

Chapter 11: Marketing Processes and Consumer Behavior

Chapter Overview

Many students think that marketing is merely sales or advertising. Actually, sales and advertising are just a small part of the overall marketing process. Think of a product that you buy often. You might not realize that everything about that product—from the time it is created, produced, packaged, and shipped to you—involves various facets of marketing.

This chapter explains the concept of marketing and discusses the five forces that constitute the external marketing environment. It also explains the purpose of a marketing plan, identifies the four components of the marketing mix, and discusses the necessity of identifying market segments. As the chapter unfolds, many variables surrounding both the consumer and organizational markets are discussed. A focus is provided on distinguishing features between products and services and the importance of branding and packaging. The chapter also discusses the consumer buying process, organizational markets, and key considerations in the new product development process. Finally, it looks at the challenges that arise in adopting an international marketing mix and the ways in which small businesses can benefit from an understanding of the marketing mix.

Learning Objectives

- 11-1. Explain the concept of marketing and identify the five forces that constitute the external marketing environment.
- 11-2. Explain the purpose of a marketing plan and identify its main components.
- 11-3. Explain market segmentation and how it is used in target marketing.
- 11-4. Discuss the purpose of marketing research and compare the four marketing research methods.
- 11-5. Describe the consumer buying process and the key factors that influence that process.
- 11-6. Discuss the four categories of organizational markets and the characteristics of business-to-business (B2B) buying behavior.
- 11-7. Discuss the marketing mix as it applies to small business.

CHAPTER OUTLINE

Learning Objective 11-1:

Explain the concept of marketing and identify the five forces that constitute the external marketing environment.

What Is Marketing?

The American Marketing Association defines **marketing** as “activities, a set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”

A. Delivering Value

Consumers buy products that offer the best value when it comes to meeting their needs and wants.

1. **Value and Benefits.** *Value* compares a product’s benefits with its costs; *benefits* include the product’s functions and emotional satisfaction associated with owning, experiencing, or possessing it. But, costs, expenditure of buyer’s time, and even the emotional costs of making a purchase decision factor into determining value. $\text{Value} = \text{Benefits}/\text{Costs}$. A satisfied customer perceives the benefits derived from the purchase to be greater than its costs.
2. **Value and Utility.** Products provide utility, which is the product’s ability to satisfy a person’s want or need. Marketing strives to provide four kinds of utility—*form utility* (designing products with features customers want), *time utility* (providing products when customers want them), *place utility* (providing products where customers want them), and *possession utility* (providing terms of sale that result in transferring product ownership to customers).

B. Goods, Services, and Ideas

Consumer goods are tangible products that consumers purchase for personal use; firms that sell these goods are engaged in consumer marketing. Industrial goods are products that are purchased by companies to be used in further production of goods; firms that sell products to other businesses are engaged in industrial marketing. Services are products with intangible (nonphysical) features, such as professional advice, improved safety procedures, timely information for decisions, haircuts, or arrangements for a vacation. Service marketing is the application of marketing for services.

C. Relationship Marketing and Customer Relationship Management

Relationship marketing focuses on building long-lasting relationships between customers and suppliers. **Customer relationship management (CRM)** is an organized method that a business uses to build better information connections with clients, to strengthen relationships. **Data warehousing** is the compiling and storage of consumer data; **data mining** allows for the sifting, sorting, and searching for previously undiscovered customer information and

preferences. This leads to clearer pictures of customer preferences, and allows a business to build closer relationships.

D. The Marketing Environment

Marketing decisions are affected by various influences in the *external environment*, everything outside an organization's boundaries that might affect it.

1. **Political and Legal Environment.** The political-legal environment is the relationship between business and government, usually in the form of government regulation of business. Political activities may result in favorable laws and regulations that may open new international business opportunities.
2. **Sociocultural Environment.** Elements from this segment of the environment include changing demographics, values and religion, buying behaviors, preferences, and activities, as well as many other factors.
3. **Technological Environment.** Technological change happens so quickly in some industries that existing products become obsolete very quickly, while new-product introductions replace them.
4. **Economic Environment.** Economic conditions affect many facets of marketing, including consumer spending patterns and marketers' plans for product offerings, pricing, and promotional strategies. Interest rates and inflation concern marketers, as does the general business cycle.
5. **Competitive Environment.** All marketers compete for the purchasing power of consumers. Marketers must convince buyers that they should purchase one company's products rather than another's. This sometimes occurs through product differentiation and consumer segmentation. **Substitute products** may not look alike or they may seem very different from one another, but they can fulfill the same need; **brand competition** occurs between similar products and is based on buyers' perceptions of the benefits of products offered by particular companies; **international competition** matches domestic products against foreign products.

Learning Objective 11-2:

Explain the purpose of a marketing plan and identify its main components.

The marketing plan is a detailed strategy for focusing marketing efforts on customers' needs and wants. The plan identifies the marketing objectives, stating what marketing will accomplish in the future. It contains a strategy that identifies the specific activities and resources that will be used to meet the needs and desires of customers in the firm's chosen target markets, so as to accomplish the marketing objectives.

Every well-founded plan should begin with objectives or goals, setting the stage for everything that follows. **Marketing objectives**, the goals the marketing plan intends to accomplish, are the

foundation that guides all of the detailed activities in the plan. The marketing objectives themselves exist solely to support the company's overall business mission.

A. Marketing Strategy: Planning the Marketing Mix

Marketing strategy identifies the planned marketing programs, all the marketing activities that a business will use to achieve its marketing goals, and when those activities will occur. A company's **marketing managers** are responsible for planning and implementing all the activities that result in the transfer of goods or services to its customers. Marketing strategy focuses on the needs and wants of customers in the chosen target markets. It also includes four basic components, known as the **marketing mix**. This mix consists of the "Four Ps" of marketing: product, pricing, place, and promotion.

1. **Product.** The *product* is a good, service, or idea designed to fill a consumer need. Meeting consumer needs often requires that marketers change existing products.
 - a. **Product Differentiation.** Product differentiation is the creation of a feature or image that makes a product differ enough from existing competitive products to attract consumers.
2. **Pricing.** Pricing must be set to support direct and indirect costs, yet prices cannot be so high that consumers turn to competing products. Low prices, for example, generally lead to larger sales volumes. High prices usually limit market size but increase profits per unit. High prices may also attract customers by implying that a product is of high quality.
3. **Place (Distribution).** *Place* refers to the *where* and *how* customers get access to the products they buy. Distribution activities are concerned with getting the product from the producer to the consumer. The place can be a retail store, direct delivery to the customer, or on the Internet. Marketers use *channels* to distribute products. Manufacturers can sell to other companies that then sell to retailers that sell to the final consumers. Others only sell to retailers, and others sell directly to the final consumers.
4. **Promotion.** *Promotion* refers to techniques of communicating information about products. Promotion includes a combination of personal selling and/or nonpersonal selling, including advertising, sales promotion, and public relations and direct or interactive marketing.
 - a. **Advertising** is any form of paid nonpersonal communication used by an identified sponsor to persuade or inform potential buyers about a product.
 - b. **Personal selling** is person-to-person sales, frequently used in business-to-business marketing. The retail situation, though, is also personal selling.
 - c. **Sales promotion** involves one-time direct inducements to buyers. These inducements may include premiums (free gifts), coupons, or package inserts, meant to tempt consumers to buy the products. These are "deals" of limited duration.
 - d. **Public relations** includes all communication efforts directed at building goodwill.

5. **Blending it all Together: Integrated marketing strategy** ensures that the Four Ps blend together so that they are compatible with one another and with the company's non-marketing activities as well.

Learning Objective 11-3:

Explain market segmentation and how it is used in target marketing.

Target Marketing and Market Segmentation

Target markets are groups of people or organizations on which a firm's marketing efforts are focused. **Market segmentation** divides a market into categories with similar wants and needs who can be expected to show interest in the same products. Segmentation is a strategy for analyzing consumers, not products. The process of fixing, adapting, and communicating the nature of the product itself is **product positioning**.

Identifying Market Segments

Members of a market segment must share common traits that will affect their purchasing decisions. The most important variables are:

A. Geographic Segments

Consumers in certain geographic regions exhibit characteristics and buying patterns that are typical of those regions. Geographic variables are the geographical units, from countries to neighborhoods that may be considered in a segmentation strategy.

B. Demographic Segments

Demographic variables describe populations, including such traits as age, income, gender, ethnic background, marital status, race, religion, and social class. A segment can focus on a single trait, or on a combination of traits.

C. Geo-demographic variables

Geo-demographic segmentation is a combination strategy. Geo-demographic variables are a combination of geographic and demographic traits. Looking at people through this combination of traits is becoming the most common segmentation tool.

D. Psychographic Segments

Psychographic variables include lifestyles, personalities, interests, and attitudes as these impact people's decision processes.

E. Behavioral Segmentation

Behavioral segmentation uses behavioral variables to market items, including such categories as usage rate (light, moderate, heavy user), situation (holiday, seasonal) or uniqueness (very specific features of the product).

Learning Objective 11-4:

Discuss the purpose of marketing research and compare the four marketing research methods.

Marketing Research

Marketing research, the study of what customers need and want and how best to meet those needs and wants, is a powerful tool for gaining decision-making information. Its role is to increase competitiveness by clarifying the interactions among a firm's stakeholders, marketing variables, environmental factors, and marketing decisions.

A. The Research Process

Market research can occur at almost any point in a product's life cycle. Typically, however, it is used in developing new or altered products.

1. **Study the current situation.** What is the need and what is being done to meet it?
2. **Select a research method.** In choosing from a wide range of methods, marketers must consider the effectiveness and costs of different options.
3. **Collect data.** **Secondary data** are already available from previous research. When secondary sources are unavailable or inadequate, researchers must obtain **primary data**, new data from newly performed research. Primary data is gathered for the specific purpose, while secondary data will have been gathered for other reasons, but can be applied to other studies.
4. **Analyze the data.** Data are of no use until organized into information.
5. **Prepare a report.** This report should sum up the study's methodology and findings. It should also identify solutions and, where appropriate, make recommendations on a course of action.

B. Research Methods

The success of a research study often depends on the method a research team uses. There are four basic methods of market research.

1. **Observation.** **Observation** involves watching and recording consumer behavior. Information technology systems, including live camera feeds, electronic scanners and data files, data storage of television viewing and website activity, allow marketers to observe consumer preferences rapidly and accurately.
2. **Surveys.** One way to get useful information is by performing **surveys**, a method of collecting data in which the researcher interacts with people to gather facts, attitudes, or opinions, either by mailing out or e-mailing questionnaires, by telephone calls, or by conducting face-to-face interviews. Most surveys now are conducted online. Surveys can provide information that cannot be learned through observation.
3. **Focus Group.** In a **focus group**, participants are gathered in one place, presented with an issue, and asked to discuss it. The researcher takes notes but provides only a minimal amount of structure and exerts minimal control. This technique allows researchers to explore issues too complex for questionnaires and can produce creative solutions.

4. **Experimentation.** **Experimentation** compares the responses of the same or similar people under different circumstances or regarding different products, or product features.

Learning Objective 11-5:

Describe the consumer buying process and the key factors that influence that process.

Understanding Consumer Behavior

Consumer behavior is the study of the decision process by which people buy and consume products.

A. Influences on Consumer Behavior

Influences on consumer behavior can include **psychological** (motivations, perceptions, ability to learn, attitudes), **personal** (lifestyle, personality, economic status), **social** (family, opinion leaders, and reference groups such as friends, coworkers, and professional associates), and/or **cultural** (culture, subculture, social class—background, occupation, income) elements. When consumers exhibit **brand loyalty**, they regularly purchase products because they are satisfied with the products' performance or benefits. The influence elements have minimal impact when brand loyalty is strong.

B. The Consumer Buying Process

Various models have been constructed to help marketers understand how consumers come to purchase products; marketers use this information to develop marketing plans. The consumer buying process includes five steps:

1. **Problem/Need Recognition.** The consumer recognizes a problem or a need.
2. **Information Seeking.** Consumers seek information from personal sources, marketing sources, public sources, and experience. Depending on the complexity of the purchase, the search for information may not be extensive.
3. **Evaluation of Alternatives.** Consumers compare products before deciding which one(s) best meet their needs.
4. **Purchase Decision.** Ultimately, consumers make purchase decisions. **Rational motives** involve the logical evaluation of product attributes, such as cost, quality, and usefulness. **Emotional motives** involve nonobjective factors and include sociability, imitation of others, and aesthetics.
5. **Postpurchase Evaluation.** Only satisfied customers will likely make repeat purchases.

Learning Objective 11-6:

Discuss the four categories of organizational markets and the characteristics of business-to-business (B2B) buying behavior.

Organizational markets and buying behaviors. Marketing to organizations that buy goods and services used in creating and delivering consumer products or public services involves various kinds of markets and buying behaviors different from those in consumer markets.

A. Business Marketing

Organizational markets fall into four categories: service companies, industrial, reseller, and government/institutional markets.

1. **Services Market.** The services companies market encompasses the many firms that provide services to the purchasing public.
2. **Industrial Market.** The industrial market includes businesses that buy goods that are either converted into other products or goods that are used up during production.
3. **Reseller Market.** The reseller market consists of marketing intermediaries, such as wholesalers and retailers that buy finished products and resell them.
4. **Government and Institutional Market.** In addition to federal and state governments, the **institutional market** consists of nongovernment organizations, such as hospitals, churches, charities, and museums, that also use supplies and equipment as well as legal, accounting, and transportation services.

B. B2B Buying Behavior

Organizational buying behavior bears little resemblance to consumer buying practices. Differences include the buyers' purchasing skills and an emphasis on buyer-seller relationships.

1. **Differences in Buyers.** Industrial buyers purchase in large quantities, and are trained, professional, specialized, and expert, which is important given the amount of money at stake in industrial purchases.
2. **Differences in the Buyer-Seller Relationship.** Industrial buying situations often involve frequent, enduring buyer-seller relationships, emphasizing personal selling by trained representatives who understand the needs of each customer.

C. Social Media and Marketing

Social networking as used by marketers today refers to communications that flow among people and organizations interacting through an online platform that facilitates building social relations among its users.

1. **Viral Marketing and Social Networking.** Viral marketing is a form of marketing that relies on social networking and the Internet to spread information like a “virus” from person to person.
2. **Web-Driven Revenue with Social Networking.** Although many major consumer companies have their own Facebook page, small businesses, too, use social media channels to increase revenues by networking with customers in target markets.

Viral marketing and social networking can lead to consumer awareness faster and with wider reach than traditional media messages, and at a lower cost.

D. The International Marketing Mix

Foreign consumers differ from domestic buyers in language, customs, business practices, and consumer behavior. Marketing products internationally means mounting a strategy to support global business operations.

1. **International Products**

Some products can be marketed internationally without modifications, whereas other products need to be modified to fit the needs of a local market.

2. **International Pricing**

Many factors that affect domestic pricing also affect international pricing; additional factors affecting global pricing are the costs of transportation and selling abroad.

3. **International Distribution**

Distribution networks in other countries may be costly. Many domestic marketers avoid time delays by buying existing businesses with already-established distribution and marketing networks.

4. **International Promotion**

Many American promotional tactics do not succeed in other countries. Marketers must consider differences in customs and cultural values when promoting products abroad.

Learning Objective 11-7:

Discuss the marketing mix as it applies to small business.

Small Business and the Marketing Mix

Many of today’s largest firms were once small businesses. The successful small businesses have learned skillful application of the marketing mix and careful consideration of each element in the marketing mix.

- A. **Small-Business Products**

Understanding the target market and the targeted group’s wants is critical.

- B. **Small-Business Pricing**

Profits are often determined by accurately assessing costs from the start. Haphazard pricing can sink a firm with a good product.

C. Small-Business Distribution

The most critical aspect of distribution for small businesses is facility location, particularly relative to customer location. Small businesses can often react to changes in needs more quickly than larger firms.

D. Small-Business Promotion

Understanding promotional costs, as well as benefits of chosen promotional tools, may be the most critical steps involved. Costs can be reduced by using less expensive promotional methods.