<u>Week 1 - Framework for Marketing Strategy</u>

1. Introduction

“The purpose of business is to create *and keep* a customer, and **to make customers active ambassadors for your brand**.

1. *Marketing strategy formation*: long term goals/approach to marketplace
2. *Marketing planning*: time horizon
3. *Programming, allocating, and budgeting*: near term objectives and plans for resources
4. *Implementation*: execute programs
5. *Monitoring and auditing*: evaluate results
6. *Analysis and research*: gather internal/external data to support 1-4 (cyclical)

“Blueprint by which firms compete”.

Marketing strategy is about the process of selecting customers, deciding on competitive point of differentiation to present to them, and developing a plan for reaching those customers.

5 C’s

- Customer
- Company
- Collaborators
- Competition
- Context

4 P’s

- Product
- Promotion
- Place
- Price

2. Essential Reading

No one standard way to market product or service effectively, adopt different strategies for different offerings.

Given organization may change marketing approach over time, i.e. Samsung Electronics launching in 1969 as low-cost, in 1990 third tier commodity brand with no product differentiation, shift focus to developing manufacturing expertise and compete on basis of highest quality, in 2013 rated #8 on “best global brands of 2013”, highest non-US company on list.

2.1 Overview of Strategy Formation

What firm hopes to achieve in market (STP or *aspiration decision*):

1. **Segmenting** the market to identify groups
2. **Targeting** a specific group or groups to address
3. **Positioning** in the mind of selected customers

After this has been done, firm works on action plan or the four Ps. Three elements are done already (product offering, promotion, and place (distribution). Final element is price charged, for firm to capture some of the **value** it has created to generate revenue to fund operations and provide profit.

Actions of firm create outcomes not only short-term but also as a *franchise*, platform for future marketing efforts, including brand reputation and customer loyalty; back and forth between analysis and decisions.

2.2 Analysis underlying Strategy Formation

Company should undertake 5 Cs analysis:

1. **Customer** behavior
2. **Company** (skills, competencies, assets org has)
3. **Collaborators** (which suppliers to partner with)
4. **Competition** (who else is targeting same customers and those firms capabilities)
5. **Context** (what cultural, technological, legal implications limit possibilities)

Peloton Case Study:

Customer analysis: Decision making unit (DMU) is individual or couple living together.

6 major roles in buying:

- *Initiators*: recognize the value of solving issue, they stimulate search for product
- *Gatekeepers*: act as problem/product experts and control info/access to other members
- *Deciders*: make the purchase
- *Influencers*: have input in purchase decision
- *Purchasers*: consummate the transaction
- *Users*: consume product

Variety of research methods exist to answer these question, quant surveys to qualitative methods like focus group discussions/customer interviews.

Company analysis: company's strengths and weaknesses

Peloton (through customer analysis) designed product to fit market; next is to ensure product/approach fit company existing skill set

Core competency:

1. Make significant contribution to creation or perceived customer value in products
2. Be difficult for competitors to imitate

Peloton's success came from having clear vision of what kind of company it should be; their vision was delivering "world-class indoor cycling studio experience on your time, and in the comfort of your own home".

Collaborator analysis: Analyzing the set of external assets that may complement those of company

Company had good idea, but needed money for R&D and capacity to manufacture at large scale. Largest collaborators was website Kickstarter. Bike partner was described as one of best indoor cycle manufacturers in the world.

Competitive analysis: Winning customer acquisition game requires creating more value (benefit minus costs) for customers. Identify competitors now and likely to compete with in the future.

Peloton were familiar with competitors as experienced consumers. One significant competitor was *not engaging in regular fitness activity*; 8 in 10 who purchased were not in market for fitness equipment.

Understand strengths and weaknesses by analyzing competitors statements about their own brand (10-K filings) and interviewing potential customers about perceptions of other companies. Also reverse engineering product to understand features and cost.

Context analysis: Good strategy takes very little for granted, context shapes what is possible and is always changing.

Technology & the internet has disrupted existing business practices. Products and services acquire meaning from place in culture, acquiring economic value from that meaning. *Coolhunting* is integral part of marketing strategy formation.

Peloton used context analysis to identify cultural trends related to social media interaction and vibrant online communities.

Most critical of five Cs is customers - understanding preferences and perceptions and how they make decisions. Marketing requires deep analysis to support decision making on host of issues.

2.3 Aspiration decision: Segmenting, Targeting, Positioning

Segment the market, *target* specific customer group/groups, determine *position* in mind of selected customers.

EXHIBIT 3 Common Segmentation Variables

Variable Type	Example	Segment Defined
Demographic	Coke Zero	Age (young)
	Chase Sapphire	Age (Millennial)
	Zipcar	Age (under 25)
	Marriott Courtyard	Business traveler
Geographic	Zipcar	City dwellers and college students
Psychographic/lifestyle	Zipcar	Environmentally concerned
	IKEA	Value-oriented
Benefit sought	"Bugs" Burger Bug Killers	Pest elimination (not control)
	Spirit Airlines	Low price
	Outotec	High performance
Usage	Marriott Residence	Long stay

Segmentation bases:

- Demographic: age, income, gender, occupation
- Geographic: nation, region/country, urban/rural
- Lifestyle: hedonistic vs value-oriented

Alternative bases:

- User status: nonuser versus user
- Usage rate: light, medium, heavy user
- Loyalty: none, moderate, strong, loyal

Positioning statement requires:

1. Target customer, defined by segmentation
2. Wants of customer
3. Product type & category (seen by customer)
4. Key benefit to target customer

Meaningful target market provides focus by deliberately excluding customers from market served (i.e. Dell renounce first-time buyers of PC because these buyers lacked sophistication for custom design, Ross School of Business renounced candidates who did not want to develop teamwork skills through action learning and saw percentage of accepted MBA Students who enrolled because of superior fit of service).

"Advantage of solving *positioning* problem is that enables the company to solve *marketing mix* problem. Marketing mix - product, price, place, promotion - essentially works out tactical details of positioning strategy."

2.4 Marketing Mix Decision

Marketing mix describes set of activities composing firm's marketing program. "Three degrees of interaction":

1. *Consistency* of mix elements (generally good fit)
2. *Integration* (positive, harmonious interaction)
3. *Leverage* (element is used to best advantage to support value creation or capture of overall mix)

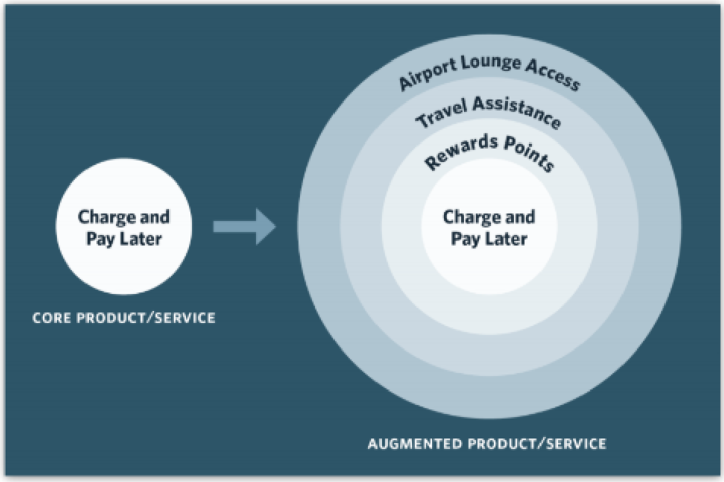
Product Decisions

Product/service is the centerpiece of marketing mix. *Product offering* is complete set of ways that firm delivers value to chosen customers.

Regular thermostat is $25 but basically works by setting temperature at certain level and then turning on when it goes above or below that level.

Nest ($249) is far more than device to turn heat and air-conditioning on/off; complete bundle of benefits offered and appreciated particular segment of customers.

EXHIBIT 4 Range of Credit Card Benefits for American Express Customers



Product Breadth

Product breadth: variety and number of product lines offered.

Luxury goods LVHM operates in six business sectors with 75 different brands.

Product Depth & Line Organization

Product depth: how deep should given product line be/how many offerings will there be?

Distinguish products by price, quality, or by offering multiple items at same price to appeal to different tastes (clothing in diff colors, Gatorade styles).

Evolving Product Lines

Product offering changes over time when new lines are added, new items are added to existing line, or existing items are modified.

Modifications introducing "new and improved" features are common, model changes may come at regular intervals or when new technology becomes available (November 2013 Sony released PS4 with "deeply integrated social capabilities".

Trade up: Tanqueray introducing Tanqueray No. 10 at 25% price premium over original
Trade down: reduce functionality/performance of product to hit lower price point in market; Delta Airlines trading down seat offerings with Basic Economy fare

Product Testing

Key success factor is have output of product be "differentiated product delivering unique benefits and compelling value prop". Outcome is advanced by "building in the voice of customer" and by "spiral development" - company develops concept/prototype, put in front of customer for feedback, then revised based on customer's feedback.

Promotion Decisions

Promotion - how organizations communicate with potential customers about product positioning, with initial goal to create product awareness, then knowledge about product features, then level of interest in purchasing to finally make a trial purchase as product value is communicated. Promotion is used to reinforce and *keep* the customer.

"First Moment of Truth": customer standing before display in grocery store.
"Second Moment of Truth": customer using product at home.
"Zero Moment of Truth": better understanding of customer as they being information search.

In connected digital world, power of consumers becoming brand ambassadors is increasingly important.

Objective	1 *Market.* To whom is the communication to be addressed?
	2 *Mission.* What is the objective of the communication?
Tactics	3 *Message.* What are the specific points to be communicated?
	4 *Media.* Which vehicles will be used to convey the message?
	5 *Money.* How much will be spent in the effort?
Results	6 *Measurement.* How will impact be assessed after the campaign?

Tools

One-way versus two-way communication

TV ads are one-way comms to mass audience, Pepsi ad during Super Bowl 2019 sent same message to approx. 100 million viewers.
Other end of spectrum is two-way dialogue, where product is introduced to the customer via a TV ad (Audi car), they visit dealership, engage with salesman, determine whether they want to test drive and/or buy/lease car.

Mass versus addressable or customized communication

Promotions

Customer promotions: free samples, continuity programs, and coupons
Trade promotions: incentives to retailers, free goods, discounted prices if product is in end-of-aisle displays.

Largest year-to-year changes in spending were on internet (+11.5%) and event sponsorships (+7.0%), most significant decreases in magazines/newspapers, down by (-8.0%).

Money is objective-and-task approach: set your mission and market objectives, define best set of tasks to accomplish them - iteration required to ensure plan's economic viability.

Measurement of results should be done against set objective of communication plan; if goal is to raise product awareness, then metrics should measure increase in level of product awareness.

Place Decisions

Place refers to *distribution channels*, where/how an organization decides to go to market.
Firm generally has to link (directly/through partner) with chosen customers to achieve four objectives:

1. Generate demand for product
2. Fulfill demand by getting product to customer
3. Provide after-sales service
4. Gather/transmit feedback from customer to manufacturer

When setting go-to-market policy, companies must consider:

1. *Channel design*: do-it-yourself, or will partners be involved?
2. *Channel management*: what policies/procedures are needed to guide functions performed by various actors in channel?

Pricing Decisions

Three elements upt to his point (product, promotion, place) represent outlay of money from the firm. Price has to tap into value to create revenues for firm to cover costs and generate a profit.

Getting this right is critical because of highly leveraged effect it has on bottom line.

A 1% improvement in "price realization" would yield an additional €0.83 in net income improving it by 14%. Looking at the Fortune 500 firms as a whole, a 1% price realization improvement produces about a 12% bottom-line improvement.

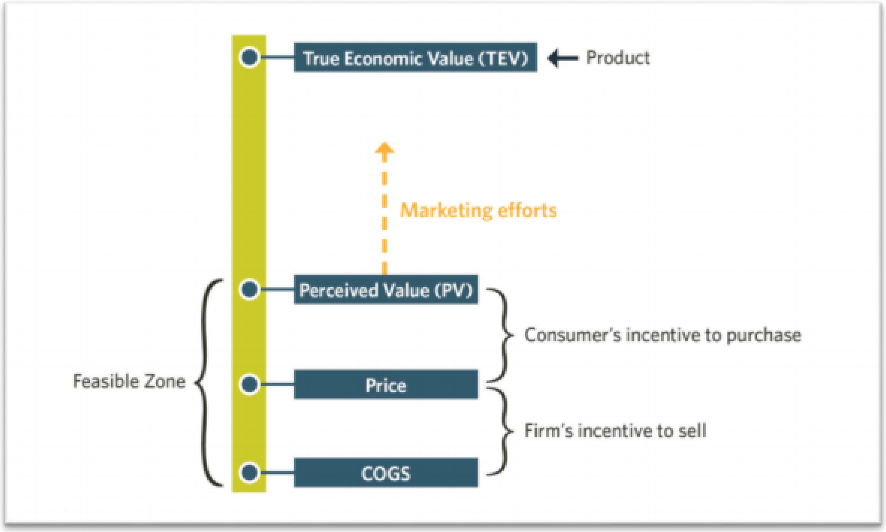
Pricing mechanism used to be straightforward, but IT has made **auctioning** widespread. eBay seller can set buy-it-now price, Google Ads pricing is set via cost-per-click model.

Most common is posted price, which is usually take-it-or-leave-it. Other time it can be starting place for negotiation.

Value-Based Approach

Key element is *perceived value* that customer places on item, establishing upper bound on what customer is willing to pay; this is function of firm's offering and price/features of competitors offering known to customer.

EXHIBIT 12 Key Inputs to the Pricing Decision



Firms cost of goods sold (COGS) is generally lower bound for price, but firm can sell below cost to spur trial and adoption, to increase the perceived value and lead to greater flexibility in the future.

True economic value (TEV) = price of next-best alternative + value of performance differential compared to next-best alternative

Competing products may be similar to one another (golf balls from Calloway or Titleist), or wildly different, like Delta Shuttle flight from NYC to Boston who has to compete with services like American Airlines or Amtrak's Acela, regular trains, luxury buses, car rentals, etc.

Alternative way of assessing perceived value is conducting market research on potential customers' willingness to pay.

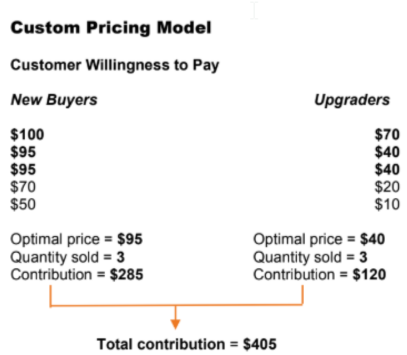
Price Customization

Uniform pricing policy: price is same at all times for all customers.

Disney has variety of customized pricing models for amusement parks, covering wide variety of customers; Florida residents traveling to Orlando likely more price sensitive, and would go more often if discounted - Disney offers three-day pass @ 30% discount from regular price.

Three types of price customization:

1. *Pricing based on buyer characteristics*: Find observable characteristic of buyers to sort buying pop into groups with higher/lower willingness to pay; common tactic is age (older customers have less disposable income to pay, senior citizen discount, kid's discounts)
2. *Pricing based on transaction characteristics*: Tickets booked in advanced priced lower than "day of sale" tickets; quantity/volume discounts like Costco bulk shopping
3. *Pricing based on product line variations*: Variety of products are offered and price-sensitive customer select the "base" while performance sensitive customers pay select "upgraded" model



Price Sensitivity

Determine how price-sensitive a customer is. It increases in following circumstances:

1. When end user bears the cost (and not third party)
2. When cost of item represents substantial percentage of customer total expense
3. When buyer is **not** end user buy sells end product in competitive market.
4. When buyers judge quality without using price as indicator.
5. When customer can shop around and assess relative performance/price of alternatives (today it is easier than ever Google Shopping, Honey, etc)
6. When there is no urgency to make decision
7. When buyer can switch from one supplier to another for no additional cost (January 2014 T-Mobile offered up $350 per line for termination fees for customers switching from a different provider)

Effective pricing also considers competitors potential reactions.

2.5 Conclusion

Three purposes of marketing:

1. Acquiring customers
2. Retaining customers
3. Incenting customers to be brand ambassador in digital world

"The natural tendency of relationships, whether in marriage or in business, is entropy--the erosion or deterioration of sensitivity and attentiveness… A healthy relationship requires a conscious and constant fight against the forces of entropy."

Same marketing actions that *create* a customer might not help to *keep* that customer.

"Net Promoter Score" to track percent of customers rating company at top end, believing customers will promote brand to others.

Acquiring customers, retaining them, and transforming them as brand ambassadors requires cohesive marketing plan based on proven analytical approaches for decision making. In overview of marketing process, comprehensive framework for exploring major marketing issues and process to successfully address them in marketing strategy.

4. Key terms

buyer stickiness: Resistance of customers to switching easily between one supplier of a good or service to another.

churn: This is a measure of customer attrition. The churn rate is 100% minus the customer retention percentage rate, which typically measures customers who discontinue a service or subscription within a specified time period.

coolhunting: Observing and predicting the emergence of and changes in cultural trends, visible in clothing fashions, popular music, urban lifestyles, uses of technology, etc.

distribution channels: The network of individuals and organizations involved in the process of moving a product or service from the producer to the end user.

positioning:
- (1) Defining a value proposition for the target segments.
- (2) Differentiating a product or service (or its brand) from others in the perception of customers.

product line: Group of products manufactured by a firm that are closely related in use and in production and marketing requirements.

pull strategy: A pull strategy involves motivating customers to seek out your brand in an active process via tactics such as advertising, customer relationship management (CRM), and sales promotions.

push strategy: A push strategy involves ensuring the customer is aware of your brand at the point of purchase via tactics such as direct selling to customers in showrooms, packaging designs, or point-of-sale displays.

segmentation: A marketing planning process that involves dividing a broad target market into subsets or groups of customers who have common needs or Characteristics.

targeting: Selecting the potential customer segments to whom a company wishes to sell products or services, after an analysis of each segment's attractiveness.

Notes from lectures:
Bupkiss

Week 2 - Consumer Behavior and the Buying Process

1. Introduction

"People don't want to buy a quarter-inch [drill] bit, they want a quarter-inch hole!"

It is a challenge for marketers (and, ultimately, for organizations) that consumers are a varied lot when it comes to deciding whether, when, how, and what to buy.

Consumers can vary when deciding when, how and what to buy. It varies by product category, buying context, and/or consumer personal idiosyncrasies, taken on a whim or months/years to materialize.

Why do orgs fail so often/spectacularly to get products/services off the ground? They have not invested the time/effort to understand consumer behavior and buying process. In today's world, when offering fails to satisfy, failure can get broadcast in social media.

Consumer behavior is not completely random and orgs can model to predict patterns of buying behavior. Patterns are driven by product under consideration, context of buying, and people involved in buying process. Understanding these patterns anticipates consumer behavior and tailor selling efforts to match consumer buying processes.

- Explore several frameworks for consumer's decision making processes
- Phases through which customers progress making purchase decision
- In-depth example of how one org used understanding consumer behavior to develop/launch successful product
- Discuss how key developments in tech and recent changes like social media radically affect consumer behavior and buying process

2. Essential Reading

2.1 Understanding How Consumers Make Decisions

Cognitive vs. Emotional Decision Making

Many purchases are *cognitive* (driven by the mind), i.e. an insurance policy.

Other decisions are *emotional* (driven by the heart), i.e. a leather jacket in Hawaii that allows customer to capture youthful, carefree image.

Many combine the two, like a smartphone; cognitive = base price, service plan, extended warranty. Emotional = "cool" model, buyer's favorite color, unique case.

Product type:

- Products like lawnmowers, TurboTax, house paint are *utilitarian* purpose, and thus can be objectively evaluated, and elicit cognitive processing.
- Ego-expressive or hedonic elicit emotional processing, like fashion goods, artwork, home decorations
- *Search* versus *experience*; search have researchable information, like washers/dryers. Experience purchases can only be assessed *after* purchasing - food, beverage, theater, etc.

Context:

- Pickup truck used primarily to haul tools/supplies = purchase that is cognitive, and utilitarian factors like capacity or space will dominate

- Pickup truck conveying driver is rugged outdoorsman = strong emotional component, and ego-expressive factors will be important

Individual differences:

- Right brain/left brain dichotomy; same *product* in same *context* can elicit differences based on individual's natural tendencies (hyper analyzer vs. deciding on a whim)

Vary *product placement* in stores as function of cognitive/emotional distinction - for cognitive items, where they are in store or web is not important. But for consumers who are hedonic, encourage impulse buying by placing item on home page or end-of-aisle display at front.

Marketers can tailor promotional efforts to cognitive/emotional purchase decisions.

EXHIBIT 1 Primarily Cognitive Appeal: McCormick Spice Advertisement

EXHIBIT 2 A Blend of Cognitive and Emotional Appeal: Ram Truck Advertisement

EXHIBIT 3 "Precision Parking": Advertising with Primarily Emotional Appeal

High-Involvement vs. Low-Involvement Decision Making

High-involvement (i.e. wedding gown, dishwasher): buyer fully engaged, decision making requires effort, time frame is long, consequences of bad choice are significant/visible.

- Stems from expense, risk in making bad choice, uncertainty around which choice is best

Low-involvement (i.e. gum, soda at lunch, extending monthly membership): far less effort, happen quickly, perceived as far lower risk

- Many factors including routine, price is so small consumer is OK, repurchase is automatic (especially with auto order now)

Involvement is not static; first time buyers of insurance may take weeks to settle on an insurance company - but one year later, renewal is low-involvement and usually only a dramatic change will require significant effort (new state, junior driver to policy).

Some companies encourage consumers to price match, like Progressive showing customers competitors prices, *even when competitor has lower price*. This may seem counterproductive, but Progressive is betting that level of service and coverage will encourage customer to choose it.

Optimizing vs. “Satisficing” Decision Making

Consumers settle for alternative that is good enough - usually more optimal alternative available, but not worth the added benefit vs. the cost to keep searching.

Satificers will expend time/energy to make *good* choice vs greater time and energy to make *best* choice.

Same factors apply - greater the expense, the more likely consumer will optimize. The more variance in quality/price, the more they seek to optimize. Length of product also reason.

Some consumers can over analyze every purchase, while some settle on the first choice; both extremes can be detrimental to buyer. Person hyper analyzing lunch purchase, or person picking the first choice on house or car, would benefit from more exhaustive consideration of alternatives in satisfaction gained and value add.

Compensatory vs. Noncompensatory Decision Making

Compensatory: Can be categorized by amount of relevant info used and trade-offs made in making decision. Consumer considers all attributes, making trade-offs between them; product high in price can be compensated in strength like exceptional styling.

Noncompensatory: product failure to reach acceptable threshold on one attribute cannot be saved by the other attributes. Flying from SFP to BOS, some travelers only want nonstop flights, even if flight with stop in Detroit is $500 cheaper.

One factor here is size of choice set; many choices leads to difficulty and time-consuming to be exhaustive in one's decision making. To reduce the size, set some noncompensatory thresholds.

Second factor is importance of various attributes to consumer. If one dominates the others, no compensatory decision making will overcome it.

Final factor is resource availability. If consumer has time, patience, and access to product, they will take longer to make choice. If presented with tickets that afternoon, they will need to make decision sooner rather than later.

Compensatory vs noncompensatory is dominant process for consumer, and this should drive marketing efforts. If compensatory, design and highlight the "total package" and make all relevant information available. If non, firm need to do especially well in one or two criteria that dominate decision making.

2.2 Consumer Decision-Making Process

Focus on actual transaction - in-store experience, encounter with salesperson, final click to place order on merchant website. DMP entails three phases - *pre-purchase*, *purchase, post-purchase*

Phase 1: Pre-Purchase

Recognition of need, viable alternatives to satisfy need, collection of info about alternatives. These can take short (go to dinner a few hours before entering restaurant) or long (buying a boat after many years of research) time frames.

Anna example.

1. Requires a *trigger* - plant the thought that she needs a new car, and move her from cold state ("Current car is fine") to warm/hot state ("I really need a new car").
2. *Search and consideration*: pay attention to cars on road -> solicit advice from friends/family/acquaintances -> reviewing ads & visiting websites/dealerships -> saving funds for purchase
3. Evaluation of alternatives: likely to hone in *awareness set* (subset of alternatives she knows)-> pare it down to *consideration set* (items that meet buying criteria) -> *choice set* (strong contenders) -> specific car

As she goes through this process, she can go through any framework; highly cognitive (based on objective attributes), emotional (based on impressions of friends and family). High compensatory (trade off value and safety) or noncompensatory (car must have high-end sound system)

Marketers play role in shape and length of pre-purchase (replace box spring every ten years, oil-change every 5000, jewelry during V day).

Retailer will attempt to keep all products on one shelf - else customer is not aware of the full range of products, and select from different brands, lowering market share for any one brand.

Phase 2: Purchase

Phase entails which brand, from whom to buy it from, how many items of offering, when to buy, and how to pay.

Many factors intervene; shopper can be overwhelmed by too many options, can enter store for specific brand and get talked into a different one, credit score is not good enough for car. Companies must anticipate barriers to purchase and minimize them.

Many times consumer has decided to buy but not what brand, buyer is open to cues that company can influence, including how product is displayed, how recognizable brand is, attractive label, acceptable price point.

Phase 3: Post-purchase

Company work is not done just because purchase was made - consumer liking is not guaranteed. Buyer's remorse can arise particularly if it was expensive product.

Marketers care about this phase because consumers happy will repurchase and spread positive word-of-mouth to others. Unhappy consumer will return product, complain, or warn others against buying it. Generous return policy and warranty can help customer appreciation, and repairing while offering loaner product alleviate major concerns.

Business can prompt next purchase of same product - color indicator that fades with every use. Publishers send renewal lease every month.

Companies should consider how product is disposed after use. Mattress retailer offer to take away mattress, car battery will remove/dispose old battery.

Specific dynamics between pre, purchase, and post vary widely across people, products, time and contexts - marketers must consider all if they hope to sell to chosen customers.

EXHIBIT 6 Dynamics by Buyer Type Across Phases in the Purchase Process

Buyer Type	Purchase Process Phases				
	PHASE 1 Pre-Purchase			PHASE 2 Purchase	PHASE 3 Post-Purchase
	Trigger	Search and Consideration	Evaluation of Alternatives		
HABITUAL SHOPPER	Runs out of a product	Uses only information provided or easily available Discovers new products in passing	Falls back on long-held preferences Is brand loyal but susceptible to change	Is reminded Is both planned and unplanned Is inertia driven	Performs only moderate reevaluations, unless switching brands
HIGH VALUE DEAL SEEKER	Recognizes need based on life event (e.g., pay raise)	Trusts retailers Relies on sales help	Seeks friends' advice Uses brands to form judgments	Waits for the "right" time (e.g., limited-time sale) Is often driven by need	Performs significant reevaluations Is likely to have buyer's remorse
VARIETY LOVER	Shops as entertainment	Performs on-the-spot comparisons Looks for sales	Chooses spontaneously Must have minimum standards met Is willing to try product	Buys on impulse or suggestion	Evaluates self as astounded or disappointed
HIGH-INVOLVEMENT SHOPPER	Driven by life goals, longtime interests Motivated by events or influence	Evaluates search versus needs Considers many product attributes	Seeks expert advice	Thoughtfully selects time and location	Performs little immediate reevaluation

2.3 Consumer Decision-Making Unit

DMU: set of individuals who affect, influence, and take part in decision to buy.

Roles within DMUs

Anna, redux; now married with two kids, wants to buy a Ford Mustang GT @ $45,000. Anna is the *buyer*; husband is *influencer* and talks her out of ordering $7,000 super charger; plays role of *gatekeeper* by hiding advertisement with other options to add. Both have agreed that both must agree to purchase (makes him *approver*)

As car buying experience demonstrates, marketers must develop selling process to persuade all members of DMU, not just buyer. Advertising of children's cereal - breakfast cereal is great battles of will with kids, parents hold purchasing power and want kids to eat nutritious breakfast, kids want sweet-tasting and entertaining bfast overheard at lunch table.

Understanding decision making and DMU are more complex than many managers assume.

2.4 Merk and Marketing of Propecia

Propecia was once-a-day pill to prevent hair loss. Merck were battling these factors:

- Men underestimate rate of hair loss

- ⅓ of men balding accepted fate, ⅓ said they would deal with it in future
- Remaining ⅓ tried remedies like comb overs, caps, short haircuts, toupees
- Those who visited doctor found docs reluctant to prescribe drug for lifestyle/cosmetic change
- Clinical trials = three months for results, which were often modest; more effective as slowing down or stopping hair loss

Analyzing DMP and DMU

Merck analyzed physicians and consumers.

Physicians go thru these phases: "aware but skeptical" -> "comfortable" -> "confident" -> "proactive prescriber". Knowledge and understanding increases as presentations and peer reviewed articles report on clinical testing, and their willingness to prescribe shifts as result.

For Propecia, many physicians were not enthusiastic treating nonmedical condition with potential powerful side effects

3 Supplemental Reading

3.1 Forces Changing Consumer Behavior and Buying Process

Three developments - social media, co-creation, and "conscience" marketing, are affecting consumer behavior and buying process in 21st century.

Social Media

Consumers' use of social media exerts enormous impact on decision-making process of consumers and DMUs. Facebook/social media makes it easy for consumer to consult entire network of friends/acquaintances before making purchase. Firms have responded by upping social media presence = like their brand on Fbook, follow brand on Insta to advertise popularity.

Most apparent in post-purchase phase; before Internet consumers who were disappointed had little to no recourse. Social media allows consumers to broadcast disassfication far and wide; "United Breaks Guitars". Many orgs devote increasing customer staff to monitor Twitter for signs of customer discontent to contact them quickly.

Top reason customers engage on social media is to get info and discounts and to buy products/services, not to feel "part" of the brand..

Co-creation & Consumer Involvement

Companies are involving customers in co-creation of products/services/marketing materials; **Doritos** outsourced Super Bowl advertising with incentive for $1 million in prize money.

Others involve customers in development/selection/manufacture of products; **Threadless** lets customers submit T-shirt designs, community votes, company manufactures top rated ones.

Companies run risk of diluting cohesion of brand message and coherence of product lines, smart orgs use co-creation while maintaining sufficient control.

"Conscience" Marketing

In the U.S., 9 in 10 people described themselves as "conscious consumers"; more likely to buy from companies that are good social/environmental stewards.

¾ of millenials (born between 1983 and 2000) reported likely to switch to brand associated with good cause.

- Earliest campaign was American Express Statue of Liberty, where percentage was donated towards restoration of Statue of Liberty
- In 2009, for example, PepsiCo launched its "Pepsi Refresh Project"—an initiative in which Pepsi reallocated $20 million in Super Bowl advertising dollars toward causes near and dear to its customers' hearts.
- In 2016, Patagonia took its long-time "1% for the Planet" pledge a step further, donating 100% of its one-day Black Friday sales to grassroots charities.

Consumers conduct more research on products and companies to ensure purchases match their values. Companies must not only claim they are socially/environmentally responsible, but prove it with willingness to allocate millions of dollars to customers favorite causes.

4. Key terms

cognitive decision making: Purchase decisions that entail a deliberative, information-based processing of relevant product characteristics

compensatory decision making: Purchase decisions in which consumers consider (or attempt to consider) all of the attributes that are relevant, making trade-offs between and among those attributes

decision-making unit (DMU): The set of individuals who affect, influence, and take part in a decision to buy

emotional decision making: Purchase decisions that entail a subjective liking for one option over another

high-involvement decision making: Purchase decisions in which the buyer is fully engaged, the decision making tends to be effortful, the time frame tends to be relatively long, and the consequences of making a good versus a bad choice tend to be great and visible

low-involvement decision making: Purchase decisions that require little effort, happen quickly, and are perceived by consumers as having low risk

noncompensatory decision making: Purchase decisions in which consumers consider some, but not all, of a product's attributes, and ignore potential trade-offs between those attributes; a product's failure to reach an acceptable threshold on one attribute cannot be compensated for by high performance on other attributes

optimizing decision making: Purchase decisions in which consumers are motivated to purchase the best alternative they can

"satisficing" decision making: Purchase decisions in which consumers settle for an alternative that is "good enough" or that passes some acceptable threshold

Lecture Notes:

Marketing is centrally about creating and communicating value.

To know what consumers value and how to communicate effectively, marketers must understand the buying process. This enables marketers to be more strategic at communicating value.

Week 3 - Market Research

1. Introduction

[Dolan & John, pg. 3]

New Coke against Pepsi; when New Coke was launched and Coca-Cola withdrawn, outcry from consumers so severe and immediate, that by July 1985 classic Coca-Cola was brought back.

"The simple fact is that all the time and money and skill poured into consumer research could not measure or reveal the deep and abiding emotional attachment to original Coca-Cola by so many people…"

Coke researched consumers but did not develop true intelligence about them and made dramatic product error. Coke did the market research, but this did not enhance marketing intelligence.

Having appropriate insights into customer's behavior and general market intelligence is critical to marketing success; Forever 21 including Atkins Diet bar with online orders, failing to gauge the reaction of customers (especially those who ordered "plus size" clothing.

[pg. 4]
Marketing intelligence should be root of all marketing decisions;

- Strategic: which segments of market to address
- Tactical: advertising copy prints, logo, website design

"Contemporary market researchers need DJ skills…. They need to have the ability to choose the right methods and data sources and throw them in the right mix. Last but not least, they need to perform well in the boardroom by playing the most relevant tunes to management."

2. Essential Reading

[pg. 5]

Customer "**value proposition**"

- **The special quality** that will differentiate the company from competitors
- is what company aspires to be in the marketplace (and one of their most important decisions)

With this in mind, company can formulate optimal action plan (*product, promotion, place*) and *price* to deliver value proposition to company's chosen consumers.

Planters Peanuts lagging behind due to consumers switching to healthier/more modern nut alternatives, like almonds and pistachios.

1. Who should be target market and what should Planters mean?
2. What supporting marketing mix could help reverse declining sales trend?

Planter team analyzed situation using data from Nielsen on market size, market share of all brand, average pricing on retail, and distribution in stores. Combined this with knowledge of advertising spending of competitors, including Wonderful Pistachios and Blue Diamond (and their campaign/primary market)

[pg. 6]

Planters conducted quarterly brand health consumer surveys and combined it with data sources above. Although research showed there was no health difference, consumer perception favored almonds and pistachios.

To gain deeper qualitative insights into consumers, team conducted in-depth interviews, accompanying consumer to the store to see how they would shop for nuts.

Here was the data they combined:

- Free on-hand / "secondary" data (data on nutrition published by US Dept of Agriculture)
- Paid-for / secondary data (market share and store data from Nielsen)
- Newly collected / "primary" data quantitative nature (customer perceptions of nutritional value measured with statements like "peanuts are nutritious"
- Primary / qualitative (in-depth 60 min conversations conducted in homes)

[pg. 7]
Planters studied *consumers*, strategy and specific actions of *competitors*, and behavior of *collaborators* like retailers, analyzing shelf space granted to various brands.

2.1 Research Process & Techniques

Market Research Process:

1. Formulate problem or question
2. Determine sources of information and design research process
3. Choose appropriate data collection method
4. Collect data
5. Analyze and interpret data

[pg. 8]

Final step, after analyzing and interpreting data, is to present it persuasively in way that "performs well in the boardroom"; this is key because presentation of data analysis influences how it will be implemented.

[pg. 9]

2.2 Research Methods

2.2.1 Secondary Data

Sources can be company itself (internal) or another party (external). Because *internal secondary data* is readily available at no cost, marketers should start with this data. Examples:

- Company accounting records (most widely used)
  - Cost of goods sold
  - Unit sales by product, region, customer
  - Expenditures by time
- Sales call records (rich vein of internal data)
  - Customer's expressed wants
  - Level of satisfaction with company offering
  - Account penetration/potential
  - Competitive activity at account

Collect data systematically from employees at important market developments (trade shows/conferences); accumulating data regularly over time helps assess state of business and develop new actions plans.

[pg. 10]

Consult publicly available *external secondary data*, provides important background in marketing decision making.

HubSpot, leading software company involved in "inbound" marketing used secondary public data (how many small-to-medium-size companies exist, measured by # of employees) to decide what

type of customer to target. Understanding size of different market segment helped decide what size companies to pursue which had implications for all aspects of marketing plan (pricing and promotion).
Other useful tools:

- Trade association reports
- Academic papers
- Press releases
- Annual/10-K financial reports
- Online job listings by competitors
- Consumer Trends and Lifestyles (Americas)
- Population and Homes (Western Europe)

[pg. 11]

Nielsen: tracks changes and developments in supermarkets (products displayed, prices, products receiving special emphasis)

Social media sites: "conversations" can be important source of market intelligence because consumers are not in "research" mode but instead interact freely with other community members.\

Sysomos: one of the most highly regarded companies in data supply. Database with "billions of social media conversations" from blogs, forums, websites, Twitter, YouTube, Facebook, and Instagram.

- Marketers can obtain info on product/company mentions
- Automated favorability rankings (percentage of mentions of company and competitors that are favorable, neutral, or unfavorable)
- Geodemographic filters: segment comments based on customer type (millenial from NYC, senior citizens in FL)

[pg. 12]

Assess accuracy and relevance of data (especially if it's expensive!). Important to understand research methodology thoroughly, data collection methods, how data is analyzed and reported

2.2.2 Collecting Primary Data

An **appropriately informed** decision requires collection of "primary" new data. Cialis needed to conduct survey of potential prescribers to assess importance of specific product attributes (key to deciding drug's value proposition).

Experimental research:

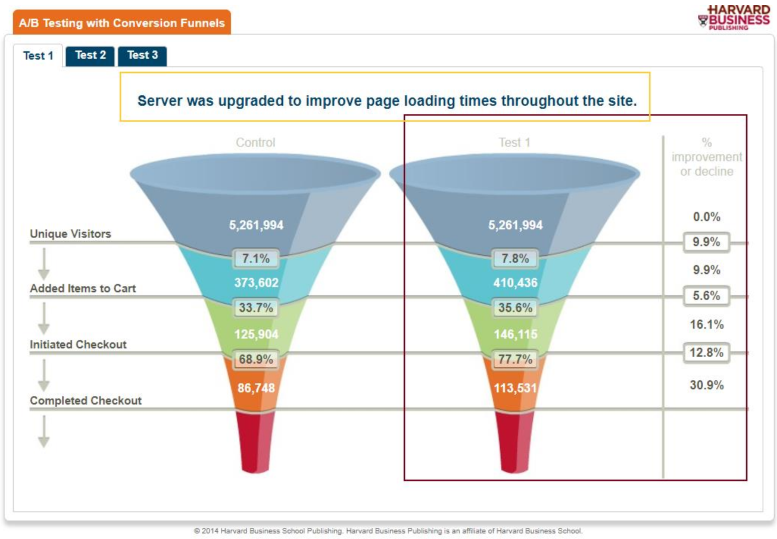
- Researcher manipulates environment
    - Condition A: coupon offering $15 off purchase of >= $100
    - Condition B: coupon offering $20 off purchase of >= $100
- Researcher observes results, like sales across both groups

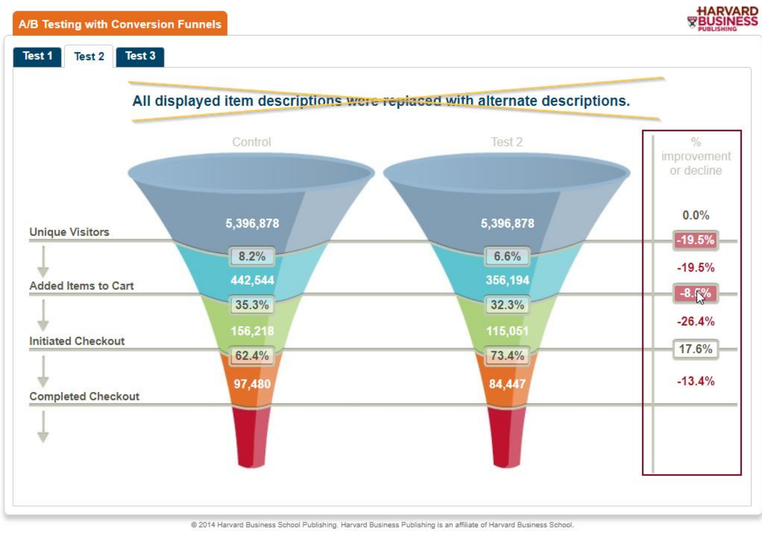
Nonexperimental data collection: firm does not disrupt normal business activity, seeks data only by observing/interacting with market participants

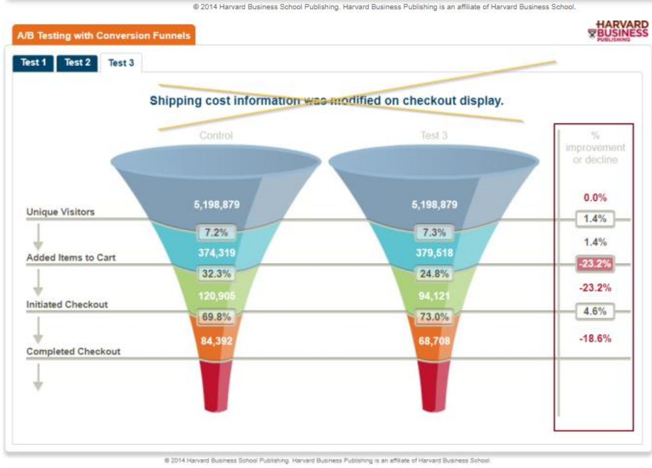
[pg. 13]

Experimental Research

Manipulate environment in some way and set up design to compare results across test and control groups; popularly known as *A/B testing* (**treatment A** is applied to one group and **treatment B** is applied to another).







[pg. 14]

Experiments can be both online and brick-and-mortar. Retailer can give product end-of-aisle display in one set of stores and not in another set.

Catalina Marketing:

- Captures purchase data tagged by loyal card numbers
- At checkout, distribute cents-off coupon to customers based on previous purchasing behavior

    - i.e. soft drink marketer identifies customers who once bought brand but have not purchased in previous 6 months
        - Control group does not receive coupon
        - Test group received $1.00 off six-pack coupon valid for a month
    - CPG precision in measuring impact of price discounts has lead to many firms becoming clients

Online purchasing has accelerated use of marketing experiments; A/B testing is easy to implement, purchase impacts can be measured precisely.

A/B testing is core part of culture for some companies (Booking.com, Basecamp).

Importance of A/B testing as antidote to guessing and hoping: "We see evidence every day that people are terrible at guessing. Our predictions of how customers will behave are wrong nine times out of ten." - Senior product manager, Booking.com

[pg. 15]

Alternative to real world testing - in a laboratory setting simulating the shopping scenario (Diageo with taste tests for employees).
In lab settings, respondents can be exposed to different scenarios (product features, product descriptions/ad support, prices). Marketers can measure purchase intent or present respondents with cash compensation for participating and observe it they purchase product on the spot.

Advantages:
- Lower costs
- Quicker results
- Confidentiality
- *Internal validity*
    - Researcher controls all other variables, so ascribing measured result to manipulation is valid
    - **Tradeoff**: external validity (confidence that results can be extended from laboratory situation to real world)

Field tests and ***test markets*** can be expensive and if a manipulation is not effective, some portion of the market has been affected by it (which equals current/future lost sales).

Field experiments are useful because they assess what people do (rather than what they *say* they will do, and if properly implemented, allow causal inferences to be made. This is critical because well-intentioned consumers might not predict their behavior accurately.

Nonexperimental Research

Qualitative: best suited for initial market explorations
Quantitative: requires previous knowledge of market or good understanding or specific issue at hand

Qualitative data research: more fundamental, open-ended questions like "How do I feel about Amazon?"

Common research methods:

- In-depth individual interviews
- Focus groups
- Direct observation
- Empath(et)ic design: user-centered design approach that pays attention to the user's feelings toward a product

[pg. 16]

Objective for **1. in-depth individual interview** is engaging in conversation with respondent and letting him/her speak freely/in detail about topic of interest. Skillful interviewers follow-up and probe into respondent's feeling about topic expressed in their own terms.

L'Oreal conducted research interview and learned critical piece of info: "To me it has greasy feel. You feel like you are putting Crisco on your face."

2. Focus groups are good for exploratory research (uncertain beginning of project), when company is entering new market/product/service area and needs insights without knowing the right questions to ask. Open-ended nature is good for drawing out complexity of consumers' thoughts/feelings.

Drawbacks:

- Expensive (relatively)
- Small groups make extrapolation to general population problematic
- Dynamics of groups make so less assertive members go along with more vocal participants (even if they don't share the same feelings)

[pg. 17/18]

3. Direct observation: much can be learned by simply observing people in the act of shopping or using their purchase. *How* they shop complements *what* they purchased.

Some questions:

1. Did customer enter and proceed directly to item on list, or wander aisle to aisle?
2. Was it frustrating hunt or pleasant stroll?
3. How many customers seeked help from store workers?

Empath(et)ic design: look for "pain points" and user frustrations that can be eliminated with innovative product or service design. 5 key skills:

1. Observe
2. Learning from Extremes
3. Interviewing
4. Immersive Empathy
5. Sharing Insights

The mere act of observing can alter the behavior of the observed subject (so keep observation as unobtrusive as possible).

Quantitative data research: nonexperimental approach to collecting numeric data suitable for statistical analysis.

1. **Surveys**: collect data on wide range of topics

2. ***Census***: polling of entire population (most reliable method)
    - Most practical/cost-effective way is to sample a subset of total population
        - Ideally data collected from subset allows researchers to make inferences (with acceptable level of error)

[pg. 32]

EXHIBIT 5 Nonexperimental Research Methods

	Best Used When	Weaknesses
Conjoint analysis	The product or service is a complex bundle of attributes. There is a need to test a company's value proposition. You need to understand which combination of attributes will appeal most to customers.	Useful only when the product can be viewed as a bundle of attributes. Limited to informing product-design decisions.
Focus groups	The issues are not well understood. Attitudes and motivations must be uncovered. There is a need to generate ideas to be studied through quantitative research. The subject would make group interaction useful.	Expensive and time-consuming. Does not provide a representative sample. The moderator and group dynamics can skew results.
In-depth interview	The issues are not well understood. Attitudes and motivations must be uncovered. There is a need to generate ideas to be studied through quantitative research. A focus group would be difficult to conduct.	Expensive, especially for face-to-face interviews. Does not provide a representative sample. Results may not be easy to interpret or tabulate and may be vulnerable to interviewer bias.
Internal data	Budget is small or nonexistent. Data are available in the company's information systems.	Useful in describing what *has* happened but not what *might* happen.
Observation and empathetic design	You are trying to understand how people shop for or use products. You are probing for unspoken needs and pain points.	Seldom a stand-alone form of research. Expensive and time-consuming. Does not provide a representative sample.
Perceptual mapping	There is a need to understand the structure of particular product markets and to learn how the competitors' products are perceived.	Offers insights into perceptions only; does not address wants, preferences, and likelihood of purchase.
Review of secondary research ("desk research")	Budget is small or nonexistent. Speed is essential. You need to focus your primary data search through better understanding key uncertainties about the market.	Seldom provides the specific data that managers need in making marketing-mix decisions.
Surveys	Information is needed quickly. Budget is limited. You need to quantify market issues. Questions can be precisely stated.	Results are only as good as the survey design and sample population surveyed.
A/B testing	There is lots of traffic to website (can quickly and easily get large sample sizes). You can craft clearly defined research questions (e.g., Does one image on the home page do better at converting customers than a different image?).	Care is needed because consumers can understandably get upset when testing, for example, different prices or product benefits. Generalizability: Think clearly about whether your findings generalize to (i.e., apply to) other samples.

2.3 Building a Research Program

Translate data into insights that reflect a deep and informed understanding of the relationship among the customer, the marketing environment, and the company's offerings.

- "What matters now is not so much the quantity of data a firm can amass but its ability to connect the dots and extract value from the information" along with an organization's ability to effectively link "disparate data sources."
- "Overperforming companies . . . embrace a culture of experimentation."
- In high-performing organizations "the insights functions were skilled at whole-brain thinking"—a balance between traditional quantitative analytics (left-brain thinking) and creativity, experimentation, and risk-taking (right-brain thinking).
- In any firm, the research team will "gather and analyze data. But today this is the minimum needed for success. Being able to translate this capability into customer-centric growth is what distinguishes winners from losers."

With the array of techniques available, and with technology driving down the cost of data collection and time required, the days of "marketing by hope" should be crushed by a "marketing by knowing" attitude and skill set.

[pg. 34]

4. Key terms

BASES test: A concept test that assesses a sample of consumers' reactions to a concept with a key measure being their expressed purchase intention. With this measure and others, such as perceived uniqueness of the product, BASES makes a market share forecast.

census: A complete canvas, count, or survey of an entire population that is being studied.

conjoint analysis: A research tool that estimates how subjects set priorities or make trade-offs among different attributes of a product or service.

empathetic design: Qualitative research that makes use of observation, particularly observations of people using a product or struggling with routine activities at home or at work.

experimental research: Research that manipulates the environment and then measures the effect. This type of research seeks causal relationships.

field experiment: Experimental research conducted outside a laboratory setting (e.g., test market).

nonexperimental research: Qualitative or quantitative research that aims to answer questions about market size, customer preference, and trade-off behavior without introducing any manipulation of an environment.

perceptual mapping: A research method whose output is an image representing customer perceptions of one company's offerings relative to those of competitors.

qualitative data research: Research that generates information that is not amenable to numerical measurement or statistical analysis.

quantitative data research: Research that collects numeric data, generally through sample surveys that can be used for measurement and statistical analysis.

test market: A field experiment in which, for example, researchers place a new product in one or more stores, promote purchasing, and then observe customer responses.

treatment: The manipulated variable in experimental research.

Lecture Notes:

- Review the slides

Week 4 - Market Research

[pg. 1]

Introduction

Using 5 C's Analysis to assess the situation

5 C's:
- Customers
- Context
- Company
- Collaborator/complementers
- Competitors

Current and dynamic understanding of 5 C's sets strong foundation for marketing decision making.

Analyzing Customers

Two primary activities:
- Understanding consumer needs driving consumption
- Understanding the decision making process consumers undergo to fulfill needs

Needs Analysis

Customer analysis - outline potential customers who have need for product and understanding their needs and preferences.

Understand the utilitarian, symbolic, emotional, and social needs that product fulfills.

[pg. 2]
Answer these questions:

- What jobs does it do to make consumers' lives easier or better?
- In what rituals or traditions does the product play a role?
- How does it help consumer build identity?
- How does the product make a consumer feel?
- What emotions are associated with the purchase/consumption of the product?

Remember to include rational/irrational needs, and that consumers may not have direct access to subconscious or unconscious needs.

Segmentation and targeting decisions are driven by understanding distribution of needs and preferences across total market.

- Are there clusters of customers who share same need and show similar preferences?
- Are customers needs being met in marketplace, and by what/whom?
- How satisfied are consumers with current solutions?

Decision Making Process Analysis

1. **Problem Recognition**: understanding when, where and how consumers' needs arise and situational triggers that cause them to realize they have a problem to solve.
2. **Information Search**: understanding sources of information consumers use to learn more about available options and social influences (*crucial*)
3. **Evaluation of Alternatives**: understanding which attributes/features of product are most important to consumers when choosing among brands/products.
4. **Purchase Decision**: understanding where consumers go to purchase product and situational/social influences encountered during purchase.
5. **Post Purchase Evaluation**: understanding how consumers assess whether they purchased the right product, how is it used in everyday life, and what regrets/doubts do consumers have after consumption.

[pg. 3]
Analyzing Customers

Demographic Environment
Understanding current state and future direction of population in market. Interpreting census and demographic data to discern trends that may affect business. Segmentation includes:

- Age
- Generational cohort
- Family structure
- Race
- Ethnicity
- Social Class
- Gender
- Education levels
- Geographical location

Economic Environment

Understanding macroeconomic and microeconomic conditions facing consumers in market; economic strength, consumer confidence, unemployment, inflation, debt levels, income dispersion.

Socio-cultural Environment
Understanding worldviews, political/social ideologies, value systems, traditions and rituals, fashion and taste system. What is trendy and what is not, what is likely to last and what will not, what is valued in the culture?

Political/Legal Environment
Understanding whether company is operating within the law and common business practices, and how laws/political practices can enable growth or hinder company potential in various markets. Laws governing industry, consumer advocacy, safety organizations, shifting political powers.

Technological Environment
Understanding how technology affects consumers and purchasing needs/habits. How tech changes types of products, how it changes way consumers makes decisions, how they shop, media habits, what is on the horizon and how does it change how business is conducted.

Natural Environment
Understanding consumers' connection to/concern for natural world, how your own production/operations are reliant upon/affect the natural environment. How is it changing, what impact does that have on operations and ability to source raw material?

[pg. 4]

After all environmental attributes are scanned, translate this data into strategic implications to understand opportunities and challenges presented to business. How do these things limit/enable possibilities? How do they affect firm's competitive advantage?

Analysis of the Company

Analysis of Business Model and Competitive Strategy

Understanding the firm's *business model*: what does the firm do and how does it make money? Firms generally compete by:

1. Having lowest costs and offering consumers the lowest price (Southwest).
2. Offering unique and superior performance on attributes/benefits valuable to large part of the market (Gillette razors).
3. Focusing on small segment/niche of market and knowing it so well firm customizes products to meet needs of consumers in superior way.

Competitive Advantage Analysis

Competitive advantage: something company does or can do that is of value to consumers that competitors cannot match. Highlighting these helps outline (in)tangible assets firm possesses.

Some ways product can be unique:

- Cost advantage vs competition
- Superior differentiation
- Advertising efficiencies due to larger market share/marketing budget
- Established brand with brand equity
- Existing relationships with customers/key complementors
- Superior R&D with pipeline of new products
- Better employees

[pg. 5]

Collaborators and Complementors Analysis

Collaborators: companies/people who *help* firm marketing product to customers, i.e. suppliers, distributors and retailers, key influencers (doctors, media, bloggers)

Complementors: companies/people who *benefit* when firm sells product, i.e. companies that sell products which are complementary to ones the firm sells (Bose's SoundDock is Apple with iPod).

Analyze the strength of both sets of relationships, ways to increase the value firm provides to both groups, how does product help partners achieve goals and use this to help motivate partners to help build business.

Competitors Analysis

Competitive Analysis: identifying/analyzing companies who compete with firm by delivering similar product or alternative solution to meet consumer needs.

Focus on business models, competitive strategies, competitive advantages, and marketing strategies of each firm compared to your firm.

Possible questions:

- Which customer segment does each competitor target?
- How is each company positioned in the market?
- What are the strategies and tactics employed by each major competitor?
- What is the product differentiation between each company?

Using Porter's Five Forces to understand industry competitiveness

Marketing managers should delve deeply into dynamics of industry in which they are competing. Understand and define the industry, the size, market share, sales, profitability or various firms competing in industry. Finally, assess underlying competitive dynamics that determine profitability.

Michael Porter identified five forces determining intrinsic long-run attractiveness of industry:

1. industry competitors
2. potential entrants
3. availability of substitutes
4. buyer power
5. Supplier power

These forces create profitability potential for industry and for firms competing within it; serious implications for marketing strategy.

[pg. 6]
Industry Competitors

Less competition = better for firms. Intense competition leads to price wars (diminishing profits), higher levels of advertising/marketing expenses, frequent new product introductions. Competing with strong/aggressive competitors is harder. Focus on competitors as whole and analyze the industry to discover basis for competition (prices, features distribution?). More macro view.

Potential Entrants

New entrants to industry raise competitiveness; industries that are unattractive to firms not participating in them are more valuable than any that attracts lots of new firms. Industry with high barrier to entry and low exist barrier, are the most favorable - few firms enter and firms who struggle can leave without having to compete aggressively.

Availability of Substitutes

If substitutes exists, consumers can easily shift demand; this tends to reduce price points and increase need for marketing = less profit in industry. Worst type is where perfect substitutes exist; if no differentiation exists, consumers will buy from firm who sells at lowest price, making it impossible for any firm to profitably compete.

Buyer Power

Buyers can be end users of product, or retailers who are middlemen that bring product to end users. Buyers who are price sensitive and have substitutes, with low switching costs have power over firm. Consumers gain power by forming collective buying units/sharing pricing information amongst themselves, or by possessing capabilities to produce/obtain product themselves. Firms with this problem have less negotiating ability and must do what is asked.

[pg. 7]
Suppliers with power can raise prices or limit supply of goods necessary to build product; if they offer materials with no substitutes, who are concentrated, or can make product themselves and sell it to consumer have power. If cost of switching supplier is high, firm is stuck working with them; firms with this problem have less negotiating ability and must pay higher prices for materials/labor, raising cost structure.

Summing it all up in a SWOT Analysis

Interpret and analyze information generated from 5 C's and Five Forces = extract strategic implications for business.

Understand:

- Internal conditions: contribute to strengths and weaknesses
- External conditions: opportunities and threats to business model
- Document most strategically important influences on performance (+ and -)

A Good SWOT:
- Identify critical factors affecting firm (marketing plan can build on critical strengths)
- Correct glaring weaknesses
- Exploit significant opportunities
- Avoid disaster-laden threats

Goal of SWOT: cull down and point most significant, pressing, strategically important internal and external conditions facing business. Take mass of data generated by 5 C's and Five Forces looking for patterns across individual pieces of data to synthesize and generalize from, prioritize data so most pertinent and driving forces rise to top.

External Origin

Opportunities

Good marketing is art of finding, developing, and profiting from opportunities that arise in external environment. Changes in external environment create new customer needs, open access to new markets, or offer new tech that can save costs/enhance profits. **Opportunity section summarizes favorable trends or developments in external environment that leads to higher sales/profits and can open new doors to new business for firm.**

[pg. 8]
Note -- in SWOT, opportunities are states of the world - do not include potential marketing strategies to take advantage. It should be just the statement: "Generation Y consumers are extremely tech-savvy".

Threats

For every opportunity external environment offers, it can also serve potential threat to business. Changes can close access to market, increase competition in an industry, decrease customer's desire for/value of product. **Threats section summarizes unfavorable trends/developments that threaten current sales/profit, preclude firm from pursuing new business.** Important to recognize factors that impede business performance and plan around them.

Internal Origin ("Know Thyself")

Strengths

Unique resources/circumstances that can be used to take advantage of opportunities. Core competencies, company capabilities that are superior to competition and relevant to consumers. Develop proficiency that are relevant, important, and valuable to customers. **Strength section should focus on strengths that are customer-relevant and service as distinctive competence for firm compared to competition.**

Weaknesses

Core competencies and capabilities that are inferior to competition, areas where the firm is deficient. **Managers need understanding of what customers require of all firms in industry (required competencies) and what competencies provide firm unique advantage vs. competition (distinctive competencies).** Strive to improve capabilities in areas important to/valuable to consumers in areas where they are disadvantaged.

Putting it all together, should look like this:

Table 1: SWOT Analysis

	+	-
Internal	Strengths	Weaknesses
External	Opportunities	Threats

Ongoing Market Scanning

Conducting environmental scanning/constructing situation analyses is ongoing activity. First analysis is used as baselines for future analyses to understand internal/external environment changes. Use these questions to guide ongoing efforts:

1. **What can be learned from the past?** Successes and failures (and that of your competitors), what can be learned from these experiences.
2. **How can the present be better assessed?** Consumer information that is not currently being used to make decisions (online communities, consumer product ratings, consumer complaints, sales force input), what companies outside of sector are succeeding and what are they doing well, best practices.
3. **How can the firm be ready for the future?** What might happen in future to firm, customers, collaborators, competitors, what emerging trends are other companies getting behind, what things are you dependent upon and what happens if these pieces disappear.

[pg. 10]

Using the 5 C's Porter's Five Forces, and SWOT Analyses to Guide Marketing Decision Making

Marketers should immerse themselves in analysis of 5C's, Porters Five Forces and SWOT. Here's example of how these analyses feed into marketing strategy/tactics:

- **Market Segmentation and Target Market Decisions**: ***Customer*** section provides input into different customer segments; ***Competitive*** section shows who various competitors are targeting, manager can choose unique and profitable target market.

- **Branding Decisions**: ***Company*** section provides input on brand equity the firm has; ***Competitive*** section provides input on brand equity competitors have so firm can assess brand strength and weaknesses vs others.

- **Positioning Decisions**: ***Company*** section identifies competencies firm possesses which allow it to claim unique/differentiated position in marketplace; ***Competitive*** section shows how competitors are positioned to identify points of parity/difference. ***Customer*** section provides insight into what customers value so various positioning statements can be evaluated.

- **Product Decisions**: ***Company*** section identifies product related competencies and ***Competitive*** section identifies product features/benefits offered by other firms; ***Customer*** section provides insight into which product features customers value.

- **Pricing Decisions**: Five Force is crucial for pricing decisions. Managers must understand underlying profitability of industry and competitive dynamics that affect it. Analyze supplier power, buyer power, competitive rivalry, availability of substitutes, and threat of new entrants to determine how much power company has to raise prices.

- **Distribution Decisions**: ***Buyer Power*** section sheds light on company relationships with buyers (end users and retailers); companies with more power gain more shelf space/better promotional deals than those with no power. Complementor section informs strategic planning for distribution, includes analysis of distribution partners.

- **Promotion Decisions**: ***Customer*** section provides important insight into customer decision making process, which indicates at what point company can communicate with customer. Customer media habits indicate where, when, and how to communicate.

Week 5: Segmentation & Targeting

[pg. 4]
Marketing process of segmentation, targeting, and positioning (STP) identifies firm's potential customers, selects which customers a firm pursues, and formulates its value proposition for target customers.

Targeting is done based on attractiveness of segments (size, potential profitability), intensity of competition, firm's capability to serve customers in each segment.

[pg. 5]

2.1 Segmentation Fundamentals

2.1.1 What is Segmentation?

Separation of heterogeneous group of customers with different needs into homogeneous subgroups/segments of customer with similar needs/preferences.

Without segmentation, companies overlook opportunities while seeking to provide the perfect single solution for all customers. Also informs company about potential new opportunities. Segments with unmet needs are opportunities that drive business strategy and new product development.

These segments aren't created, only *uncovered*. Market compromises them, whether a company chooses to segment them or not.

[pg. 6]

Segmenting Patients example

- In 2005, McKinsey & Company conducted study to understand attitudes of people with high blood pressure toward their disease.
- Survey of 810 patients uncovered six patient segments
  - Proactive patients (24%)
  - Confident (12%)
  - Concerned (22%)
  - Confused (10%)
  - Resigned (15%)
  - Skeptical (17%)
- *Concerned patients* responded to information about medicine safety, *confident patients* influenced by programs rewarding consistent, long-term usage.
- Insights helps pharmaceutical companies and policy makers design better programs to improve drug adherence.

[pg. 7]

2.1.2 Why Segment the Market?

Benefits to the **Customer**:
- Convenience and time savings
- Tailored products/services
- Relevant offers
- Personalized experience

Benefits to **Organization**:
- Identification of unfulfilled needs

- Better product design
- More targeted promotions
- Increased customer satisfaction

Amazon Family, new service aimed at new parent segment; saves time and money for parents with automatic suggestions based on previous purchase history of other parents, discounts/automatic shipping for diapers & baby wipes, 2-two day shipping, ordering items from home.

Better products/services result when companies aim to satisfy unfulfilled customer needs. Firms can better target promotions and customize products, increasing customer satisfaction. Gaining satisfied customers is good way to achieve sustainable profit growth.

[pg. 8]

2.1.3 Characteristics of a Useful Segmentation

- *Identifiable*: identify customers in each segment and measure characteristics, like demographics or usage behavior.
- *Substantial*: segment needs to be substantial to be useful, large enough for firm to serve profitably. Coke C2 failed because intended male audience wanted full-flavored drink with no cals, any product sales from Coke C2 cannibalized sales of existing Coke beverages.
- *Accessible*: segment must be reachable through communication and distribution channels independent of other segments; young consumers are more accessible to firms eager to engage them via Facebook, Twitter, Instagram, etc.
- Stable: segment should be stable over long period time so any marketing effort is successful and profitable

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- *Differentiable*: consumers **within** the segment should have similar needs, that differ from needs of consumers in other segments. Japan has segment for alcoholic-free drinks like nonalcoholic beer; sales in segment doubled between 2009 and 2012, with Sapporo releasing beer-flavored beverage in 2011. Sales expected to grow from $1.26 billion to $1.77 billion in 2022.
- *Actionable*: create products and marketing programs for attracting/serving customers in segments identified.

2.2 How to Segment Consumers

EXHIBIT 4 Major Segmentation Variables for Consumer Markets

Geographic	Country, region, city, urban/rural, climate
Demographics	Age, income, gender, generation, marital status, family size, occupation, education, ethnicity, religion
Psychographics	Lifestyle, personality, activities, interests, opinions
Behavioral	Usage rate, loyalty, product knowledge, involvement, purchase occasion, buying stage
Benefits Sought	Convenience, value, safety, status

EXHIBIT 5 Major Segmentation Variables for Business Markets

Geographic	Country, region, city, urban/rural
"Firmographics"	Industry, firm size, global/regional, ownership
Buying Approach	Centralized or decentralized purchase, purchase policies, involvement of decision-makers
Behavioral	Volume, purchase frequency, attitude toward risk, loyalty, urgency
Benefits Sought	Price, product quality, service, relationship

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[pg. 10]

2.2.1 Who Are the Customers?

Often easy to form groups with readily available/identifiable information about consumers, like age, education, income, lifestyle, family size.

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Examples of firms segmenting markets (not always successfully):

- By *demographics*: In 2013 Wolfram had standard edition of Mathematica priced at $2,495, but also offered student version with limited features at half price of standard to entice students; they figured they would not need all of the features of the product but get them acclimated to using the software. **Bic failed miserably by releasing line of thinner pens targeted at women at higher price points**, intense backlash on Amazon reviews that spread through Facebook
- By *geographics*: Mickey D's customizes burger classics/menu items regionally and seasonally to meet geographic tastes and customs; lobster rolls in Maine, durian milkshakes in Singapore, no beef in India, no pork in Israel.
- By *psychographics*: (Lifestyle, personality, interests, values, attitudes) allows companies to segment customers by traits that are not easily identifiable.

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Segmenting US Millennials

- In 2012, Boston Consulting Group segmented US Millennials (ages 16-34) in six segments; while all showed affinity for technology, differed markedly in attitudes and behaviors
    - Hip-ennial (29%): "I can make the world a better place."
    - Millennial mom (22%): "I love to work out, travel, and pamper my baby"
    - Anti-Millennial (16%): "I'm too busy taking care of my business and my family to worry about much else."
    - Gadget Guru (13%): "It's a great day to be me."
    - Clean and Green Millennial (10%): "I take care of myself and the world around me."
    - Old School Millennial (10%): "Connecting on Facebook is too impersonal. Let's meet up for coffee instead!."

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2.2.2 What is Customer Purchase Behavior?

In age of big data, easy for firms to collect and store transaction data, web traffic, multichannel buying patterns, and other purchase-related information. Allows firms to segment customers based on variables like how recently/frequently they made purchases, brand loyalty, or share of wallet (money customer spends with firm as share of all money spent in that category).

Consumer's past purchase behavior is generally good predictor of future behavior; purchase-based segmentation provides firms with actionable strategy for targeting right customers.

RFM: *recency*, *frequency*, *monetary* value of purchases; approach is commonly used in db marketing and easy to implement for companies tracking transaction data. Models based on RFM correlate well with customer future purchases.

Study of banking markets in Belgium, Germany, Italy revealed loyal bank customers buy 40% more products, generated 30-70% more value for banks over life of relationship when compared to average bank customers.

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Customer journey, how they interact with various touchpoints to buy, is another segmentation method. One study of traffic in Austria, Germany, Switzerland found five segments:

- *store-focused shoppers*: rarely online
- *pragmatic online shopping*: search and buy online using only two touchpoints
- *extensive online shoppers*: use four touchpoints and more price sensitive
- *multiple touchpoint shoppers*: most touchpoints and generally younger
- *online-to-offline shoppers*: search online but by in offline store

Why Do Customers Buy a Particular Product?

Only through knowing *why* consumers make the decisions they do that we can truly understand their needs and preferences - fundamental bases of segmentation. Helps firms convert non loyal to loyal consumers, design new products to appeal to new groups of consumers, or change marketing strategy to increase share/profitability.

Consumer needs and preferences depends on consumer characteristics and usage context. Intersection of usage context and consumers' emotional/functional needs is called **demand space**.

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2.3 Targeting

Now that market is segmented by *who*, *what*, *why*, how do you decide which segments to choose?

Targeting: evaluate attractiveness of market segment, select one or more to pursue, design market programs to serve them. Goal is to select segments that improve org chances of maximizing long term profitability.

Market differences:

- *Undifferentiated*: virtually no differences in needs of consumers
- *Mass-marketing*: design same product for all consumers
  - I.e. Coke - largest # of consumers via broad distribution and mass comms
  - Reach largest potential market at low cost due to economies of scale in product design and marketing
  - Risk that competitors carve out niche by nibbling at edges of market

One-to-one and mass customization: offer customers ability to personalize product on mass scale -> transforming to "segment of one"

- Levi's with customizable jeans
- Adidas with personalized shoes
- Shutterfly with designing your own holiday cards

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Customers must be willing to pay premium for product/service tailored to their needs; **most products fall in between two extremes of *mass customization* and *mass production* - this i s why segmentation is important/powerful concept in marketing.**

Tempting for company to target segments that are large, high growth potential, and where share of brand is low (assumption is firm has more room to grow in large segment with low share). But share might be small because of **intense competition in that segment**.

Three factors influence selection of segments:

- *Characteristics of various segments*
- *Firms own competencies and resources*
- *Current and potential competition*

EXHIBIT 9 Selecting Target Segments

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Small firms/firms with unique product choose a *niche* strategy; allows firm to dominate share in segment, and can have high profit margin despite size.

Target multiple segments simultaneously, like car companies: sports cars, minivans, hybrid cars, etc.

Firm may start with building strong position in one segment and slowly expand reach in adjacent segments. Porsche started with sports car and expanded product line to Porsche Cayenne (SUV) and Porsche Panamera (four-door sedan).

Firms can also target *all* segments in market; strategy is to preempt competition from gaining foothold in any segment and later encroaching on firm's profitable markets.

2.4 Ethical and Privacy Issues

Easier for companies to reach customers on individual basis; how far should a company go? Considerations like public reaction, privacy, and ethical concerns should be taken into account when finalizing strategy.

Online retailers can tell if customers come from competitor's websites and offer lower prices if customer has been comparison shopping. If discovered may not sit well with loyal customers paying higher prices. **In 2000 Amazon conducted price test on DVDs, sparking backlash from consumers; Jeff Bezo called the experiment a mistake.**

Firms increasingly mine customers' purchase data to target them but raises privacy concerns among consumers.

I.e. Target in 2012

- **Identified consumers in second trimester of pregnancy to woo new parents (lucrative segment) with highly flexible brand loyalties**
- **Developed pregnancy-prediction score based on purchases which allowed Target to estimate due date for baby**
- **Used specific schedule to send certain coupons to attach pregnant women to the stores, and more coupons when in the store**
- **Worked for a year until father of high-school student discovered that daughter was getting coupons for baby supplies**

Target was forced to reconsider PR risk of customization, even though they were eventually proven right, teen was pregnant and had not told parents.

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Increasing users' concern about data privacy lead to EU implementing General Data Protection Regulation (GDPR) in May 2018

2.5 From Segmentation and Targeting to Strategy Formation

S & T influences organization's resource allocation/marketing strategy, like product, pricing, communication, sales force, customer management strategies.

Product strategy: Gap Inc. has product-line strategy based on consumer share values (urban & fashionable) but differentiated offerings based on age, aspirations, income.

Pricing strategy: Airlines segment customers into two (below). Offer lower prices to leisure travelers who book several weeks in advance; customers from each segment can pay very different prices for the same seat.

- Leisure: price-sensitive
- Business: schedule, frequent flier miles, ability to book at last minute

Communication strategy: Knowing target audience helps agencies design appropriate ads and choose right media; Toyota's Tundra truck appeals to consumers who transport heavy loads - highlight toughness of trucks on construction sites.

Salesforce & channel strategy: B2B companies segment customers based on volume of transactions and potential value to firm.

Customer management strategy: Firms use past purchase behavior and RFM segmentation to decide which customers should get catalogs and how often; airlines loyalty programs reward best customers by offering free upgrades, lounge access, priority boarding.

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Summary:

- Customers differ in preferences, critical for company to understand these differences and design products/marketing strategies to appeal to different consumer groups
- Segmentation is one of the most fundamental concepts in marketing
- Segmentation can be done using variables like demographics or purchase behavior
- Not an exact art or science - manager's careful judgment is needed
- Once segments are defined, company must decide which segments to pursue and how to position product in those segments
- Process of targeting depends on three major factors:
    - Segment characteristics
    - Company resources and capabilities (and fit)
    - Competitive intensity in various segments

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Segmentation, Targeting, and Strategy Formation at the Gas Pump

In early 90s, price wars threatened profitability of oil companies, significantly eroding their margins; oil companies assumed consumers were price-sensitive, Mobil conducted survey of 2,000 customers and uncovered five segments:

- Road Warriors (16%): Customers using car as part of profession (salespeople)
- True Blues (16%): Brand-loyal and station loyal consumers
- Generation F3 (27%): Upwardly mobile young consumers who drove often
- Homebodies (21%): Stay-at-home moms valuing gas station proximity
- Price Shopper (20%): Customers on budget rarely buying premium, not brand-station loyal

Surprising outcome was that only 20% of customers were Price Shoppers, spending average of $700 annually. Road Warriors spent as much as $1,200 annually on gas and were not price sensitive - instead of low prices, they seeked well-lit gas stations with long hours, snacks/drinks, and easy to get in/out.

Insight led Mobil to focus on 80% of non-price sensitive market, redesigning its gas stations with better lighting, making stations open 24 hours, offering larger variety of snacks/drinks (high margin items) and added Mobil Speedpass, offering contactless payment at the pump. Mobile increased average price at pump by two cents a gallon, led to 20% increase in sales and extra $118M in earnings.

Commented [1]: Use in Cialis case reading

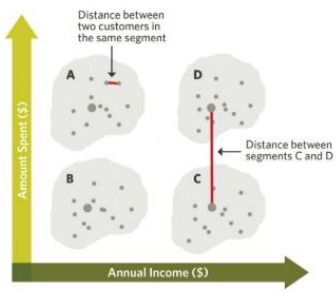
3. Supplemental Reading

[pg. 26]

3.1 Cluster Analysis

Cluster analysis: Method to group customers based on set of variables so that customers in one group are similar to each other but are different from customers in another group.

EXHIBIT 10 An Example of Cluster Analysis

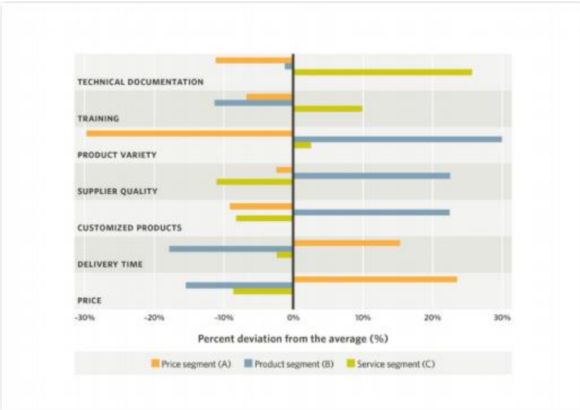


[pg. 27]

3.2 Preference-Based Segmentation

Two broad approaches to perform preference-based segmentation

1. ***Multi-attribute model***: explicitly ask consumers about preferences for variety of attirbutes that manager considers relevant for purchase decision
2. ***Conjoint analysis***: force consumers to make tradeoffs between several pairs of products differing on carefully designed combination of attributes



3.3 Response-Based Segmentation

If firm has data on consumer's past purchases, it can **predict** their response to marketing actions based on actual purchase behavior and segment customers based on price sensitivity (i.e).

Approach is simple if there is large data series for each consumer to run a statistical analysis like a *regression* to infer individual consumer's price sensitivity, which in turn can be used as variable in cluster analysis for segmentation.

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Latent class analysis: allows managers to infer latent, or hidden, segments from limited individual-level data. Randomly divide consumers into two groups and run regression on each group separately to assess price sensitivity. Group 1 is more price sensitive. Go back to each customer in Group 1 and statistically assess his/her chance of belonging to group. Customer 1 always buys at regular price, they should not belong to Group 1 so move them to Group 2. Repeat process iteratively; research shows this eventually converges to give appropriate allocation of consumers in both groups and price sensitivity of both segments.

4. Key terms

conjoint analysis: A market research technique that asks customers to make a series of trade-offs between component attributes; analysis of these trade-offs helps companies determine how to develop and price the features of products and services.

demand space segmentation: Dividing the market into unique demand spaces that exist at the intersection of different usage occasions and consumers' emotional and functional needs.

latent class analysis: A statistical method for identifying unmeasured class membership among subjects using categorical and/or continuous observed variables.

mass customization: A product delivery approach utilizing flexible, computer-aided manufacturing systems. Each customer can select and customize the product's final features to his or her individual preferences.

multi-attribute model: An approach that analyzes a consumer's evaluation of an object (product, brand, service, etc.) as a function of the beliefs that he or she has toward the object on various attributes and the importance of these attributes.

one-to-one-marketing: A marketing approach based on customer relationship management (CRM), emphasizing personalized relationships with individual customers.

positioning: Defining a value proposition for the target segments; differentiating a product or service (or its brand) from others in the perception of consumers.

segmentation: A marketing planning process that involves dividing a broad target market into subsets or groups of consumers who have common needs or characteristics.

targeting: Selecting the potential customer segments to whom a company wishes to sell products or services, after an analysis of each segment's attractiveness.