturers is an attractive proposition. Not only does it imply higher margins but it also reduces their reliance on retailers who may not always approach supply relationships in a true 'spirit of partnership'.

The increase in global retailing and the emergence of 'category killers' are also good and bad news for suppliers. The global expansion of stores such as Toys-R-Us, Walmart and Carrefour means access to expanded markets and growth in line with the retailers. However, such stores are usually situated out of town and offer focused category goods at heavily discounted prices. Their predatory nature often decimates local retail competition, reducing suppliers' routes to a market, and puts them in a stronger position to demand lower prices from suppliers. At the time of writing, there is a big debate about the viability of traditional High Street retailing.

Managing the conflicting demands of these powerful intermediaries, including the need for independence and long-term profitability on the part of a supplier and the continuing possibility for creating a consumer or brand franchise, will be an important determinant of the way trade marketing develops in the future.

SUMMARY

There exist many types of marketing, all of which have their own special characteristics and associated issues. Marketers need to be cognizant of the scope and features of the market they are in, trends affecting their particular industry, sector or marketplace, competitors' actions, as well as consumer wants and demands in order to develop appropriate strategies and tactics. The basic approach, however, remains more or less constant throughout; an organization has to perform market research, identify a target market, develop appropriate products, adopt a suitable pricing policy, promote sales and so on. While the principles are the same, the context is different and adopting a similar mindset for consumer marketing and, say, trade marketing can create problems. What emerges, then, is the significance of the *differences* rather than the *similarities* involved in the various forms of marketing.

FURTHER READING

Journal of Consumer Marketing (2011) Vol. 28 (7). Special issue: The first decade: Emerging issues of the twenty-first century in consumer marketing.

Journal of Services Marketing (2010) Vol. 24 (2). Special issue: The Anatomy of Services Branding.

Journal of Industrial and Business Marketing (2012) Vol. 27 (7). Special issue: Business-to-Business Marketing Strategy.

Industrial Marketing Management (2013) Vol. 42 (3). Special issue: Theoretical Perspectives in Industrial Marketing Management.

CHAPTER 2
CONSUMER BEHAVIOUR

IN THIS CHAPTER WE STUDY:

- factors influencing consumer behaviour
- types of consumer behaviour
- perceptions, attitudes and learning
- the purchase decision-making process
- cognitivist and behaviourist perspectives

DETERMINANTS OF CONSUMER CHOICE

In this chapter we explore the basics of consumer behaviour within the context of B2C (business to consumer) marketing. In contrast to organizational buying behaviour (B2B), B2C markets typically comprise numerous buyers whose characteristics and buying processes vary markedly in all sorts of ways. In order to offer 'the right consumers the right products at the right time in the right place' more effectively than competitors, providers of products and services need to understand consumer motivations, preferences, prejudices and priorities of consumers in their target market(s). They need to appreciate that every purchase decision is a *choice* based upon a wide variety of factors, taken not in the abstract, but in context.

Consumers have numerous alternatives; true monopolies are relatively rare. They choose between providers using a combination of rational judgement, based on facts and previous experience and subjective feelings that determine likes and dislikes. For simplicity at this introductory stage, this chapter assumes that consumers are both buyers and end users of the product or service being purchased, though in practice this may not always be the case.

In trying to comprehend why people buy what they buy, marketers have to make judgements about the importance they ascribe to consumers' expressed beliefs about certain products and services. People form attachments to different products and services which are not always entirely rational or easy to predict. For marketers, the challenge lies in trying to identify and make sense of the multiple factors that can influence a purchase decision. For example, the purchase of a tablet PC may be based upon evaluations by a prospective buyer of ease of use and how reliable it is likely to be. These evaluations are based upon a number of factors, such as experience, recommendations from friends and family or price. The Internet can be highly influential too, particularly electronic word of mouth (eWOM) on customer review sites. There is evidence that eWOM is more influential than traditional advocacy for several reasons: firstly, consumers visiting review sites actively seek opinions from strangers, no longer simply relying upon acquaintances (Senecal and Nantel, 2004). Secondly, eWOM reaches a very large audience (Litvin et al., 2008). Thirdly, it can remain online permanently and be accessed sometimes long after the review is published (Sun et al., 2006) and, finally, anonymity encourages people to publish reviews (Phelps et al., 2004) – this is particularly salient when eWOM is negative.

Alternatively, or additionally, personal evaluations of the product's physical attributes, such as weight, functionality, signal coverage, download speed, colour, size, 'look and feel' may be important considerations. Other, somewhat more intangible factors, such a 'cool' brand, reputation for performance excellence, outstanding technical support, hassle-free after-sales service and upgrades and so on may also weigh heavily.

Some buyers may be heavily influenced by the extent to which the purchase augments their self-concept, or image and standing with their peer group. Self-image congruence, in which consumers buy products that they perceive as similar to their own self-image, is an important factor in understanding consumer behaviour. Simply put, consumers who consider themselves modern, trendy and cool are attracted to modern, trendy, cool brands. Anton et al. (2013) find self-image congruence, along with perceived usefulness and enjoyment to be key drivers of consumer attitudes towards e-book readers. Congruence between the brand image and deeply held beliefs about self-concept can be powerful drivers, and marketers ignore subliminal meanings of consumption at their peril. Gerald Ratner's infamous 1991 denigration of the jewellery sold in his UK High Street stores effectively killed off the company; consumers deserted in droves, £500 million was wiped off the value of the company; shortly afterwards it had to be sold and renamed.

Determinants of individual purchase decisions are complex and difficult for marketers to unravel. Marketers cannot possibly *know* exactly which factor exerts the most powerful influence upon the final purchase decision, or which combination of factors are most powerful; they have to make judgements based upon in-depth knowledge of their target audience(s). In the past, this would be based primarily upon observing purchase behaviour, or by bespoke market research; nowadays it is relatively simple for marketers to gain consumer insights by logging on to the Internet. Intelligence can be gathered from a variety of sources, such as consumer-to-consumer (C2C) social networking sites, discussion forums, consumer-generated content and customer review sites, all of which give consumers opportunities to share their thoughts, preferences, concerns and evaluations of products and services.

It is an accepted fact that consumers buy certain brands for sometimes irrational, emotionally based, yet valid reasons; compare the sales figures for Apple's iPhone and Samsung's Galaxy smartphone which offer similar functionality and the same 'look and feel'. It is the job of the marketer to assess which of the attributes weigh most heavily in the purchase decision and to exploit this knowledge intelligently. The key to successful marketing is understanding consumer behaviour enough to make *sound* judgements, rather than second-guessing from the morass of information available.

PERCEPTIONS, ATTITUDES AND CONDITIONING

Perception is defined in the *Oxford English Dictionary* as 'the mental action of knowing external things through the medium of sense presentations; insight or discernment'. In marketing, consumer perception is more important than reality. What makes Apple 'cool', Scotchguard trustworthy, Burberry luxurious? Not simply tangible product features, but the composite elements of the brand and the means by which brand attributes, characteristics, personality, values and benefits are communicated to, *and deciphered by*, consumers. In Chapter 12 we explore communication theory and practice; the key point here being that consumer perceptions concern the selection, organization and interpretation of a series of sensory stimulations to create meaning and relevance. It is crucial that marketers understand how to influence consumer perceptions. This will enable them to predict how brand communications might be received, decoded and interpreted to optimal effect. Perceptions are instantaneous and, over time, through exposure to a number of sensory stimulations around a brand, aggregate to form brand attitude. Marketers may seek to influence consumer perceptions directly using rather unsubtle techniques such as the Scotchgard's repetition of the strapline, 'The Brand You Can Trust', through actions that stand for key brand attributes, such as the entrepreneurial, innovative Virgin group of brands, to more subtle tactics, such as James Bond wearing an Omega watch.

An attitude is defined as a 'behavioural tendency that is expressed by evaluating a particular entity with some degree of favour or disfavour'. In contrast to perceptions, attitudes are relatively fixed and durable, and therefore difficult to change. Positive experiences of a product, service or brand, positive cultural frames of reference, or the recommendations of families and friends tend to contribute to the formation of a favourable attitude, while the converse is also true; negative experiences tend to lead to unfavourable attitudes which are difficult to change. To build positive attitudes, brands need to provide congruent experiences that lift the spirit, enhance the mood, or reinforce the positive perceptions. Although some marketers advocate attitude change strategies, in practice attitudes are relatively entrenched; the optimal route is to influence perceptions via a series of sensory stimulations, over a period of time.

The most effective brands have meanings that go far beyond the actual product or service. How do the megabrands create meaning for consumers? It is generally held that meaning is created through learning, and that through learning consumers are conditioned to respond in particular ways. Behavioural learning theory is based upon an input–output, stimulus–response model in which the individual responds in a predictable way to an input, or stimulus. In classical conditioning, an established relationship between a stimulus and a response, repeated over time, eventually promotes learning, for example, adverts for the Lynx range of men's grooming products, featuring young men who have used the products becoming irresistibly attractive to young females. Conditioned learning can be extremely effective as a means of short-circuiting decision-making; in this case young adults in the target audience respond well to the subliminal message being conveyed.

In contrast, operant conditioning works on the basis of reinforcement – reward. Whereas in classical conditioning, liking precedes trial, operant conditioning provides a reward, such as a free sample, from which reinforcement and learning occur. Operant conditioning underpins the rationale for sales promotions, for example, supermarket 'buy one, get one free' (BOGOF) offers, free samples of face creams or new perfumes in women's magazines and so on. Strategies based upon operant condition is particularly effective in low-cost, low-risk purchases, such as fast-moving consumer goods (FMCGs) or fast food, though care must be taken to understand thoroughly local market conditions. In 2010 KFC offered online discount coupons through its official website to Chinese consumers, only to find them circulating freely on other sites, downloaded and copied in unanticipated volumes. Inundated, KFC refused to accept coupons from 'non-official' sites, resulting in customer unrest and, eventually, police intervention.

CASE STUDY 2.1 APPLE

Loyal customers of Apple greet each new product with an enthusiasm that non-loyals find incomprehensible. Yet, their behaviour is easily explained by classical conditioning theory. Consumers are conditioned to believe that buying *the latest* Apple product makes them trendy, edgy and cool. This is achieved by sophisticated technology and modern, sleek designs with a price tag to match. How does this conditioning occur? Apple releases are preceded by high levels of buzz marketing, in which opinion leaders play a central role via media articles and blogs. High profile pre-launch events, provision of demonstration models, pre-orders and turning the actual launch into an *event* all underline the simple message that Apple is *selling a lifestyle* which embodies 'sleek and cool'. Subliminal message = *We have made this especially for you; just think how you would feel using it, and what others would think of* *you when they saw you using it*. This makes each new product a 'must have' in which the launch triggers an automatic purchase response.

CASE STUDY QUESTIONS:

1. Outline how, exactly, the classical conditioning outlined in the case promotes associationist learning.
2. Discuss how Apple could further augment the conditioned response outlined in the case.
3. What other factors might affect a loyal Apple customer's purchase decision? To what extent can Apple influence these factors?

MODEL OF CONSUMER BUYER BEHAVIOUR

Consumer behaviour has to be understood before marketing strategies can be developed. However, constructing a standard model of consumer buyer behaviour can be somewhat problematic. While the inputs and the outputs of decision-making can readily be identified and, to a greater or lesser degree, measured, intangible elements involving buyer characteristics and choice determinants is often more elusive. Kotler and Armstrong (2012) describe it as a 'black box', in other words, opaque. Predicting consumer buyer behaviour may be an imprecise science, but some simple models have been created to enable marketers to develop deeper understanding of consumers in order to acquire and retain their custom.

Figure 2.1 illustrates a classic input–output, stimulus–response model. There are two categories of input: internal stimuli over which the marketer has control (the expanded marketing mix: product, price, place, promotion, people, process and physical evidence, customer service) and external stimuli over which they have little or no control (political, economic, social, technological factors). Purchase decisions are framed indirectly by external stimuli and market conditions, and directly in response to the stimuli employed by the seller. Clearly, the more fully a company understands the stimuli that elicit greatest effect, the more likely it is to achieve a competitive advantage. Outputs refer to buyer responses. Outputs can be identified and assessed in various ways, such as time of purchase, the place of purchase, choice of brand, quantity purchased, the terms and conditions of purchase.

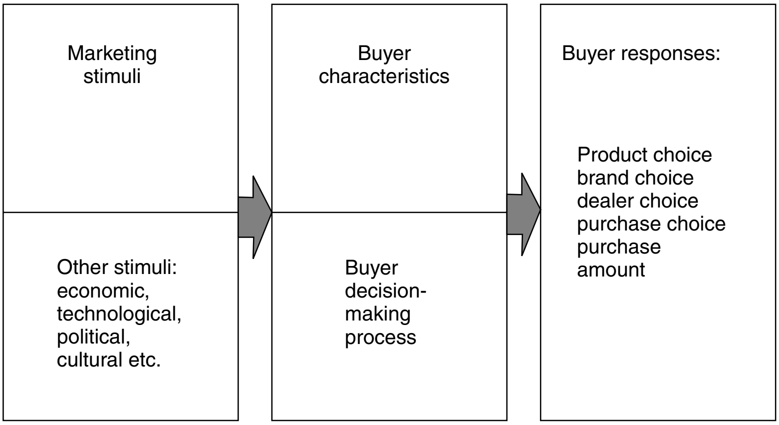

Figure 2.1 Black Box Model of consumer buyer behaviour

Analysis of inputs and outputs raises questions about who buys and how they buy, leading researchers to examine closely buyer characteristics in an attempt to identify the critical drivers in the purchase decision-making process.

INFLUENCING FACTORS

An important element of the process of analysing and understanding purchase behaviour involves an analysis of the context within which purchase decisions occur. Pervasive social influences can be viewed on two levels: macro and micro level. Macro influences include culture, subculture and social class, while micro influences include the more immediate social environment of reference groups and the family. Let us consider each level in turn, as portrayed in Figure 2.2.

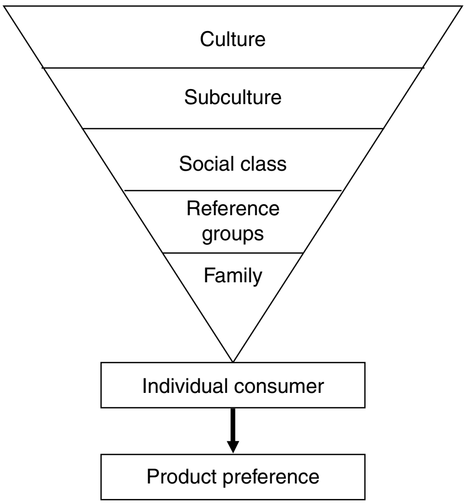

Figure 2.2 Social influences on consumer buyer behaviour

MACRO SOCIAL INFLUENCES

Macro social factors play a role in shaping the values, beliefs, attitudes and behaviours of individual consumers and provide useful bases upon which to segment markets. They have direct implications for designing effective relationship marketing strategies, especially where management of the marketing mix spans national boundaries.

CULTURE

Culture can be defined broadly as 'a complex of learned meanings, values and behavioural patterns' (Peter and Olson, 2010) that are shared by a society. The relationship between the consumer and the product, often described as the 'product/self relationship', is culturally specific and thus of great interest to marketers seeking to identify the factors that influence purchasing and consumption.

Despite globalization, some idiosyncratic differences still exist between people from different regions of the world. When Euro Disney first opened on the outskirts of Paris in 1992, long queues formed at catering outlets. Research revealed that while Americans prefer 'grazing' (or snacking) all day as they tour a theme park, Europeans prefer a full meal between 12 noon and 2 p.m. Euro Disney had to create more suitable eating opportunities for visitors and the daily parades of Disney characters had to be rescheduled for 11.30 a.m. and 4 p.m. to avoid a clash with the lunch period. More recently, a cross-cultural study of IKEA's marketing strategy in the United Kingdom, Sweden and China exposes differences in consumer cultures which impact upon customer-facing elements of the retail experience as well as differences in back-office processes (Burt et al., 2001). Similarly, a cross-cultural study of online behaviour finds US consumers more trusting of company websites than Koreans against three attributes: competence, benevolence and integrity (Park et al., 2012). Cultural influences also play an important role in domestic markets, however because marketers operating within their home countries tend to be very familiar with the prevailing culture, they may not recognize the significant cultural factors that influence domestic consumer behaviour.

SUBCULTURE

A subculture is a cultural group within a larger culture that has beliefs or interests that are at variance with those of the larger culture. Many types of distinction are used to classify subcultures, including ethnicity, religious or political affiliation, age and so on. Taking age as an example, marketers often distinguish categories of consumers in terms of their age group. People within certain age ranges frequently behave similarly, but in ways which set them apart from other consumers. The youth market, for example, exhibits many unique traits and behaviours, such as a strong need for peer acceptance, preoccupation with celebrities, strong interest in music, great interest in sex, high dependence on electronic gadgets, intensive engagement with peers via online social networks, short attention spans, preference for texting and instant messaging over longer, more intricate forms of communication, receptive to viral marketing and co-created content. Interestingly, youth subculture is not restricted to any particular nationality or location, being manifested in countries around the globe. These easily identifiable, enthusiastic and apparently insatiable consumers are every marketer's dream!

SOCIAL CLASS

The concept of social class is drawn from sociology, where a social group is organized according to a recognized hierarchy based on the individual's status within the group. While the impact that social class has on consumer behaviour is a topic of considerable debate, marketers favour social class as a form of shorthand to describe their typical consumers. In the United Kingdom, for example, consumers are classified into six social classes, mainly determined by the occupation of the head of the household, as given in Table 2.1. This method of classification has remained in use for a number of years, despite unease at its decreasing relevance to modern society.

Class name	Social status	Occupation of head of household
A	Upper middle	Higher managerial, administrative, professional
B	Middle	Intermediate managerial, administrative or professional
C1	Lower middle	Supervisors or clerical, junior managerial, administrative or professional
C2	Skilled working	Skilled manual workers
D	Working	Semi-skilled and unskilled manual workers
E	Subsistence level	Pensioners or widows, casual or lower-grade workers

Table 2.1 UK socio-economic classification scheme

These systems of consumer classification tend to be culturally bound, having been developed on a parochial basis. They do not lend themselves to international comparison. Within Europe, there have been attempts to use a harmonized set of demographics, which focus on the terminal education age of the main income earner in the household, their professional status and the average net monthly level of household income. However, collecting this kind of data from across European markets can prove problematic in countries such as the United Kingdom, where it is common practice for survey respondents to think in terms of their gross annual salary, rather than the net monthly income of their household. These issues surrounding the difficulties of marketing research are discussed further in Chapter 4.

MICRO SOCIAL INFLUENCES

Purchasing decisions are also influenced at the micro level by the people closest to the consumer, namely family, friends, relatives and peers. These people feature significantly in the consumer's immediate social environment and can be grouped into two types of influencer: reference groups and family. Their effect on consumers' attitudes and purchasing behaviour can be considerable.

REFERENCE GROUPS

Reference groups are made up of people who belong to the same social circle and who are personally relevant to the individual making the purchase decision. They influence thought processes, feelings and, ultimately, buying behaviour. Influence may be overt, where a buyer seeks the advice of a friend before choosing between options, or covert where one is influenced subliminally via subconscious observation of the products, services and brands used by others in the reference group.

Some companies use reference groups explicitly in their marketing activities. For example, the well-known UK chef, Jamie Oliver launched the 'Jamie at Home' party plan business in 2009 based upon in-home selling techniques which actively encourage reference groups to exercise their aggregate power in the purchasing decision. Reference group endorsement is a widely used, powerful marketing tool. The UK satellite broadcaster, Sky TV partners with Marks and Spencer to offer M&S gift vouchers to Sky customers recruiting new subscribers; both the existing and new customer gain a reward. In this case, reference group endorsement is used to market Sky's services.

FAMILY

Market research traditionally uses the individual consumer as the unit of analysis, but there are types of purchasing decision where the family becomes the decision-making unit. Studies of this phenomenon attempt to describe the various roles played by family members and the complexity of interactions that take place in reaching a collective decision. In focusing on the family as decision-maker, marketers first face the challenge of defining ‘the family’. Demographic trends and relativist positions have invalidated the concept of the ‘traditional nuclear family’, requiring marketers to cope with multifarious, fluid models of family life.

Where households comprise adults and children, in certain circumstances both parties may be equally responsible for decisions, such as selecting a holiday destination or restaurant choice. Children may exert a strong influence, for example, in relation to the latter they may be strongly motivated not by the quality of food but availability of play facilities or ‘freebies’; McDonald’s is one of the largest toy retailers in the world through giving away promotional Disney toys when new films are released. ‘Pester power’ should not be underestimated; in fact, it is so influential and pervasive that in December 2011 the British government warned retailers that they would face new regulations to curb ‘the commercialisation of childhood’ including a ban on the use of children under 16 as brand ambassadors or in viral peer-to-peer marketing campaigns.

Present trends indicate that families will continue to be smaller, more affluent and more geographically mobile. At the time of writing, children enjoy the highest ever level of material goods, and this is set to continue, presenting tremendous scope for youth-orientated brands. Additionally, opportunities are opening up as people become increasingly willing to pay for services that maximize their use of time: for example, the home delivery of groceries, after-school clubs for children and so on.

A popular tool for analysing family purchasing behaviour is the family life cycle, which describes the typical changes that take place in families over a period of time. Traditionally, the family life cycle has concentrated on life-stage events such as marriage and the arrival of children, and schooling and the departure of children (often referred to as the ‘full nest’ and ‘empty nest’ life stages). However, given the evident changes in demographics, the family life cycle is no longer a straightforward linear model but something resembling a complex network of life patterns that may involve non-traditional relationship types or repeated life-stages. It is crucial that marketers map these stages so they can plan the positioning of existing, and opportunities for new products and services.

PERSONAL CHARACTERISTICS

Influencing factors that have a more direct impact on consumer behaviour are those concerned with the individuals themselves. They include personal attributes, such as age, lifestage occupation, economic circumstances and lifestyle. Personal psychology also plays a role, influencing beliefs, attitudes and motivations. It is not uncommon for the same individual to display distinctly different buyer behaviour when purchasing a bottle of wine for home consumption and a gift for a dinner party. Equally, different motivations and preferences may become apparent when faced with a 'distress purchase', such as buying petrol when the petrol gauge in the car hits zero, compared to simply topping up a half-full tank.

Market research data on consumer buyer characteristics are usually presented in the form of a typology of consumer profiles for a particular set of products or services. The categories, with their memorable labels such as 'sporting thirties' and 'young survivors', can be assimilated quickly into marketing strategies, offering an abbreviated method of expressing a complex set of consumer characteristics and typical buying behaviours.

TYPES OF CONSUMER PURCHASE DECISION

Understanding the purchase decision-making process as a fundamental part of creating a relationship with consumers requires an examination of the role and interaction of two important dimensions: involvement and degree of difference that consumers perceive to exist between competing brands.

'Involvement' is a term used to describe how personally meaningful the purchase is to the consumer. It implies that the act of purchasing is a conscious activity and that an element of effort will have been invested in making the final choice. The role of consumer 'involvement' refers to the factors listed in Figure 2.3.

- high degree of risk (performance, cost, psychology)
- high degree of brand differentiation
- hedonism and pursuit of pleasure
- lifestyle products
- special interest products (hobbies and leisure pursuits)

Figure 2.3 The role of consumer involvement