# **MGT 8803 MARKETING MODULE**

# **Week 12 TRANSCRIPTS**

## Positioning

>> Welcome to the lesson dedicated to the topics of positioning and differentiation. Within this lesson, I'll address the following five objectives. Define positioning, discuss the components of a positioning statement, describe perceptual mapping, define differentiation and discuss examples of differentiation strategies. Firms often use promotion to help position how a marketing mix meets target customer's specific needs.

Marketers can differentiate the marketing mix in order to meet customer needs better than competitors and build a competitive advantage. Let's look at this more closely. Before beginning the process of considering differentiation and positioning, it's helpful to ground ourselves in a basic reminder of consumer behavior. Customer value is a result of the customer's perceived benefits minus the customer's perceived costs.

And remember, these benefits as well as the cost may or may not be tangible. Elements such as time, convenience and benevolence, may be emotional responses the effect behaviors and the perception of value. It may seem obvious to say or realize that it's the customer that determines perceived value.

But it can be far more difficult to capture, quantify and weight the various components that translate to value analysis. This is a highly simplified example of how a computer laptop retailer might leverage customer insights through market research, to evaluate user segments. To determine what brands to carry and target for these segments.

As you can see in the table at the top here, three user segments have been identified and three key attributes are being evaluated for each segment. Each customer is asked to evaluate the attributes. In this example, they are features, ease of use and easiness to learn. And to score each one on a scale of importance, from one to ten.

Once this information is captured, the organization can create sub-segments and align marketing efforts to provide the best options to the consumer. In the far right hand, column we can see the retailer has selected brands and models of laptops that are the best fit for these sub-segments. As analytics oriented students, this will be your domain.

Many of you will help support marketers by thinking through scenarios and permutations that are far more complex than this example. Let's look at a form of definition of positioning. It is defined as how customers think about proposed and/or present brands in a market. Marketing research techniques are designed to collect information about consumer perceptions and determine differences among competing products in the mind of the consumer.

Let's consider an example for a moment. What do you think about the Mercedes brand and its personal line of vehicles? Take a few seconds to consider this. Some of you have positive perceptions, some of you may have negative perceptions and some of you may have neutral perceptions of the brand.

What is important to recognize is that your perceptions are not necessarily about being right or wrong. In fact, I'm guessing many of you have either a positive or negative perception of the brand, but don't have personal experience with the brand. Understanding this from the brand standpoint is super important because it highlights the significance of actively pursuing ways to shape consumers' perceptions, even when they have not experienced the brand's offerings first hand.

What's shown here is some data from the 2019 Consumer Reports rankings of luxury midsize cars, which indicates the Lincoln Continental as the highest Consumer Reports rated luxury midsize car. As we can see, the highest-rated Mercedes within this category is in the 11th position overall. The purpose of this is not for me to alter your perceptions, or to convince you Consumer Reports is the right resource to influence your buying decisions.

What I'm re-enforcing, however, is the psychology and emotion involved in positioning. Consumers do not always make purely rational decisions and arguably, Mercedes has done a fantastic job of differentiating its family of personal automobiles, to convince many consumers to buy their product. The positioning statement provides marketing managers with a strategic direction.

This is a template, an example application. Marketing managers often develop a positioning statement to concisely identify the firm's target market, product type, points of differentiation and the main reasons a customer should buy a product. Lets look at an example from Mountain Dew. The brand's target market is young adult males who identify with excitement, adventure and fun.

This might different from a market segment that is older and more health conscious. Branding and marketing would almost certainly avoid serious or conservative themes. So here, for this positioning statement, it reads, for 16 to 24-year-old males who embrace excitement, adventure, and fun, Mountain Dew of all carbonated soft drinks, delivers great taste that exhilarates like no other because Mountain Dew is energizing, thirst-quenching, and has a one-of-a-kind citrus flavor.

As I've mentioned, positioning is a function of company actions, but it's ultimately determined by the customers' perceptions. This diagram shows the output of a computer program that performs positioning analysis based on market research data. Two attributes of soap that account for the greatest difference in consumer perceptions are the degree to which the soap is a deodorant soap and the degree to which the soap is a moisturizing soap.

Customer segments can be determined through market research to evaluate consumer responses. The circles shown here refer to the size of market attracted through a combination of attributes. The closer that any two circles are to each other, the more similar those brands are in the minds of the consumer.

Market research can also be leveraged to understand how consumers feel about existing brands and also plotted on the perceptual map. This allows the marketer to assess opportunities, to shift their brand's positioning and/or to identify potential opportunities for launching a new brand. For example, in this chart here, we can see that Lava brand is really sitting out in an area where there is not a lot of market research responses from consumers.

The balance of that is that we do see some activity in the segment that's labelled number 6 as well as the label of number 7, which may be opportunities for Lava to shift its brand, or for a new soap brand to be created to serve customers' needs. So positioning studies can be part of a broader analysis, because they identify important attributes of the product offerings in a market.

They identify what offerings are likely to appeal to segment and provide a basis for changing the marketing mix, should a marketer decide to reposition a product. Now that we've discussed positioning, let's talk about the process of differentiation. From a definition perspective, differentiation is utilizing the marketing mix in a distinct way, such that customers see it as different from the competition.

So it is how the marketer tries to distinguish his or her offerings in the marketplace and how they're set apart from the competition. What really matters is that the consumer perceives the marketer's products and offerings to be different, even if it's essentially the same functionality. Let's look at an example.

I've taken the liberty of blocking out the brand labels, so that the answer is not necessarily purely obvious. So what brand shoe is this? I presume most of you think that you know what the brand is. I've blown up the image so you can see it's the Bob's brand from Skechers.

Many of you probably guessed they were Tom's. From an appearance standpoint, they certainly look a lot alike, if not exactly alike. The point here is that the physical characteristics of a product may or may not be sufficient for differentiation. Marketers must leverage the full range of the marketing mix to influence consumer behaviors.

Both Tom's and Bob's use social cause differentiation as part of their overall strategy. At a high level, marketers often think about differentiation through the components of technology, product attributes, price, quality, customer service and user experience. These examples are intended to highlight some strategies that organizations can pursue for differentiation purposes.

The right or better strategies are ones that align with the company goals and maximize profitability over time. So this wraps up the lesson on positioning and differentiation. In the next lesson we'll talk about consumer buying behavior. See you soon.

## Consumer Buying Behavior

>> Welcome to the lesson dedicated to consumer buying behavior. The previous two lessons covering the basic mechanics of segmentation, positioning and differentiation are certainly correlated with and a function of consumer behavior. Within this lesson I wanna highlight some particular characteristics of consumer behavior that helps marketers better understand how to more effectively relate to consumers in their buying process.

Within this lesson, I'll focus on the following three objectives. Discuss the consumer adoption process, describe the key buying behavior influences and discuss how customer perceptions and attitudes impact marketing decisions. Remember from our overarching marketing model, as well as the five Cs model, that customers are the focal point for all things marketing oriented.

Many new product concepts require an adoption process. And remember, a new product is in the eyes of the consumer. Meaning, if they've never been aware of or interacted with the product, it's new to them. In these situations, consumers may pass through a series of steps used to investigate and evaluate and openly accept or reject an idea or a product as a solution to their problem.

In the awareness stage, the potential customer first learns about the existence of a product but may lack more details to consider it further. If the interest stage is reached, the consumer will gather general information and facts about the product, thus better understanding the stated benefits. In evaluation, the consumer gives the product a mental trial, applying it to his or her own personal situation In trial, the consumer may buy, borrow or rent the product to experiment with it in use.

The consumer ultimately makes a decision on either adoption and continued use or rejection of the product from further consideration. After the decision, there's confirmation. Here the adopter continues to rethink the decision and searches for further support that it was correct. It's also important to note that dissonance may set in after the decision.

Dissonance is tension caused by uncertainty about the rightness of a decision. It's essentially where a customer is second guessing themselves. That's when marketers think about the long term, customer advocacy, retention and so forth, it's important to consider this component of dissonance to help ensure a more favorable experience for the customer.

Or essentially, how do we help eliminate dissonance? The time, effort and source of information used in making a purchase can be influenced by the relative level of involvement the consumer experiences. In routinized response behavior, a consumer tends to resort to have it to solve a problem. These purchases are often referred to as a low involvement purchases for the consumer.

I suspect many of you purchase certain consumer goods like toothpaste, paper towels, and bath soap in this way. In limited problem solving, the consumer is willing to put forth some effort, perhaps to update or add to previous experience or because the problem is moderately important. In extensive problem solving, a consumer attempts to satisfy a completely new or highly important need.

In this circumstance, significant information is needed. The consumer has no experience with the product, and the decision and risk of making a wrong decision are highly important. These purchases are often referred to as high involvement purchases. The idea of a decision process does not imply that consumers always apply rational processes in their buying decisions, rr that they necessarily lead to a purchase.

Marketers understand that virtually all consumer behavior is learned. Thus, marketers are very interested in how they can positively affect the learning process. Learning is a change in a person's thought processes caused by prior experience. A drive is a strong internal stimulus that encourages action to reduce or eliminate a need.

And cues are stimuli in the environment that trigger a drive or response, and this is the domain of the marketer, the creation of these cues. A response is an effort to satisfy a drive. Reinforcement occurs when the response is followed by satisfaction. Marketers often try to identify positive cues or images that have positive associations from some other situation and relate them to the marketing mix.

This concludes this first part of the lesson. In the next section, I'll talk more about buying behavior influences.

## Buying Behavior Influences

>> Welcome to this part of the lesson covering buying behavior influences. The purpose of this section is to highlight the common elements that affect consumers in the buyer journey. Economics are often cited as a key source of consumer decision making, but marketing also derives a great deal of knowledge about consumer behavior from psychology, sociology, anthropology and other social sciences.

The basic model of consumer behavior that will be shown here integrates many of these influences. Economic needs are those needs that are concerned with the consumer making the best use of his or her time and money. This is the logical component of the decision-making process. Psychological variables are things that are going on in the mind of the consumer that affect purchase behavior.

Examples include attitudes, lifestyle preferences, learning processes, trust and perceptions. Social influences have to do with the associations that the buyer might have with other people. Examples include cultural influences, social class and family influences. The purchase situation and its factors are the fourth component. This includes the reason for the purchase, time pressure involved and the surroundings of the purchase.

Each of these components, along with the marketing mix and all other stimuli, have an impact on the problem-solving and decision-making process. The outcome of the process might or might not be a purchase. Now let's dig into these influence components further. Economic needs help marketers to understand the who, what, when and where of many aspects of consumer buying behavior.

However, economic needs often don't tell the full story. So, marketers have turned to other behavioral sciences in order to consider the full range of buying influences. Consumers sometimes behave in ways that are consistent with the economist's idea of an economic buyer, which is a consumer who has all of the facts and makes logical choices to purchase goods and services that will best fulfill their needs.

Customers' incomes are likely to affect their needs. How much money a customer has available certainly drives their buying behavior. For many marketers, they need to determine their target market's discretionary income, which is what is left of income after paying taxes and paying for necessities. It is certainly true that economic needs affect many buying decisions.

Many consumers face budget constraints and even when they don't, they usually pay attention to factors, such as the cost to acquire and use a product, dependability, convenience, how long it will last, etc. In explaining the behavior of individual consumers, the economic view is useful, but probably too simplistic.

This ad for Subaru, for example, focuses on safety. Automobile safety relates to several important economic needs including the dollar cost associated with insurance premiums and the cost of injuries. On the other hand, safety also relates to fear and other behavioral factors that influence consumer decisions. Neuroscientist Antonio Damasio made a groundbreaking discovery.

He studied people with damage in the part of the brain where emotions are generated. He found that they seem normal except that they were not able to feel emotions. But they all had something peculiar in common. They couldn't make decisions. They could describe what they should be doing in logical terms, yet they found it very difficult to make even simple decisions, such as choosing what to eat.

Many decisions have pros and cons on both sides. Shall I have the chicken or the turkey? With no rational way to decide, these test subjects were unable to arrive at a decision. And just for clarification, I do want to point out that although these patients had damage to this certain area of the brain, they were otherwise highly capable, highly intelligent individuals.

You might consider searching the web for a list of human psychological or emotional states. These 16 emotions are taken from the book, Hot Button Marketing, by Barry Feig where he digs into the details of how these emotions influence consumer behaviors. This serves as a sort of checklist to consider when attempting to appeal to certain key emotions in consumers.

For example, a parent purchasing a car seat for their child is likely to be driven by emotions, such as nurturing response or the desire to get the best. Whereas the buyer of a luxury sports car is more emotionally driven by self achievement and being better than you. Marketers are concerned with satisfying the needs of consumers, but what exactly are needs and what types of needs are there?

Needs are basic forces that motivate consumers to do something. Wants are learned needs, that is, they are needs expressed as a desire for a particular need satisfier. And a drive is a strong internal stimulus that encourages action to reduce a need. Consumers seek products and services that provide benefits that satisfy these needs and wants.

Many different levels of needs can appeal to or motivate a person. The PSSP pyramid shown here helps apply motivation theory to particular needs of consumers and marketing managers trying to develop marketing mixes to meet those needs. Physiological needs are the most basic needs people experience. Examples include biological needs for food, liquid and rest.

Safety needs are concerned with protection and physical well being. Examples include health, medicine, exercise and security. Social needs are derived from a person's interactions with others. Examples include love, friendship, status, esteem and connecting with others. And personal needs are concerned with an individual's need for personal satisfaction unrelated to what others do.

Examples include accomplishment, fun, freedom and relaxation. Some products try to satisfy only one type of need while others may attempt to satisfy more than one type. Perception refers to how people gather and interpret information from the world around them. Marketers are very much interested in the processes people use to handle incoming marketing mix stimuli because people can't process all the information to which they are exposed on a daily basis, the volume is simply too great.

Selective exposure means that consumers seek out and notice only the information that interests them. Selective retention means that consumers remember only what they really want to remember. And selective perception means that people screen out or modify ideas, messages and information that conflict with previously learned attitudes and beliefs.

So what does this mean for a marketer or someone working in a data analytics role? It means there's an opportunity to better understand the target market's selective messaging preferences. This is why it's so important to implement continuous A B or multivariate testing, along with ongoing market research to determine the most effective message language, formats and modalities.

Let's take a look at an example of perception in the context of this advertisement from Ford, which uses the tagline, Quality is Job 1. What do you think goes through a customer's mind when they see an ad like this from Ford if they've had a bad experience personally with one of their automobiles?

Intuitively, there's going to be a huge selective perception problem in this situation. But it doesn't mean Ford shouldn't be attempting to position and differentiate itself around quality, knowing that many consumers prioritize quality when making an automobile buying decision. For the consumer that's had a poor experience, Ford will have to earn back their trust and deliver messages that are more likely to overcome objections, which will likely require a combination of time persistence and more aligned messaging.

An attitude is a person's point of view about something. And attitudes tend to be learned. They shape information processing in the consumer's mind. Attitudes also relate to buying decisions consumers make. Therefore, many marketers conduct attitude research to better understand their target market. Beliefs are opinions people have about something.

Green attitudes and beliefs are related to a growing number of consumers that believe that they can have a positive impact on the environment. If they buy from companies, they can help them make greener choices. Most marketers are working with some existing attitudes. Consumer attitudes tend to be enduring.

It's usually more economical for marketers to work with them than to try to change them. And changing negative attitudes is probably the most difficult job a marketer faces. Ethical issues may arise if marketers promote inaccurate or false beliefs. Expectations are outcomes or events that a person anticipates. Understanding and meeting expectations are important in order to build long-term relationships with customers.

And building customer trust drives sales and repeat business. Trust is the confidence a person has in the promises or actions of another person, brand or company. Trust drives expectations because when people trust, they expect the other parties to fulfill promises and perform capably. And finally, trust can be critically important in certain purchase situations, especially ones where human life or large purchase items may be in consideration.

Personality and lifestyles are other psychological variables that affect consumer behavior. Personality affects how people see things. Psychographics, or lifestyle analysis, is used to help assess personalities. Activities identify what people do and are objectively observable. Interests tend to create stronger drives that may pinpoint market opportunities. And opinions are the ways in which people feel about things.

By combining opinions with interests and activities, marketers can develop a robust view of certain target market segments. This table highlights a number of variables for each of the AIO dimensions, along with some demographics used to add detail to the lifestyle profile of a target market. This is nowhere near an exhaustive list, but it's helpful when thinking about and categorizing AIO dimensions.

Perceived and actual social standing have powerful influences on consumers. Social classes are a group of people who have approximately equal social position as viewed by others in society. So what do these classes mean? In the United States, income is not the main determinant of social class. People with similar incomes can be in different social classes because of their occupation, education and type or location of housing.

There are other key social influences on buyer behavior as well. Reference groups are the people to whom an individual looks when forming attitudes about a particular topic. Opinion leaders are people who influence others. Their influence matters because of some characteristic they have. They can provide important word of mouth support if marketers reach the opinion leaders who are buyers and influence them.

Marketers can also use opinion leaders as official endorsers for their market offerings. Culture relates to the whole set of beliefs, attitudes and ways of doing things of a reasonably homogeneous group of people. Culture varies internationally, and it's important to consider using localized human resources when conducting customer research in foreign markets.

The less a marketing manager knows about the specific social and interpersonal variables that shape the behavior of target customers, the more likely it is that relying on intuition or personal experience will be misleading. This photo helps illustrate the cultural issues that McDonald's address when expanding into the Saudi Arabia market, where customers are segregated by gender.

Failure to understand local cultural factors can be the difference between success and failure. And keep in mind, some cultural factors are as subtle as they are fundamental. The particular situation a consumer is in during or around the time of purchase can also have significant effects on the actual purchase.

Among the key situational influences are the purchase reason can vary. Why a consumer makes a purchase can affect buying behavior. The time available for the purchase can also affect what happens and physical surroundings of the purchase affect buying, as do the emotional responses they elicit or encourage. To wrap up this lesson, let's look at a visual representation of an expanded model of consumer behavior.

What we observe is a mixture of economic needs, psychological variables, social influences, and the purchase situation can have an effect on the consumer decision process. But marketing mix and all other stimuli are also involved in affecting the consumer. Within the consumer decision process, we observe a moment where a need arises and the consumer seeks to fulfill that need through either a routinized response or with additional problem solving, which leads to either a postponement of the decision or a purchase being made.

And once a purchase is made, the consumer evaluates the experiences associated with the purchase, whether or not it meets expectations and then forms a set of opinions or beliefs about the purchase. This may lead to repeat purchases of the same product or service, or a reevaluation to explore other options.

This concludes this lesson on consumer buying behavior. In the next lesson, we'll explore the business customer buying behavior and how it differs from consumer buying behavior. See you soon.

## Business/Organizational Customer Buying Behavior

>> Welcome to the lesson dedicated to business and organizational customer buying behavior. I wanna spend a little time differentiating this target customer verses in consumer behaviors, which we covered in the last lesson. Within this lesson, I'll focus on the following four objectives, discuss business and organizational customer types, evaluate roles and buying influences for customers.

Discuss the organizational buying process, and define different business relationship dimensions. In the previous module, we focused on buying by final consumers for their personal use. This module examines the buying behavior of business and organizational customers. We examine the key characteristics of four specific types of organizational customers. We will also explore the important ways that organizational buying tends to be different from buying by final consumers.

We'll also look at five factors that define differences between organizational customers and final consumers. Individual people make purchases to satisfy their needs, but of course so do organizations. In fact, the organizational market is bigger than the final consumer market in terms of the number of purchases made. Thus it presents significant opportunities for marketers.

The organizational consumer market is often referred to as the industrial market or the business to business B2B market. This is an organizational customers buy for resale or to produce other goods and services. There are four main categories of these customers. First are producers of goods and services. Some examples include manufacturers, farmers, real estate developers, and so forth.

There are also intermediaries such as wholesalers and retailers. We also have government units at the federal, state, and local levels, as well as foreign governments. And they're nonprofit organizations including both national and local organizations. Unlike the individual consumer market, organizational buyers tend to focus more on quality and exacting purchase specifications.

Purchasing specifications which are written or electronic descriptions of what the firm wants to buy are fairly common. These specifications describe the needs that organizational buyers have. The specifications may be fairly simple or they may be very detailed. Additionally, organizational buyers often concentrate on quality certification in making purchases.

They're important differences between how businesses and organizations make purchase decisions and how individual consumers make those decisions. As I mentioned, most organizations buy for a basic purpose. They buy goods and services that will help them meet the demand for the goods and services that they in turn, supply to their markets.

Basic purchasing needs are fundamentally economic. Organizational buyers tend to be less emotional in their buying behavior then our final consumers but not entirely so. As such promotion to organizational buyers often focuses on economic factors as a primary area focus. This applied discovery ad targeted at data aggregators promises to double a customer's productivity and offering uniquely customizable e-discovery solutions.

In addition to these economic focus claims, what are the psychological needs being addressed here in this ad? Take a moment to consider this. Hopefully you recognize the statement about reducing risk and increasing competence. The three answer check boxes are also used to appeal to more psychological aspect of the decision making process.

Even though the buying situation is in a B2B scenario, there are still human beings involved and they care about their careers, impressing their superiors, making smart decisions, and so forth. I also wanna point out every organization has a unique identity and the differences between organizations are important. Marketers must never assume that a marketing mix that is successful for one company will automatically fit the needs of other companies, even in the same industry.

Organizations differ from individual consumers in their buying behavior not only in terms of economic versus emotional considerations. But also with respect to the potentially many and diverse individuals that may be involved in securing a purchase. The collection of these influences is a buying center. Buyers are the purchasing managers who are responsible for working with suppliers and arranging for the terms of sale.

Users are the people who will actually use the product. They may be production workers or support staff, for example. Influencers are people whose expertise is used to help determine which products are needed. Influencers are often technical people who help write specifications. Gatekeepers are people in key positions in the organization who control the flow of information.

Gatekeeper examples include receptionist, secretaries, researchers, and others in the organization that have an influence on the flow of information. Deciders are the people in the organization who have the actual power to select or approve the supplier. Marketers must identify and market to every buying center member. Keep in mind, the members of a buying center may change from purchase to purchase.

Although most buyers in organizational markets are professionals, a comprehensive vendor analysis considers all influences on purchase decisions. Vendor analysis is a formal rating of suppliers on all relevant areas of performance. The goal of a vendor analysis is to lower the total cost of a purchase. A buyers behavioral needs are relevant as well, for example, if a buyers main contact with the supplier is through a sales representative who is uncooperative the supplier is less attractive to the buyer.

Ethical conflicts may arise in buyer seller relationships. Some organizations have provisions in their codes of conduct governing these interactions. And purchasing may also be centralized in many organizations by concentrating the purchasing for all branches at one location. This may help the buying organization to manage spending or achieve economies of scale.

When making buying decisions, buyers focus on company needs for innovation, survival, growth, and profit. On the other hand, buyers are people working in organizations. They're also concerned about their own careers, how they viewed and perceived by their manager and peers, and personal interests. The sweet spot is making sure that seller's marketing mix will satisfy both the needs of the company and the needs of the individual buyers that are involved.

Like individual consumers, organizational buyers are problem solvers. In organizational problem solving, three kinds of buying processes are useful. New-task buying occurs when a customer organization has a new need and wants a great deal of information to be able to make a decision. New-task buying often involves setting product specifications, evaluating sources of supply, and establishing an order routine to follow in the future.

A straight rebuy is a routine repurchase that uses existing suppliers to fill a standard order. Straight rebuys often use e-commerce order systems. And a modified rebuy is the in between process where some review of the buying process is performed, but not as much as in a new-task buy.

A new-task buy starts with the user who becomes aware of a need and begins researching solutions. This exhibit list examples of information sources available for the business buyer. Even though a wide variety of information sources are available, business buyers will use the sources they trust. To build trust, a marketer must make sure its information is reliable, and aligned with the appropriate stage of the buyer journey.

One source of information comes from the marketing firm. This includes personal information that comes from talking to the selling firms personnel. In addition, the firm might produce information that appears in print form, on paper or online. Buyers will also turn to sources of information outside the direct control of the seller.

These can be personal sources or impersonal sources of information. New-task buying situations provide an excellent opportunity for a new supplier to make inroads with the customer. Search engines are often a first step in gathering information for the buyer, ensuring a prominent web position for key search terms via search engine optimization and or paid search advertising.

Can be critical to generating brand-awareness and early stage engagement. When prospects and customers access a website, they want for them to contain useful, easy-to-find content. In some instances, customers share experiences in online communities, such as LinkedIn or industry forums. Customers oftentimes ask for competitive bids to compare offerings.

When buyers in B2B markets have identified potential suppliers, they might ask them to submit a competitive bid that contains the terms of the sale offered by the supplier in response to the purchase specifications posted by a buyer. This is an opportunity for the marketer to establish points of differentiation and reinforce the benefits associated with their offerings.

In certain instances, it makes sense for customers and suppliers to have close relationships to address issues such as quality, improve demand, predictability, cost efficiencies. And general market insights that provide a better outcome for both sides. Aside from cooperation and information sharing, there are other key dimensions of close buyer seller relationships in a B2B market.

Operational linkages are direct ties between the internal operations of the buyer and seller firms. These linkages usually involve ongoing coordination of activities between the firm's just in time delivery which entails reliably getting products there just before the customer needs them is an example of this. This arrangement reduces inventory as well as carrying costs.

Legal bonds such as contracts spell out the obligations of each party in the relationship. Negotiated contract buying is agreeing to a contract that allows for changes in the purchase arrangements. This method is preferred and it's difficult or even impossible to specify all those needed on a particular project in advance.

Relationship specific adaptations involve changes in a firm's product or procedures that are unique to the needs or capabilities of a relationship partner. Specific adaptations are usually made when the buying organization chooses to outsource production of goods or services rather than to produce them internally. Government buyers typically use competitive bidding and an approved supplier list and put legal constraints on the latitude of individual buyers.

The size and diversity of the government market make it an attractive target for certain organizations. Government buyers are often restrained by purchasing regulations and competitive bids may be required. For routine purchases, a government unit can prepare and approve supplier list. Government publications can be helpful sources of information that help marketers to learn what governments want to buy.

In dealing with foreign governments information may be less available. And there may be significant obstacles that favor a domestic supplier. In the United States, the Foreign Corrupt Practices Act, also known as the FCPA, prohibits US firms from paying bribes to foreign officials. Collectively, these are some of the more common and important elements associated with the government market.

Here we see an example of how Caterpillar corporation has developed a microsite that caters to government buyers and their specific guidelines and requirements. Although a government related example shown here, ecommerce has become far more common in B2B markets. As I mentioned earlier, it's very useful in situations for straight rebuys.

In some instances, a web portal is established for organizational customers that allow them not only to make purchases. But to also access information related to volume discounts, payment terms, delivery expectations, integration with their own purchasing and inventory management systems etc. This concludes this lesson dedicated to business and organizational customer buying behavior.

Although a very high level description of the key differences between organizational customers and in consumers, I hope this material reinforces some of the more critical differences that marketers must consider when developing their marketing mix for this audience. In the next lesson I'll dive deeper into the marketing mix by talking about product planning and development.

See you soon.

## Product Planning and Development

>> Welcome to the lesson on Product Planning and Development. Within this lesson, I'll focus on the following six objectives. Discuss branding, evaluate packaging and warranty implications for products, discuss business and consumer product classes, define different business relationship dimensions, discuss the lifecycle of products and evaluate new product planning.

Once a firm has examined its external market, environment, company competitors and customers and understands it segmentation, targeting, differentiation and positioning, it is ready to start developing its marketing mix. Having looked at a number of critical factors in the development of marketing strategy, we now look at the first of the four P's, product.

Used here, product means the need satisfying offerings of a firm. We will consider some of its component parts. The product idea encompasses many attributes of a physical good or service, its features, benefits and quality level, as well as its accessories, installation requirements and instructions. Any product must also be positioned relative to the other offerings of the organization and its product line.

Branding is a key product strategy area. Marketers need to decide what types of brands they wish to produce. The package is more than just a means of protecting the product. It can help to promote the product or enhance its use. Marketers must decide if they wanna offer product warranties and if they do, how extensive the warranties will be.

And the type of buyer that will use the product or service determines if a product is consumer class or business class. A product can be a physical good, an intangible service or it can be a blend of both. This diagram shows how one can position products in terms of their physical good emphasis, or their service emphasis.

Some products, such as canned soup, steel pipe and paper towels have an emphasis that is almost completely physical. Other products have a significant service component in addition to a physical component such as a restaurant meal, a cellular phone or an automobile tune-up. Still, other offerings have an emphasis mainly on the service component.

Examples are satellite radio service, a hair stylist, or internet service. Consumers are increasingly demanding more services with the goods they buy. Both the physical good and the service make up the total product the customer buys. Here we see an example of an advertisement from IKEA that is calling attention to both a physical product, the bed frame, as well as a service for assembly.

Most companies do not face a significant challenge in distinguishing between products and services for consumers. It is however important to consider differences in customer expectations, when providing products versus services. For example, quality is generally assessed along very different dimensions. Market researchers working in concert with data analysts, can help better understand the importance and prioritization of the relevant dimensions.

Part of product planning is building a brand. Branding means the use of a name, term, symbol, or design to identify a product. Some companies use a combination of some or all of these when branding. Another critical aspect of branding is that it should create an emotional response in buyers.

Shown at the bottom are a couple of well recognized brands for example purposes. Take a moment to consider how you feel about the brand Honda, Apple and Beats. There are no right or wrong answers here. This is a matter of opinion that may or may not be grounded in actual experience.

The point for this audience of analytical practitioners is to consider how you might quantify these emotional responses and help marketers best determine ways to appeal to their target audience. I'd like to clarify a couple of definitions that are related to branding as well. A brand name is a word, letter or a group of words or letters.

A trademark, however, includes only those words, symbols or marks that are legally registered for use by a given company. And a service mark is a trademark that refers to a service offering. Trademarks and service marks are often used as part of the branding process. Tropicana was founded in 1947.

Although the leader in the OJ category, in 2009, they decided to make some brand changes and alter their packaging, which as you know by now should be squarely grounded in consumer insights. The package shown on the left is the older packaging and the one on the right is the new packaging that they developed.

What key changes do you observe? I recommend you hit the pause button and take the time to observe the full extent of the changes before we move forward. You probably noticed changes to the font of the brand name as well as its alignment. There's also a shift from the image of an orange with a straw in it, to a glass of orange juice.

100% pure and natural, is also in a larger font to be more recognizable. The cap was also changed to be textured, and roughly shaped like half an orange. There are other changes as well, but I'll stop here. By changing the packaging design, it had an impact on sales.

What do you think happened, and why? Again, hit the pause button, and take a little time to think about this for yourself. In less than eight weeks, sales had dropped by 19%, which translated to $33 million. Customers clearly had difficulty recognizing the brand and not confusing it for a generic or some other option.

This is a real world example of the impact of brand and how when a company is not thoughtful about the consumers perspective, and makes changes without testing, there can be a significant impact on sales. Brand familiarity refers to how well customers recognize, and accept the company's brand. Five levels of brand familiarity are useful for strategy planning.

These include Brand Rejection, which means that potential customers won't buy a brand unless its images change or something is done to alter the buyer's perception of the brand. Brand non-recognition means final consumers don't recognize a brand at all. Brand recognition, as the name suggests, means that customers simply recognize the brand.

Brand preference means that target customer usually choose the brand over other brand choices. And finally, brand insistence means customers insists on a firm's branded product and are willing to search for it or wait for it even when alternatives exist. The stage of brand insistence is utopia for a marketer.

There are several conditions that make it more likely to experience successful branding. These include, when the product quality is easy to maintain, and is the best value for the price in customers' minds. Dependable and widespread availability is possible. Demand is strong such that the market price can be high enough to make the branding effort profitable.

There are economies of scale to be realized. If branding is really successful, cost should drop and profit should increase. Favorable shelf locations or displace space and storage can help. And the product is easy to label, and identify by brand or trademark. In general, these conditions are less common in less developed economies.

Consider a product category that has popular, easy to recall brand names, such as soft drinks, computers, or automobiles. Compare it to a product category for which brand names are difficult to remember, such as file folders, nails, or electric extension cords. How do the two product categories match up on the six conditions favorable to successful branding?

Take some time to think about this on your own. In developing a product concept, a marketing manager must consider the different possible approaches for branding. A family brand is the same brand name used for several products such as Sunkist, which appears on fresh fruit juice, vitamins, and soft drinks.

Using a family brand is generally a reasonable approach if the individual products are of a similar quality. A special case of branding is a licensed brand, which is a well-known brand that sellers pay a fee to use. Individual brands may be used when a company makes very unrelated products that require a separate identity to avoid confusion.

Also, some companies develop several versions of a product such as toothpaste, each with a unique position in the market. Generic brands are products that have no brand at all other than the identification of their contents. They can be important low cost alternatives for consumers, such as in the market for prescription drugs.

Packaging can do more than simply contain and protect the product. Packaging can enhance the product by making the product easier to use, or even safer to use. Packaging can deter shoplifting and it can also be designed to achieve ecological objectives. Packaging may lower distribution costs, good packaging save space and weight so they're easier to transport, handle and display.

In helping distributors and retailers, smart packaging is more welcome by these intermediaries. Packaging can also send a message. Creative use of design in packaging can visually help to tie the product to other elements of the promotion mix and make the product easier to identify among other options. Packages also convey information such as the nutritional information on food products.

Package design can affect buyers purchase decisions based on how the product feels. The hourglass shaped bottle on the left feels different when held versus the jar on the right. In a test all, things equal other than the shape of the packaging, consumers indicated that they did not like the Buddha shaped container because it makes them feel fat.

A warranty puts the sellers promises about a product in writing. A marketing manager should decide whether to offer a warranty and if so, what the warranty will cover and how it will be communicated to target customers. The Magnus-Modd Act act of 1975 says that producers must provide a clearly written warranty if they choose to offer any warranty.

Keep in mind, however, the warranty does not necessarily have to be strong, that's left up to the marketer. Warranties may also improve the marketing mix. A warranty says that the company stands behind the product. This fact is reassuring to customers, and can make a big difference in whether customers buy the product, especially if the product is complex or expensive.

Service guarantees can be used to back up a product or service and help consumers focus on specific levels of satisfaction and expectations. Business product classes are based on how buyers see products and their uses,there are several types. Installations are important capital items. One of a kind installations such as office buildings and custom made equipment require special negotiations for each sale.

Accessories are important but short lived capital items such as tools and production equipment. Raw materials are unprocessed items that become part of a physical good the firm makes and our expense items. Component parts are finished or nearly finished products that go into other products. Component materials will require more processing before becoming part of the final product.

Both component parts and materials must meet the specifications of the buyer. Supplies for maintenance, repair, and operating, also known as MRO supplies, are another category. Maintenance supplies include products like paint and light bulbs. Repair supplies are parts needed to fix worn or broken equipment. And operating supplies include things needed to do work like copier toner and paper clips.

Professional services are specialized services firms pay for in order to get something done. They support a firm's operation, such as consulting services. It's helpful for marketers to consider these various business classes when developing the marketing mix to ensure alignment with customer wants and needs. Consumer product classes are based on how consumers think about and shop for products.

Convenience products are purchased quickly with little effort. They may be inexpensive, but often require little service and bought by habit. Staples are bought often, routinely and typically without much thought. Branding is used for many staples to make them easier to remember and find. Impulse products are bought quickly as own plan purchases because of a strongly felt need.

They may be strongly affected by the immediacy of a situation. Emergency products are purchased immediately when the need is great. Consumers generally don't shop around for these products or ask how much they cost. Shopping products are compared with competing products. Homogeneous shopping products are ones that the customer sees as basically the same and wants at the lowest price.

Whereas heterogeneous shopping products are seen as different in quality and or suitability. Specialty products are ones that the consumer really wants and have fewer or no acceptable substitutes. They are characterized by the consumer's willingness to search. Unsought products require promotion to create awareness because they are products that customers don't want yet or don't know that they can buy.

New unsought products represent offerings potential customers don't know about yet. Regularly unsought products are ones that don't motivate customers to seek them out even though they may want or need them if encouraged to better understand their benefits. Just like with the business product classes, understanding how these consumer product classes fit into the wants and needs considerations of consumers can help a marketer better align the marketing mix.

This concludes the first part of this lesson. In the next section, I'll talk more about product development. See you soon.

## Product Development

>> Welcome to the lesson on product development. While the previous section focused on the strategy planning decisions that need to be made for new products, and sometimes change for existing products, in this section, we'll investigate how successful new products are developed in the first place, as well as product management considerations.

The three main areas of discussion will be the product life cycle, new product development, and managing brands. It is useful to think of product concepts as passing through various stages in their life. The product life cycle describes the stages a new product idea goes through from beginning to end.

Marketing managers can identify specific types of decisions for strategy planning that characterize each stage. To clarify, research and development, otherwise known simply as R&D occurs prior to the market introduction stage where investments are being made to create prototypes, test products, create refinements, and so forth. The product life cycle has four major stages.

Market introduction, market growth, market maturity, and sales decline. The product life cycle is concerned with new product categories and not individual brands. The marketing mix usually changes throughout the product lifecycle in response to changes and customer needs or attitudes, repositioning of the product or changes in the competitive structure the industry.

As shown, the high level goals change through each phase. Total industry sales start out very low in market introduction, increased at their peak in market maturity and then decline. Profits can also change during the lifecycle and tend to decline while industry sales are still rising. I'll unpack each of these stages further in the following slides.

In the market introduction stage, sales are relatively low as the ideas first introduced to the market. Informative promotion is needed to tell potential customers about the advantages and uses of the new product. In this ad, Procter & Gamble are announcing the introduction of thermacare pain relief pads. These heated pads are our new product concept.

One that combines old-fashioned heating pads pain relief, with the convenience of disposable and discrete application. Note also that the ad includes a discount coupon to encourage consumers to try the product. Therefore, consumers become aware of the new product and receive an incentive to purchase it and test its effectiveness versus the pain relief provided by alternatives such as Advil as they noted in the ad.

The ad also assist consumers in locating the product in the store by mentioning the product can be found in the pain relief file. Because the processing and reforming and educating consumers takes time, company resources are being spent in market introduction, but revenues are not very large. They may even be nonexistent for a period of time.

What are some common areas of investment in this stage of the product? Take a moment to consider the various element of investment or expense. As we see in this example, sales promotion is a common expense. In this case, it's a $2 off coupon. Additional common expenditures during the market introduction phase include market research, heavy advertising, and also incurring inefficiencies related to higher per unit cost for manufacturing based upon lower production volumes.

In the market growth stage, industry sales grow fast while industry profits rise and then start falling as a result of growing competition and/or substitute products. Successful innovations realize big profits and also attract competition. Competitors may try to copy the innovator, or to improve on what the innovator is introduced.

Some competitors may try to offer a product to a more narrowly defined target market. As competitors enter, monopolistic competition develops, leading to downward sloping demand curves. Industry profits reach their peak in this stage, but then begin to decline with more competition and increasing consumer price sensitivity. Too much focus on current profits, while ignoring long-term competitive trends is a common mistake during this phase.

In the market maturity stage, sales level off and competition continues to increase. Most of the consumer products we use every day are what would be considered mature products. During this stage promotion costs increase in price competition in some segments cuts into profits. As a result, some firms that are less efficient are forced to drop out of the market.

Some new firms may enter the market in the maturity phase, but competing with established strong competitors is difficult. Persuasive promotion becomes more important as competitors try to encourage consumers to buy their brand over another. As consumers begin to view the brands as being more and more similar, they become more price sensitive and demand becomes increasingly elastic.

The maturity phase may last several years until a new product idea comes along. During the sales decline stage, new products replace older ones. Price competition is common and sales are primarily to the most loyal customers, or to those who have waited the longest to enter the market. In this ad, IBM is positioning their line of mainframe computers, specifically their Z series, to appeal to specific enterprise class needs.

It's important to note that strong brands may continue to be profitable at this stage. Especially if marketers cut back on their expenditures and lower the cost of production and marketing over all. How long a product life cycle takes may vary considerably across different product categories. Managers can estimate the likely length based on the life cycles for similar products presuming there are any market research can also help.

The managers are typically more concerned with the length of a specific life cycle stage for planning purposes than they are with the length of the whole cycle. Some products move fast through their life cycles. Several factors contribute to the speed with which a product moves through its life cycle.

The greater the competitive advantage that a product has over others that are already on the market, the more quickly its sales will grow. Sales also grow faster if the product is easy to use, and its advantages are easy to communicate. If consumers can try the product with a little risk, then the product can proceed more quickly through the market introduction phase.

And if the product is compatible with the values and experiences of the target customers, they will be more likely to purchase it, thus, quickening the pace of sales. There are several other issues contributing to the length of product life cycles. Product life cycles are getting shorter. More innovation yields more new products available to replace older ones.

Historically, the early innovator usually makes the most profits because being first in the market can give a firm a chance to gain a critical foothold in terms of marketshare. That said, there's a current trend where companies are pursuing a follower strategy by letting the competition invest heavily on R&D, market research, advertising and promotion, etc., to build a market.

In some instances, it may be less expensive and not as risky to enter the market later. Presuming the company has adapted building and differentiating its own brand. The nature of the product, whether it is a fashion or fad product, can also affect the length of the life cycle.

For those of you not familiar with this terminology, fashion is the currently accepted or popular style. And a fad is an idea that is fashionable only to certain groups who are enthusiastic about it and/or tend to come and go rather quickly. Where a product is in its life cycle and the length of the life cycle both affect marketing strategy planning.

Marketing managers must allocate sufficient resources to cover the cost of introducing new products. Such as design, development and packaging. Planning must specify how the new product will be distributed, which means setting up channels of distribution and promotion must sell the whole idea, not just a specific brand. How fast the product is moving through its life cycle also affects strategy planning.

For example, it might not be a good idea to build a company own distribution system for a product that's likely to be a fad. The market pioneer may need competitors in order to speed the adoption of a really new product concept. Some consumers wait until there are several options available before beginning a legitimate buyer journey.

The key for marketers is to be flexible in the early stages of the product life cycle. The ability to respond quickly to market dynamics may improve sluggish, early stage sales. Competition is strong and dynamic in most markets. So it is essential for firms to keep developing new products and modifying old products.

A new product is anything that in any way provides the company with another way to meet customer needs. This newness includes totally new inventions, as well as simple color changes and existing products. The Federal Trade Commission, or the FTC, is a federal government agency that police's anti monopoly laws.

The FTC says a product is new for only six months. And the FTC is view, a new product must be either entirely new or changed in a functionally significant or substantial respect. Therefore, companies need to be thoughtful about making claims that products are in fact, quote, unquote, new.

Ethical issues in new product planning abound. These ethical debates include criticisms against companies for holding back new product innovations. There's also the concept of planned obsolescence, which is releasing products that company will soon replace. Failure to supply replacement parts throughout the useful life of a product and continuous release of minor product variations in markets that are saturated.

Marketers need to be sensitive to the possible consumer backlash caused by these ethical dilemmas. New product development is essential but also risky. An organized new product development process helps ensure a greater likelihood of success. New product development can be very expensive and many products fail. Some products don't offer a unique benefit or competition is underestimated.

Design and cost problems or even poor timing being either too quick and introduction or too slow, may doom a product to failure. The new product development process is an organized approach for bringing new products to market. And it has five stages, idea generation, screening, idea evaluation, development, and commercialization.

Let's look at each of these areas more closely. New product ideas come from many sources, salespeople, production workers, customers, competitors, and so on. Sharp companies keep an open mind and eye to many relevant sources of new product ideas. The key emphasis and idea generation is non undiscarding ideas.

The later stages of the product development process takes care of weeding out bad ideas and nurturing good ones. Instead, gathering ideas is the key in idea generation. As mentioned, ideas can come from many sources. In reverse engineering companies by competitors products disassemble them determine how they work and find ways to improve them.

International market should not be overlooked when thinking about new ideas. And customers of course are tremendous source for new ideas. Marketing research can help in gaining the perspective of customers, as well as wholesalers and retailers. And additionally, what's going on in the competitive marketplace. Idea generation should not be left to chance.

It depends on having a formal procedure for seeking new ideas. So there's a constant influx of new possibilities. Screening involves evaluating the new idea in relation to the strengths, weaknesses, opportunities, and threats facing the company. This is also known as a SWOT analysis, S-W-O-T. It must also be performed with the company's objectives and resources in mind.

Return on investment is a crucial screening criteria and ROI forecast can help prioritize product ideas. Marketing managers should be careful to screen out opportunities that fail to meet these criteria. In the idea evaluation stage, the product ideas that survived the screening process are scrutinized more carefully. Concept testing is used to obtain reactions from customers about how well a new product idea fits their needs.

In formal studies may include focus groups of customers who are asked to react to various aspects of the product idea. More formal studies may involve surveys, in which consumers rate different dimensions of the product idea. In the idea evaluation stage, companies continue to make rough estimates of cost, revenue, and profitability.

They do so based on the reactions of final consumers, wholesalers, and retailers that they have involved in the ideation process. In the development stage, the product idea is translated into a tangible prototype in the case of a physical good. For a service, the organization works out the details of the training, equipment and staff required to deliver the service.

Once marketers have product and service prototypes, they continue to get consumer reactions to them before expending the resources needed for a full production run. Marketers may conduct test marketing, which is in essence a dry run of a new product introduction, bringing the full marketing mix into play and selected geographic areas.

Test marketing can be costly and time consuming and it may also provide information to competitors. So marketers need to be very thoughtful about this process. Sometimes the risk of not having the information gathered in a test market is greater than the risk from tipping one's hand to competitors.

And in some other cases, the advantages of getting to the market first quickly outweigh the advantages gained from a time consuming test market. During this stage, marketers make adjustments to the marketing mix and also continue to evaluate ROI based on any new information that is uncovered. A product that survives the first four stages of the new product development process is ready for commercialization, which is the introduction to the full target market.

Commercializing a new product is expensive and success usually requires cooperation from the whole organization. Manufacturing or service facilities are established. Goods are produced in order to fulfill channels of distribution. Service personnel must be hired and trained. An introductory promotion is executed in this phase. Due to the cost and complexity of a product rollout, some companies prefer to do it gradually, perhaps by geographic area, until the whole market is covered.

This approach may give the marketing staff an opportunity to recognize and correct marketing mix problems before they appear in all areas. As I mentioned earlier, managing new product development requires a company-wide effort with clear authority and coordination of complicated activities. Top level support is vital and the commitment must be real and explicit.

The highest level of the company can make new product development part of the core business of the company, part of its mission statement and also at its core culture. Allocation of adequate resources can help communicate that commitment. Firms that foster a culture of innovation also develop a more effective new product development process.

Some of us be put in charge of new product development and the person must have a clear line of authority to get things done across different departments. Cross-functional teams are an important element in the new product success. Firms must coordinate research and development with production, finance and marketing to ensure products meet customer needs and come to market in a timely manner.

Speaking of timing, timeliness is key as firms increasingly find they need to get products to market before customer needs change, as well as staying ahead of competition. Market research, listening to customers, and anticipating customer needs assures that the firm has a clear understanding of what the customers want.

And finally, the entire process needs to be conducted in an efficient manner that recognizes trade offs between costs in customer benefits. When an organization develops many product categories, management may decide to put someone in charge of each category or brand and make sure appropriate attention and expertise is allocated to the products.

Product managers or brand managers manage specific products and often have promotion as a major responsibility. Some brand managers begin their task in the new product development process and continue from there. Product managers are especially common in large companies that produce many kinds of brands or products. Several product managers may serve under a marketing manager.

And product managers are sometimes responsible for their products entire marketing effort. Product managers may work with managers in other countries to decide whether and how to adapt products for different markets. To avoid the problems that sometimes occur when a product manager has to coordinate several marketing activities, some companies use their product managers as product champions, who are mainly concerned with implementing promotional efforts.

The activities of product managers can vary considerably, depending on their experience and the companies organizational philosophy. This concludes the lesson on product development. In the next lesson, we'll explore the place component of the marketing mix. See you soon.