

**MARK 201- MIDTERM REVIEW**  
**CHAPTER 1**  
**MARKETING: CREATING CONSUMER VALUE AND ENGAGEMENT**

**ANNOTATED CHAPTER NOTES/OUTLINE**

*Amazon: Obsessed with Creating Consumer Value, Engagement, and Relationships*

When you think of shopping online—or of shopping anywhere, for that matter—chances are good that you think first of Amazon.

The online pioneer first opened its virtual doors in 1995, selling books. Amazon is rapidly moving beyond online selling, not just into physical stores but also into video and music streaming, cloud services, and the Internet of Things. If one company represents where the world is now headed, it's probably Amazon.

Its annual sales have rocketed from a modest \$150 million in 1997 to almost US\$469.822 billion in 2021. In 2022, the company had more than 172 million Amazon Prime members around the world (more than double the number from 2016). Amazon also had the biggest global shopping event in the company's history on Prime Day, selling over 100 million items in 36 hours.

As of June 2021, Amazon is the largest retailer in the U.S., ahead of Walmart. What has made Amazon such an amazing success story? Jeff Bezos puts it in three simple words: "Obsess over customers." To its core, the company is relentlessly customer driven.

Amazon wants to deliver a special experience to every customer.

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, low prices, and convenience. But it's the "discovery" factor that makes the buying experience really special.

Amazon does much more than just sell goods online. It engages customers and creates direct, personalized customer relationships and satisfying experiences.

Amazon's innovations have made the order and delivery process a breeze.

As Walmart and other store retailers are increasingly invading Amazon's digital domain, the online retailer is now invading their brick-and-mortar worlds. Amazon is expanding its physical store presence further with store concepts such as Amazon Pop-Up, Amazon 4-Star (selections of top-rated or trending items), and Amazon Fresh (assortments of fresh and prepared food).

Amazon has become the poster child for companies that are obsessively and successfully focused on delivering customer value. “Our customers are loyal to us right up until the second somebody offers them a better service,” says Bezos.

## WHAT IS MARKETING?

A simple definition of marketing is *engaging customers and managing profitable customer relationships*.

Marketing must both attract new customers and grow the current customers.

Every organization must perform marketing functions, not just for-profit companies.

Non-profits (universities, hospitals, churches, etc.) also must perform marketing.

### Marketing Defined

Most people think of marketing as selling and/or advertising—“telling and selling.”

Selling and advertising are only part of a larger **marketing mix**—a set of marketing tools that work together to satisfy customer needs and build customer relationships.

We define **marketing** as the process by which companies engage consumers, build strong customer relationships, and create consumer value in order to capture value from consumers in return.

### The Marketing Process

Figure 1.1 shows the five-step marketing process.

1. Understand the marketplace and consumer needs and wants.
2. Design a customer value-driven marketing strategy.
3. Construct an integrated marketing program that delivers superior value.
4. Engage customers, build profitable relationships, and create customer delight.
5. Capture value from customers to create profits and customer equity.

In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships.

In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, they in turn capture value *from* consumers in the form of sales, profits, and long-term customer equity.

## UNDERSTANDING THE MARKETPLACE AND CONSUMER NEEDS

Five core customer and marketplace concepts are critical: (1) *needs, wants, and demands*; (2) *market offerings (products, services, information, and experiences)*; (3) *consumer value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

### **Consumer Needs, Wants, and Demands**

The most basic concept underlying marketing is that of human **needs**.

Human **needs** are states of felt deprivation. They include *physical, social, and individual* needs. Marketers did not create these needs; they are a basic part of the human makeup.

**Wants** are the form human needs take as they are shaped by culture and individual personality. A person *needs* food but *wants* a Big Mac.

When backed by buying power, wants become **demands**.

Outstanding marketing companies go to great lengths to learn and understand their customers' needs, wants, and demands.

### **Market Offerings—Products, Services, Information, and Experiences**

Needs and wants are fulfilled through **market offerings**—some combination of products, services, information, or experiences offered to a market to satisfy a need or want.

Market offerings are not limited to physical *products*. They also include *services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything.

**Marketing myopia** occurs when a company becomes so taken with their own products that they lose sight of underlying customer needs.

### **Consumer Value and Satisfaction**

Consumers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly.

Satisfied consumers buy again and tell others about their good experiences.

Dissatisfied consumers switch to competitors and disparage the product to others.

Consumer value and consumer satisfaction are key building blocks for developing and managing consumer relationships.

## Exchanges and Relationships

**Exchange** is the act of obtaining a desired product, service, or experience from someone by offering something in return.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences.

## Markets

A **market** is the set of actual and potential consumers of a product or service.

Marketing means managing markets to bring about profitable customer relationships.

Figure 1.2 shows the main elements in a marketing system.

## DESIGNING A CONSUMER-CENTRIC AND VALUE-DRIVEN MARKETING STRATEGY AND PLAN

**Marketing management** is defined as the art and science of choosing target markets and building profitable relationships with them.

The marketing manager must answer two important questions:

1. What consumers do we serve (what's our target market)?
2. Why do they care (what's our value proposition)?

## Selecting Consumers to Serve

A company must decide *whom* it will serve.

It does this by dividing the market into segments of customers (*market segmentation*) and selecting which segments it will go after (*target marketing*).

Marketing managers know they cannot serve all customers. By trying to do so, they end up not serving any well.

Marketing management is *customer management* and *demand management*.

## Choosing a Value Proposition

A company's *value proposition* is the set of benefits or values it promises to deliver to consumers to satisfy their needs. (WestJet promises to "Act like an owner" and "Care

from the heart.” By contrast, British Columbia-based Flair Airlines gives you “Canada’s ticket to ultra low airfares.” Amazon’s Echo smart speaker is “Always ready, connected, and fast. Just ask.” By contrast, the Sonos One with Amazon Alexa is “The smart speaker for music lovers.” It gives you all the advantages of Alexa but with high-quality Sonos sound.)

Such value propositions *differentiate* one brand from another.

## **Marketing Management Orientations**

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies?

There are five alternative concepts under which organizations design and carry out their marketing strategies:

### ***1) The Production Concept***

The **production concept** holds that consumers will favour products that are available and highly affordable.

Management should focus on improving production and distribution efficiency.

### ***2) The Product Concept***

The **product concept** holds that consumers will favour products that offer the most in quality, performance, and innovative features.

Under this concept, marketing strategy focuses on making continuous product improvements.

### ***3) The Selling Concept***

The **selling concept** holds that consumers will not buy enough of the firm’s products unless the firm undertakes a large-scale selling and promotion effort.

The concept is typically practised with unsought goods—those that buyers do not normally think of buying, such as insurance or blood donations.

These industries must be good at tracking down prospects and selling them on product benefits.

### ***4) The Marketing Concept***

The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than

competitors do.

Under the marketing concept, customer focus and value are the *paths* to sales and profits.

The job is not to find the right customers for your product but to find the right products for your customers.

The **selling concept** takes an *inside-out* approach, whereas the **marketing concept** uses an *outside-in* perspective. (Figure 1.2)

### 5) *The Societal Marketing Concept*

The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare*.

Many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.

The societal marketing concept holds that companies should balance three considerations in setting their marketing strategies: company profits, consumer wants, *and* society's interests. (Figure 1.3)

### **Preparing an Integrated Marketing Plan and Program**

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers.

Next, the marketer develops an integrated marketing program that will actually deliver the intended value to target customers.

The marketing program consists of the firm's *marketing mix*, the set of marketing tools the firm uses to implement its marketing strategy.

The marketing mix tools are classified into the *four Ps* of marketing: product, price, place, and promotion.

The firm blends all of these marketing mix tools into a comprehensive *integrated marketing program* that communicates and delivers the intended value to chosen customers.

### **MANAGING CUSTOMER RELATIONSHIPS AND CAPTURING CONSUMER**

## **VALUE**

### **Engaging Consumers and Managing Consumer Relationships**

The first three steps in the marketing process all lead up to the fourth step: engaging consumers and managing profitable customer relationships.

## **Customer Relationship Management**

*Customer relationship management* is the most important concept of modern marketing.

**Customer relationship management** is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.

It deals with all aspects of acquiring, keeping, and growing customers.

### ***Relationship Building Blocks: Customer Value and Satisfaction***

The key to building lasting customer relationships is to create superior customer value and satisfaction.

**Consumer-Perceived Value.** This is the customer's evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers.

Customers often do not judge values and costs "accurately" or "objectively."

They act on *perceived* value.

**Consumer Satisfaction.** **Consumer satisfaction** depends on the product's perceived performance relative to a consumer's expectations.

If the product's performance falls short of expectations, the consumer is dissatisfied. If performance matches expectations, the consumer is satisfied. If performance exceeds expectations, the consumer is highly satisfied or delighted.

The purpose of marketing is to generate customer value profitably.

## **Capturing Value from Consumers**

The first four steps in the marketing process outlined in Figure 1.1 involve building customer relationships. The final step involves capturing value in return.

By creating superior consumer value, the firm creates highly satisfied customers who stay loyal and buy more.

## **Creating Customer Loyalty and Retention**

The aim of customer relationship management is to create not just customer satisfaction, but customer delight.

Companies realize that losing a customer means losing the entire stream of purchases the



customer would have made over a lifetime of patronage. This is known as **customer lifetime value**.

### **Growing Share of Consumer**

**Share of consumer** is defined as the share the company gets of the consumer's purchasing in their product categories. (Thus, banks want to increase "share of wallet.")

### **Building Consumer Equity**

Companies want not only to create profitable customers, but also to "own" them for life, capture their customer lifetime value, and earn a greater share of their purchases.

#### ***What Is Consumer Equity?***

**Consumer equity** is the total combined consumer lifetime values of all of the company's current and potential customers.

Clearly, the more loyal the firm's profitable consumer, the higher the firm's consumer equity.

Consumer equity may be a better measure of a firm's performance than current sales or market share.

### ***Building the Right Relationships with the Right Consumers***

Not all consumers, not even all loyal consumers, are good investments.

Figure 1.4 classifies consumers into one of four relationship groups, according to their profitability and projected loyalty.

"Strangers" show low potential profitability and little projected loyalty. The relationship management strategy for these consumers is simple: Don't invest anything in them.

"Butterflies" are potentially profitable but not loyal. The company should use promotional blitzes to attract them, create satisfying and profitable transactions with them, and then cease investing in them until the next time around.

"True friends" are both profitable and loyal. There is a strong fit between their needs and the company's offerings. The firm wants to make continuous relationship investments to delight these consumers and retain and grow them.

"Barnacles" are highly loyal but not very profitable. There is a limited fit between their needs and the company's offerings.

Important point: Different types of consumers require different relationship management strategies.

The goal is to build the *right relationships* with the *right customers*.

## Discussion and Critical Thinking

### Discussion Questions

- 1.1 How does the marketing process create value for consumers and the company?

*Answer:*

Figure 1.1 presents a simple, five-step model of the marketing process for creating and capturing customer value. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value.

- 1.2 Discuss the concept of consumer satisfaction. How do customer relationship management and consumer-perceived value impact consumer satisfaction?

*Answer:*

Customer relationship management is the process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. Consumer-perceived value is the customer's evaluation of the difference between all the benefits and all the costs of a marketing offering relative to those of competing offers. Consumer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Companies aim to delight customers by promising only what they can deliver and then delivering more than they promise.

- 1.3 What are the outcomes of creating superior consumer value? Why should companies pay attention to these outcomes?

*Answer:*

By creating superior consumer value, the firm creates satisfied customers who stay loyal, buy more, and advocate the brand to others. This, in turn, means greater long-run returns for the firm. Keeping customers loyal makes good economic sense. Loyal customers spend more and stay around longer. Companies want to not only create profitable customers but also “own” them for life, earn a greater share of their purchases, and capture their consumer lifetime value.

## CHAPTER 3

### ANALYZING THE MARKETING ENVIRONMENT

A company's ***marketing environment*** consists of the companies, people, and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target consumers.

The ***microenvironment*** consists of the companies and people close to the company that affect its ability to engage and serve its customers.

The ***macroenvironment*** consists of larger societal forces that affect the microenvironment.

## THE MICROENVIRONMENT

Marketing management's job is to build relationships with consumers by creating value and satisfaction.

Figure 3.1 shows the major players in the marketer's microenvironment.

### The Company

All the interrelated groups form the internal environment.

All groups should work in harmony to provide superior customer value and relationships.

### Suppliers

Suppliers provide the resources needed by the company to produce its goods and services.

Marketing managers must watch supply availability—supply shortages or delays, labour strikes, and other events can cost sales in the short run and damage customer satisfaction in the long run.

Marketing managers monitor the price trends of their key inputs.

### Marketing Intermediaries

**Marketing intermediaries** help the company to promote, sell, and distribute its products to final buyers.

- **Resellers** are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers.
- **Physical distribution firms** help the company to stock and move goods from their points of origin to their destinations.

Marketers recognize the importance of working with their intermediaries as partners rather than simply as channels through which they sell their products.

### Competitors

Marketers must gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies.

## Publics

A **public** is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

- *Financial publics* influence the company's ability to obtain funds.
- *Media publics* carry news, features, and editorial opinions.
- *Government publics*. Management must take government developments into account.
- *Citizen-action publics*. A company's marketing decisions may be questioned by consumer organizations, environmental groups, etc.
- *Local publics* include neighbourhood residents and community organizations.
- *General public*. The general public's image of the company affects its buying behaviour.
- *Internal publics* include workers, managers, employee unions, volunteers, and the board of directors.

## Customers

Five types of customer markets:

1. *Consumer markets*: individuals and households that buy goods and services for personal consumption.
2. *Business markets* buy goods and services for further processing or for use in their production process.
3. *Reseller markets* buy goods and services to resell at a profit.
4. *Government markets* consist of government agencies that buy goods and services to produce public services.
5. *International markets*: buyers in other countries, including consumers, producers, resellers, and governments.

## THE MACROENVIRONMENT

### THE DEMOGRAPHIC AND ECONOMIC ENVIRONMENTS

#### Demographic Environment

**Demography** is the study of human populations in terms of size, density, location, age, gender, ethnicity, occupation, and other statistics.

Changes in the world demographic environment have major implications for business.

Therefore, marketers keep close track of demographic trends and developments in their markets, both at home and abroad.

### ***Changing Age Structure of the Population***

Canada's population exceeded 38.3 million in 2022 and may reach 42 million by 2035.

The single most important demographic trend in Canada is the changing age structure of the population.

### **Baby Boomers**

There are currently 9.2 million Canadian **baby boomers**, born between 1946 and 1965.

Baby boomers account for over 25 percent of the Canadian population but still control the highest spending power of any age cohort.

The boomers constitute a lucrative market for financial services, new housing and home remodelling, new cars, travel and entertainment, eating out, and health and fitness products.

Some 70 percent of baby boomers now own smartphones. And they are the fastest-growing shopper demographic online, outspending younger generations two to one.

### **Generation X**

The baby boom was followed by a "birth dearth," creating another generation of people—numbering 7.2 million in Canada—born between 1966 and 1980.

Author Douglas Coupland calls them **Generation X**.

Although they seek success, they are less materialistic than the other groups; they prize experience, not acquisition.

They developed a more cautious economic outlook.

The Gen Xers are a more skeptical bunch.

Although Gen Xers make up less than 20 percent of the Canadian population, they are more likely to have household incomes higher than \$100,000 than either the baby boomer or millennial generations.

### **Millennials** (also called Generation Y or the echo boomers)

Born between 1981 and 1997, these children of the baby boomers number close to 8 million in Canada.

They don't just embrace technology; it's a way of life.

For them, technology is not something separate; it's just something they do.

They engage with brands in an entirely new way, such as with mobile or social media. More than sales pitches from marketers, Millennials seek authenticity and opportunities to shape their own brand experiences and share them with others.

### **Generation Z**

Born between after 1997 and 2012.

There are almost 7 million Canadian Gen Zers and they are the next generation entering the workforce.

They have an utter fluency and comfort with digital technologies—even more so than Millennials. Gen Zers blend the online and offline worlds seamlessly as they socialize and shop.

There's also a distinct ideological streak in Gen Z, which makes them hyperaware of social responsibility, social justice, and the sustainability efforts of brands.

### **Generation Alpha**

The latest generational group is Generation Alpha, kids born after 2012. Although still a relatively small market, by 2025 this group will have grown larger even than the millennials.

The emerging Generation Alpha group already exerts substantial influence on the household buying decisions of its mostly millennial parents.

An important Generation Alpha marketing concern involves children's privacy and their vulnerability to marketing pitches. Companies marketing to this group must do so responsibly.

### **Generational Marketing**

Defining people by their birth date may be less effective than segmenting them by their lifestyle, life stage, or the common values they seek in the products they buy.

### ***The Changing Canadian Family***

According to the 2021 Canadian census, there have been several trends in the



composition of Canadian households over the past 10 years:

- Smaller average household size.
- Increase in one-person households. One-person households are now the most common type of household in Canada.
- Rise in multigenerational households.
- Increase in common-law and same-sex couples.
- More couples without children.

The Canadian household composition has become more diverse and varied. Responsibility for household tasks and the care of children is also changing.

### ***Geographic Shifts in Population***

The population of Canada grew by approximately 10 percent between 2011 and 2021. The largest growth as a percentage of population came from some of Canada's smallest provinces and territories, while central and western Canada experienced growth rates near the national average.

Interprovincial migration is driven by differences in unemployment rates and wages.

As of July 2021, 27.5 million people, or 7 in 10 Canadians, lived in one of Canada's 41 Census Metropolitan Areas (CMAs). The three largest CMAs—Toronto, Montreal, and Vancouver—accounted for 35.5 percent of the total Canadian population.

### ***A Better-Educated, More Diverse Workforce***

The Canadian population is becoming better educated.

In 2021, 64.6 percent of Canadians aged 25 to 64 had completed post-secondary education.

Overall, the Canadian workforce has become more diverse, with an increasing number of highly educated women and older workers and a growing number of part-time workers.

### ***Increasing Diversity***

Canada is a nation in which various groups have mixed together but have maintained their diversity by retaining important ethnic and cultural differences.

The Statistics Canada report on the Ethnocultural Composition of the Population, based on 2021 census data, details the shifts in the diversity of the Canadian population:

- More visible minority workers (27.1 percent of the workforce).
- More Indigenous workers (5.1 percent).
- More women from diverse backgrounds.
- More languages spoken.

Many companies have begun to explicitly target 2SLGBTQ+ consumers, as well as consumers with disabilities.

### **The Economic Environment**

The **economic environment** consists of factors that affect consumer purchasing power and spending patterns.

The Covid-19 pandemic caused severe unemployment and income losses to several sectors of the Canadian economy. New economic realities forced consumers to bring their consumption back in line with their incomes and rethink their buying priorities.

In today's post-pandemic era, different generational cohorts are responding differently based on their life stage.

Consumers have now adopted a back-to-basics sensibility in their lifestyles and spending patterns that will likely persist for years to come.

## THE NATURAL AND TECHNOLOGICAL ENVIRONMENTS

### Natural Environment

The **natural environment** involves the physical environment and the natural resources that are needed by marketers and used by consumers.

Trends in the natural environment:

1. *Shortages of raw materials.*
2. *Increased pollution.*
3. *Increased government intervention.*

Companies are developing *environmentally sustainable* strategies.

### The Technological Environment

The **technological environment** is perhaps the most dramatic force now shaping our world.

Technology has released such wonders as antibiotics, robotic surgery, smartphones, artificial intelligence, driverless cars, and the Internet.

Digital technologies, the Internet of Things (IoT), and social media analytics have created a new world of marketing.

New technologies create new markets and opportunities; however, every new technology replaces an old technology.

## THE POLITICAL/SOCIAL AND CULTURAL ENVIRONMENTS

### The Political and Social Environment

The political environment consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society.

#### *Legislation Regulating Business*

Governments develop **public policy** to guide commerce.

Legislation affecting business around the world has increased steadily over the years.

Business legislation has been enacted for a number of reasons.

1. To *protect companies* from each other.
2. To *protect consumers* from unfair business practices.

3. To *protect the interests of society* against unrestrained business behaviour.

Because government agencies have discretion in enforcing laws, they can have an impact on a company's marketing performance.

### ***Increased Emphasis on Ethics and Socially Responsible Actions***

**Socially Responsible Behaviour.** Enlightened companies encourage their managers to “do the right thing.”

The boom in online, mobile, and social media marketing has created a new set of social and ethical issues.

**Cause-Related Marketing.** Many companies are now linking themselves to worthwhile causes. Cause-related marketing has become a primary form of corporate giving and brand expression.

Cause-related marketing has stirred some controversy. Critics worry that cause-related marketing is more a strategy for selling than a strategy for giving.

### **Cultural Environment**

The **cultural environment** is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviours.

For example, a thriving trade network existed among Indigenous Peoples in North America long before the arrival of Europeans. These trade networks were disrupted by the arrival of Europeans, who introduced new trade items and methods.

### ***Persistence of Cultural Values***

**Core** beliefs and values are passed on from parents to children and are reinforced by schools, religious institutions, businesses, and government.

**Secondary** beliefs and values are more open to change.

### ***Shifts in Secondary Cultural Values***

Marketers want to predict cultural shifts in order to spot new opportunities or threats.

### **People's Views of Themselves**

People vary in their emphasis on serving themselves versus serving others.

People use products, brands, and services as a means of self-expression.

### **People's Views of Others**

Shifts in people's attitudes toward and interactions with others have been noted.

Today's digital technologies seem to be allowing people to connect more than ever. However, these days, even when people are together, they are often "alone together."

### **People's Views of Organizations**

People are willing to work for major organizations and expect them to carry out society's work.

Many people see work as a required chore to earn money to enjoy their non-work hours.

### **People's Views of Society**

People vary in their attitudes toward their society.

Canadian patriotism has been increasing gradually for the past two decades. Canadian companies are responding to this trend with Canadian themes and promotions. Many companies are including recognition of Indigenous heritage.

### **People's Views of Nature**

Recently, people have recognized that nature is finite and fragile, that it can be destroyed by human activities.

The organic-food market now generates over \$50 billion in sales.

### **People's Views of the Universe**

Religious conviction and practice have been gradually declining through the years.

Statistics Canada surveys show that fewer Canadians are attending the country's churches, temples, and synagogues.

One recent survey found that whereas North Americans have become less religious in recent years, the share of people who feel a deep sense of "spiritual peace and well-being" as well as a deep sense of "wonder about the universe" has risen.

## **RESPONDING TO THE MARKETING ENVIRONMENT**

Many companies think the marketing environment is an uncontrollable element to which they have to adapt.

Other companies take a *proactive* rather than *reactive* approach to the marketing environment.

## **Discussion and Critical Thinking**

### **Discussion Questions**

- 3.1 Define *marketing environment* and discuss the two parts that make up a company's marketing environment.

*Answer:*

A company's *marketing environment* consists of the players and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. The marketing environment consists of a *microenvironment* and a *macroenvironment*. The *microenvironment* consists of the companies and people close to the company that affect its ability to engage and serve its customers—the company, suppliers, marketing intermediaries, customer markets, competitors, and publics. The *macroenvironment* consists of the larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces.

- 3.2 Discuss the impact of the changing age structure of the population on consumer spending and buying behaviour. Why is this trend important to marketers?

*Answer:*

Changes in demographics mean changes in markets, so they are very important to marketers. The Canadian population contains several generational groups, including the baby boomers, Generation X, the millennials, Generation Z, and Generation Alpha. The baby boomers are the wealthiest generation, what one analyst calls “a marketer's dream.” Today's baby boomers account for over 25 percent of the Canadian population and control the highest spending power of any age cohort. Considerably smaller than the boomer generation that precedes them and the millennials who follow, the Generation Xers are a sometimes-overlooked “in-between” consumer group. Still, although Gen Xers make up less than 20 percent of the Canadian population, they are more likely to have household incomes higher than \$100,000 than either the baby boomer or millennial generations, making them a prime target for many brands.

Born between 1981 and 1997, millennials number 8 million in Canada. More than sales pitches from marketers, millennials seek authenticity, value, and opportunities to shape their own brand experiences and share them with others. Compared with other generational groups, they tend to be frugal, practical, connected, mobile, and impatient.

The almost 7 million Gen Zers are the next generation entering the workforce. Even more than the millennials, the defining characteristic of Gen Zers is their

utter fluency and comfort with digital technologies. These young consumers also represent tomorrow's markets—they are now forming brand relationships that will affect their buying well into the future.

The latest generational group is Generation Alpha, kids born after 2012. Although still a relatively small market, by 2025 this group will have grown larger even than the millennials.

Some experts warn that marketers need to be careful about turning off one generation each time they craft a product or message that appeals effectively to another. Others caution that each generation spans decades of time and many socioeconomic levels. Thus, marketers need to form more precise age-specific segments within each group. More important, defining people by their birth date may be less effective than segmenting them by lifestyle, life stage, or the common values they seek in the products they buy.

- 3.3 Describe the challenges marketers face with changing economic conditions. What factors should marketers consider in offer value to today's customers?

*Answer:*

Economic factors can have a dramatic effect on consumer spending and buying behaviour. After two decades of over-spending, new economic realities forced consumers to bring their consumption back in line with their incomes and rethink their buying priorities. Marketers should pay attention to changes in major economic variables that have a large impact on the marketplace, such as income, cost of living, and savings and borrowing patterns.

In adjusting to the economy, companies may be tempted to cut their marketing budgets and slash prices to coax customers into opening their wallets. However, although cutting costs and offering selected discounts can be important marketing tactics, smart marketers understand that making cuts in the wrong places can damage long-term brand images and customer relationships. The challenge is to balance the brand's value proposition with the current times while also enhancing its long-term equity.

## CHAPTER 4

### MANAGING MARKETING INFORMATION TO GAIN CUSTOMER INSIGHTS

#### MARKETING INFORMATION AND CUSTOMER INSIGHTS

Companies use such customer insights to develop competitive advantage.

To gain good customer insights, marketers must effectively manage marketing information from a wide range of sources.

#### Marketing Information and Today's "Big Data"

With the recent explosion of information technologies, companies can now generate and find marketing information in great quantities.

Far from lacking information, most marketing managers are overloaded with data and often overwhelmed by it. This problem is summed up in the concept of **big data**.

*Big data* refers to the huge and complex data sets generated by today's sophisticated information generation, collection, storage, and analysis technologies.

#### Developing Customer Insights

The real value of marketing information lies in how it is used—in the **customer insights** that it provides.

Companies have created *customer insights teams*, whose job it is to develop actionable insights from marketing information and work strategically with marketing decision-makers to apply those insights.

#### The Marketing Information System

A **marketing information system (MIS)** consists of people and procedures for assessing information needs, developing the needed information, and helping decision makers to use the information to generate and validate actionable customer and market insights. (Figure 4.1)

#### ASSESSING INFORMATION NEEDS AND DEVELOPING DATA

##### Assessing Marketing Information Needs

A good marketing information system balances the information users would *like* to have against



what they really *need* and what is *feasible* to offer.

Sometimes the company cannot provide the needed information, either because it is not available or because of MIS limitations.

By itself, information has no worth; its value comes from its *use*.

### **Developing Marketing Information**

Marketers can obtain the needed information from *internal data*, *marketing intelligence*, and *marketing research*.

#### ***Internal Data***

**Internal databases** are electronic collections of consumer and market information obtained from data sources within the company network.

Information in the database can come from many sources.

Problems with internal data:

- It may be incomplete or in the wrong form for making marketing decisions.
- Keeping the database current requires a major effort because data ages quickly.
- Managing and mining the vast amounts of data that a large company produces requires highly sophisticated technology.

#### ***Competitive Marketing Intelligence***

**Competitive marketing intelligence** is the systematic collection and analysis of publicly available information about consumers, competitors, and developments in the marketplace.

Marketing intelligence gathering has grown dramatically.

Firms use competitive intelligence to gain early warnings of competitor moves and strategies.

Much competitor intelligence can be collected from people inside the company.

Competitors often reveal intelligence information through their annual reports, business publications, trade show exhibits, press releases, advertisements, and Web pages.

Most companies are now taking steps to protect their own information.

The growing use of marketing intelligence raises a number of ethical issues.

## MARKETING RESEARCH

**Marketing research** is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization.

As new digital data-gathering technologies have become available through the digitization of consumers' lives, traditional marketing research has undergone a major transformation. New approaches range from real-time social media, website, and online feedback monitoring to mobile device tracking.

Although its role is changing, traditional marketing research is still widely used and used most effectively when combined with the digital analytics made available through search engines and social media platforms.

The marketing research process has *four steps* (see Figure 4.2):

### 1. Defining the Problem and Research Objectives

Defining the problem and research objectives is often the hardest step in the research process.

A marketing research project might have one of three types of objectives.

1. **Exploratory research:** to gather preliminary information that will help define the problem and suggest hypotheses.
2. **Descriptive research:** to describe things, such as the market potential for a product.
3. **Causal research:** to test hypotheses about cause-and-effect relationships.

Start with exploratory research and later follow with descriptive or causal research.

### 2. Developing the Research Plan

The research plan outlines sources of existing data and spells out the specific research approaches, contact methods, sampling plans, and instruments that researchers will use to gather new data.

Research objectives must be translated into specific information needs.

The research plan should be presented in a *written proposal*.

**Secondary data** consist of information that already exists somewhere, having been collected for another purpose.

**Primary data** consist of information collected for the specific purpose at hand.

## Gathering Secondary Data

Researchers usually start by gathering secondary data.

Using *commercial online databases*, marketing researchers can conduct their own searches of secondary data sources.

Almost every industry association, government agency, business publication, and news medium offers free information.

Secondary data can usually be obtained more quickly and at a lower cost than primary data.

Secondary sources can sometimes provide data an individual company cannot collect on its own.

Secondary data can present problems.

- The needed information may not exist.
- The data might not be very usable unless it is:
  - *relevant* (fits research project needs),
  - *accurate* (reliably collected and reported),
  - *current* (up-to-date enough for current decisions), and
  - *impartial* (objectively collected and reported).

## Primary Data Collection

In most cases, a company must also collect primary data. Care must be given to making certain the primary data is relevant, accurate, current, and unbiased.

### *Research Approaches*

**Observational Research** involves gathering primary data by observing relevant people, actions, and situations.

Observational research can obtain information that people are unwilling or unable to provide.

Marketers now routinely listen in on consumer conversations on social media, blogs, and websites.

**Ethnographic research** involves sending trained observers to watch and interact with consumers in their “natural environment.”

Observational and ethnographic research often yields the kinds of details that just don't emerge from traditional research questionnaires or focus groups.

However, there are disadvantages:

- Some things cannot be observed.
- Long-term or infrequent behaviour is also difficult to observe.
- Observations can be very difficult to interpret.

**Survey research**, the most widely used method for primary data collection, is the approach best suited for gathering *descriptive* information.

The major advantage of survey research is its flexibility.

Disadvantages:

- Sometimes people are unable to answer survey questions.
- People may be unwilling to respond to unknown interviewers or about things they consider private.
- Respondents may answer survey questions even when they do not know the answer.
- People may not take the time, or they might resent the intrusion into their privacy.

**Experimental Research** is best suited for gathering *causal* information.

### ***Contact Methods***

#### **Mail/Email, Phone, and Personal Interviewing**

**Mail questionnaires** can be used to collect large amounts of information at a low cost per respondent.

Respondents give more honest answers to more personal questions.

No interviewer is involved to bias the respondent's answers.

Online survey tools, like SurveyMonkey, provide flexibility for email questionnaires.

**Phone interviewing** is one of the best methods for gathering information quickly, and it provides greater flexibility than mail questionnaires.

Interviewers can explain difficult questions.

Response rates are higher than with mail questionnaires.

Disadvantages:

- Cost per respondent is higher than with mail questionnaires.
- People may not want to discuss personal questions with an interviewer.
- Introduces interviewer bias
- Different interviewers may interpret and record responses differently.
- Increasingly high rates of hang-ups

**Personal interviewing** takes two forms—individual and group interviewing.

- *Individual interviewing* involves talking with people one-on-one.
- *Group interviewing (focus group interviewing)* consists of inviting six to ten people to meet with a trained moderator to talk about a product, service, or organization.

## Online Marketing Research

Increasingly, researchers are collecting primary data through **online marketing research**.

Online and mobile channels are especially well suited for *quantitative* research.

Approximately 90 percent of North Americans now use the Internet.

Internet-based research offers many advantages over more traditional approaches:

- Speed
- Low costs
- More interactive and engaging
- Easier to complete
- Less intrusive

Sample size has little impact on costs.

The primary qualitative internet-based research approach is **online focus groups**.

Disadvantages:

- Restricted Internet access can make it difficult to get a broad cross section of respondents.
- Controlling who's in the online sample is difficult.
- Consumer privacy is a major issue.

## Online Behavioural and Social Tracking and Targeting

Increasingly, online researchers are listening to and watching consumers by actively mining the

rich veins of unsolicited, unstructured, “bottom-up” customer information already available on the Internet.

**Behavioural targeting** is the practice of marketers using online data to target ads and offers to specific consumers.

*Social targeting* is mining individual online social networking activity for the purpose of target ads and marketing efforts.

### ***Sampling Plan***

A **sample** is a segment of the population selected for marketing research to represent the population as a whole.

Designing the sample requires three decisions.

1. *Who* is to be surveyed (what *sampling unit*)?
2. *How many* people should be surveyed (what *sample size*)?
3. *How* should the people in the sample be *chosen* (what *sampling procedure*)?

### ***Research Instruments***

The **questionnaire** is the most common data collection instrument.

*Closed-end questions* include all the possible answers, and subjects make choices among them.

*Open-end questions* allow respondents to answer in their own words.

Care should be given to the *wording* and *ordering* of questions.

Researchers also use **mechanical instruments** to monitor consumer behaviour. Checkout scanners are an example.

Another example is a website heatmap which shows marketers how visitors interact with each element on a website.

## **3. Implementing the Research Plan**

This stage involves collecting, processing, and analyzing the information.

Researchers must process and analyze the collected data to isolate important information and findings.

#### 4. Interpreting and Reporting the Findings

Researchers should present important findings and insights that are useful in the major decisions faced by management.

### ANALYZING AND USING MARKETING INFORMATION

#### Customer Relationship Management (CRM)

Companies capture information at every possible customer *touch point*.

**Customer relationship management (CRM)** is used to manage detailed information about individual customers and carefully manage customer touch points in order to maximize customer loyalty.

CRM integrates everything that a company knows about individual customers to provide a 360-degree view of the customer relationship.

#### Big Data, Marketing Analytics, and Artificial Intelligence

Today's big data can yield big results. But simply collecting and storing huge amounts of data has little value. Marketers must sift through the mountains of data to mine the gems—the bits that yield customer insights.

As one marketing executive puts it, “It’s actually [about getting] *big insights* from big data. It’s throwing away 99.999 percent of that data to find things that are actionable.”

Says another data expert, “*right* data trumps *big* data.” That’s the job of *marketing analytics*.

**Marketing analytics** consists of the analysis tools, technologies, and processes by which marketers dig out meaningful patterns in big data to gain customer insights and gauge marketing performance.

Marketing analytics employ **artificial intelligence (AI)**, technology by which machines think and learn in a way that looks and feels human but with a lot more analytical capacity.

The most common mistake is to view CRM, marketing analytics, and AI as technology processes only.

## Distributing and Using Marketing Information

The marketing information system must make the information available to managers and others who make marketing decisions or deal with customers.

Many companies use an *intranet* and internal CRM to facilitate information distribution. The intranet provides ready access to data, stored reports, and so forth.

Companies are increasingly allowing key customers and value-network members to access account and product information, along with other information. The systems that do this are called *extranets*.

## Discussion and Critical Thinking

### Discussion Questions

- 4.1 Explain how marketing intelligence differs from marketing research. Which is more valuable to a company? Why?

*Answer:*

Companies use both marketing research and marketing intelligence to make business decisions. The value of each depends on several factors: cost, ease of accessing information, reliability, and relevance.

**Competitive marketing intelligence** is the systematic collection and analysis of publicly available information about consumers, competitors, and developments in the marketplace. The goal of competitive marketing intelligence is to improve strategic decision making by understanding the consumer environment, assessing and tracking competitors' actions, and providing early warnings of opportunities and threats. Marketing intelligence techniques range from observing consumers firsthand to quizzing the company's own employees, benchmarking competitors' products, researching the Internet, and monitoring Internet buzz.

In addition to marketing intelligence information about general consumer, competitor, and marketplace happenings, marketers often need formal studies that provide customer and market insights for specific marketing situations and decisions. **Marketing research** is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization. Companies use marketing research in a wide variety of situations. For example, marketing research gives marketers insights into customer motivations, purchase behaviour, and satisfaction. It can help them to assess market potential and market share or measure the effectiveness of pricing, product, distribution, and promotion activities.



4.2 Marketers make heavy use of both primary and secondary data. What is primary data? What is secondary data? What are possible benefits or drawbacks of using each of these data types?

*Answer:*

Primary data consist of information collected for the specific purpose at hand. Secondary data consist of information that already exists somewhere, having been collected for another purpose.

The benefits of primary data include greater control over the data collection and research process, ability to conduct more in-depth research on specific issues, and having proprietary data that the firm can use as a potential advantage, or that is specific to the firm only. The benefits of secondary data include substantial time savings because the data is already assembled, low or possibly no cost because data has already been generated by an existing entity, and data is publicly or easily accessible. The drawbacks of primary data include the cost to obtain data and overall research process, time constraints, and it's not always practicable or easy to do. The drawbacks of secondary data include that it may be too general in nature, may not be completely relevant to the issue being researched, may not be collected in a timely or relevant way, or perhaps is incomplete or dated.

4.3 Explain the advantages of conducting online marketing research.

*Answer:*

The internet has had a dramatic impact on how marketing research is conducted. Researchers collect quantitative and qualitative data through **online marketing research** using internet and mobile surveys, online experiments, online focus groups, and other online methods.

Advantages include: (1) Reaching a broad cross-section of consumers—approximately 90 percent of North Americans use the internet and respondents can be local or globally distant. (2) Speed—surveys can be quickly and easily distributed by posting them on selected sites. (3) Low costs—postage, phone, interviewer, and data-handlings costs are eliminated. (4) Engagement—internet-based surveys tend to be more interactive and engaging, easier to complete, and less intrusive than traditional phone or mail surveys. (5) Higher response rates.

## **CHAPTER 5**

### **UNDERSTANDING CONSUMER AND BUSINESS BUYER BEHAVIOUR**

#### **CONSUMER MARKETS AND CONSUMER BUYER BEHAVIOUR**

**Consumer buyer behaviour** refers to the buying behaviour of final consumers—individuals and households who buy goods and services for personal consumption.

All of these consumers combine to make up the **consumer market**.

The North American consumer market consists of more than 373 million people (including 334 million Americans and 39 million Canadians).

## What Is Consumer Behaviour?

The central question for marketers is: Given all the characteristics (cultural, social, personal, and psychological) affecting consumer behaviour, how do we best design our marketing efforts to reach our consumers most effectively?

In order to build brand loyalty and lasting relationships with their customers, marketers must be aware of a number of issues before, during, and after purchase. Figure 5.1 illustrates some issues that arise during each stage of the consumption process.

## Characteristics Affecting Consumer Behaviour

### *Cultural Factors*

**Culture** is the most fundamental source of a person's wants and behaviour.

Marketers are always trying to spot *cultural shifts*.

**Subcultures** are groups of people with shared value systems based on common life experiences and situations.

Subcultures include nationalities, religions, racial groups, and geographic regions. Canada is a regional country, so marketers may develop distinctive programs for the Atlantic provinces, Quebec, Central Canada, the Prairies, and British Columbia.

Canada had three founding nations: the Indigenous Peoples, the English, and the French. The most recent census results (2021) reported that English is the first official language spoken by 75.5 percent of the population, and French is the first official language spoken by 21.4 percent of the population. In total, approximately 189,000 people said that they had at least one Indigenous mother tongue.

Indigenous Peoples have a long and rich history in the land now known as Canada. Indigenous Peoples refers to three groups recognized in the Constitution Act: First Nations people, Métis, and Inuit. Each of these groups is highly diverse, as reflected in over 70 Indigenous languages reported during the 2021 census, over 600 First Nations communities across the country, a variety of groups representing Métis nationhood, and the four regions and 50 communities of Inuit Nunangat. Indigenous Peoples accounted for 5.0 percent of the total population in Canada in 2021.

According to the 2021 Canadian census, the immigrant population in Canada has reached an all-time high, with 22.3 percent of the total population being immigrants, leading to a substantial growth in visible minorities in the country.

Most brands and marketing campaigns today are multicultural in nature, inclusive of the diverse mix of subcultures that make up the North American consumer marketplace.

Marketers must respect the sensibilities of subcultural groups in terms of diversity, equity, and inclusiveness.

### ***Social Factors***

**Groups and Social Networks.** A person's behaviour is influenced by many **groups**.

**Reference groups** serve as direct (face-to-face interactions) or indirect points of comparison or reference in forming a person's attitudes or behaviour.

**Opinion leaders** are people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert social influence on others.

**Word-of-mouth influence** is the impact of the personal words and recommendations of trusted friends, associates, and other consumers on buying behaviour.

**Influencer marketing** involves enlisting established influencers or creating new influencers to spread the word about a company's products.

**Online social networks** are online communities where people socialize or exchange information and opinions.

**Family** is the most important consumer buying organization in society.

Partner-partner involvement varies widely by product category and by stage in the buying process.

More than 40 percent of men grocery shop regularly.

Women outspend men on new technology purchases, and they influence 80 percent of all car purchases.

Kids and tweens influence up to 80 percent of all household purchases.

**Roles and Perception.** A role consists of the activities people are expected to perform. Each role carries a perceived status reflecting the general esteem given to it by society.

### ***Personal Factors***

**Occupation.** A person's occupation affects the goods and services bought.

**Age and Life Stage.** People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related.

**Economic Situation.** A person's economic situation will affect product choice.

**Lifestyle** is a person's pattern of living as expressed in their psychographics.

AIO dimensions are activities (work, hobbies, shopping, sports, social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products).

### **Personality and Self-Concept**

**Personality** refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

A **brand personality** is the specific mix of human traits that may be attributed to a particular brand. One researcher identified five brand personality traits:

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

The basic **self-concept (self-image)** premise is that people's possessions contribute to and reflect their identities; that is, "we are what we have."

### ***Psychological Factors***

#### **Motivation**

A **motive** (or drive) is a need that is sufficiently pressing to direct the person to seek satisfaction.

Freud suggests that a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand.

**Motivation research** refers to qualitative research designed to probe consumers' hidden, subconscious motivations.

Many marketers are using *interpretive consumer research* to dig deeper into consumer psyches and develop better marketing strategies.

Maslow sought to explain why people are driven by particular needs at particular times. (Figure 5.3)

**Perception** is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

**Selective attention** is the tendency for people to screen out most of the information to which they are exposed.

**Selective distortion** describes the tendency of people to interpret information in a way that will support what they already believe.

**Selective retention** is the retaining of information that supports their attitudes and beliefs.

**Learning** describes changes in an individual's behaviour arising from experience.

A **drive** is a strong internal stimulus that calls for action.

A drive becomes a **motive** when it is directed toward a particular **stimulus object**.

**Cues** are minor stimuli that determine when, where, and how the person responds.

### **Beliefs and Attitudes**

A **belief** is a descriptive thought that a person has about something.

**Attitude** describes a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea.

### **The Buyer Decision Process (Figure 5.4)**

The buyer decision process consists of five stages:

1. *need recognition*,
2. *information search*,
3. *evaluation of alternatives*,
4. *purchase decision*, and
5. *postpurchase behaviour*.

### **Need Recognition**

The buyer recognizes a problem or need.

The need can be triggered by either an:

- *internal stimuli* or
- *external stimuli*.

### ***Information Search***

Information search may or may not occur.

Consumers can obtain information from any of several sources.

- *Personal sources* (family, friends, neighbours, acquaintances),
- *Commercial sources* (advertising, salespeople, dealer web and mobile sites, packaging, displays),
- *Public sources* (mass media, consumer-rating organizations, social media), and
- *Experiential sources* (handling, examining, using the product).

Commercial sources ***inform*** the buyer.

Personal sources ***legitimize*** or ***evaluate*** products for the buyer.

### ***Evaluation of Alternatives***

**Alternative evaluation:** how the consumer processes information to arrive at brand choices.

How consumers go about evaluating purchase alternatives depends on the individual consumer and the specific buying situation.

In some cases, consumers use careful calculations and logical thinking.

At other times, the same consumers do little or no evaluating; instead they buy on impulse and rely on intuition.

### ***Purchase Decision***

Generally, the consumer's **purchase decision** will be to buy the most preferred brand.

Two factors can come between the purchase ***intention*** and the purchase ***decision***.

1. *Attitudes of others*
2. *Unexpected situational factors*

### ***Postpurchase Behaviour***

Consumer satisfaction is determined by the difference between the consumer's expectations and the perceived performance of the good purchased.

If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is said to be delighted.

**Cognitive dissonance**, or discomfort caused by postpurchase conflict, occurs in most major purchases.

## THE BUYER DECISION PROCESS FOR NEW PRODUCTS

A **new product** is a good, service, or idea that is perceived by some potential customers as new.

The **adoption process** is the mental process through which an individual passes from first learning about an innovation to final adoption.

*Adoption* is the decision by an individual to become a regular user of the product.

### *Stages in the Adoption Process*

Consumers go through five stages in the process of adopting a new product:

- *Awareness*: The consumer becomes aware of the new product but lacks information about it.
- *Interest*: The consumer seeks information about the new product.
- *Evaluation*: The consumer considers whether trying the new product makes sense.
- *Trial*: The consumer tries the new product on a small scale to improve their estimate of its value.
- *Adoption*: The consumer decides to make full and regular use of the new product.

### *Individual Differences in Innovativeness*

People differ greatly in their readiness to try new products.

People can be classified into the adopter categories shown in Figure 5.5.

The five adopter groups have differing values.

1. *Innovators* are venturesome—they try new ideas at some risk.
2. *Early adopters* are guided by respect—they are opinion leaders in their communities and adopt new ideas early but carefully.
3. *Early mainstream adopters* are deliberate—although they rarely are leaders, they adopt new ideas before the average person.
4. *Late mainstream adopters* are skeptical—they adopt an innovation only after a majority



of people have tried it.

5. *Lagging adopters* are tradition bound—they are suspicious of changes and adopt the innovation only when it has become something of a tradition itself.

### ***Influence of Product Characteristics on Rate of Adoption***

Five characteristics are important in influencing an innovation's rate of adoption.

- *Relative advantage*: the degree to which the innovation appears superior to existing products.
- *Compatibility*: the degree to which the innovation fits the values and experiences of potential consumers.
- *Complexity*: the degree to which the innovation is difficult to understand or use.
- *Divisibility*: the degree to which the innovation may be tried on a limited basis.
- *Communicability*: the degree to which the results of using the innovation can be observed or described to others.

## **BUSINESS MARKETS AND BUSINESS BUYER BEHAVIOUR**

**Business buyer behaviour** refers to the buying behaviour of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.

In the *business buying process*, business buyers determine which products and services their organizations need to purchase, and then find, evaluate, and choose among alternative suppliers and brands.

*Business-to-business (B-to-B) marketers* must do their best to understand business markets and business buyer behaviour.

### **Business Markets**

Business markets involve far more dollars and items than do consumer markets.

The main differences between business markets and consumer markets relate to the following:

- *market structure and demand*
- *nature of the buying unit*
- *the types of decisions and the decision process involved*

### 1. *Market Structure and Demand*

Many business markets have ***inelastic demand***; that is, total demand for many business products is not affected much by price changes.

Business markets have more ***fluctuating demand***.

The business marketer normally deals with ***far fewer but far larger buyers*** than the consumer marketer does.

Business demand is **derived demand**—it ultimately derives from the demand for consumer goods.

### 2. *Nature of the Buying Unit*

Business purchases usually involve ***more decision participants*** and a ***more professional purchasing effort***.

### 3. *Types of Decisions and the Decision Process*

Business buyers usually face ***more complex*** buying decisions than do consumer buyers.

The business buying process tends to be ***more formalized***.

The buyer and seller are often much ***more dependent*** on each other.

**Supplier development** involves systematically developing networks of supplier-partners to ensure a dependable supply of products and materials they use to make their own products or resell to others.

## **Business Buyer Behaviour**

Figure 5.6 shows a model of business buyer behaviour.

Within the organization, buying activity consists of two major parts:

1. The buying centre and
2. The buying decision process.

### ***Major Types of Buying Situations***

**Straight rebuy**: the buyer reorders something without any modifications.

**Modified rebuy:** the buyer wants to modify product specifications, prices, terms, or suppliers.

**New-task buy:** the company is buying a product or service for the first time.

***Systems selling (solutions selling)*** is often a key business marketing strategy because many business buyers prefer to buy a packaged solution to a problem from a single seller.

In this situation, a buyer may ask sellers to supply the components and assemble the package or system.

### ***Participants in the Business Buying Process***

A **buying centre** consists of all the individuals and units that play a role in the business purchase decision-making process.

The buying centre is not a fixed and formally identified unit within the buying organization.

### ***Major Influences on Business Buyers***

Most B-to-B marketers recognize that emotion plays an important role in business buying decisions.

When suppliers' offers are very similar, buyers can allow personal factors to play a role in their decisions.

However, when competing products differ greatly, business buyers tend to pay more attention to economic factors.

Figure 5.7 lists various groups of influences on business buyers.

**Environmental factors** include the current and expected economic environment, as well as supply of key materials.

Technological, political, and competitive developments can also affect business buyers.

Culture and customs can also influence buyer reactions to the marketer's behaviour and strategies.

**Organizational factors** are important because each buying organization has its own objectives, policies, procedures, structure, and systems.

**Interpersonal factors** influence the business buying process. These can be very difficult to ascertain.

**Individual factors** are involved as well. Each participant in the business buying process brings in personal motives, perceptions, and preferences.

Individual factors are, in turn, influenced by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk.

### ***The Business Buyer Decision Process (Figure 5.8)***

1. **Problem recognition:** The buyer process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service.
2. A **general need description** is generated to describe the characteristics and quantity needed of an item.
3. The **product specification** includes the technical product specifications. **Product value analysis** is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production.
4. A **supplier search** is conducted to find the best vendors. The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers.
5. The **proposal solicitation** is the stage in which the buyer invites qualified suppliers to submit proposals.
6. **Supplier selection** occurs after the buying centre reviews the proposals.
7. An **order-routine specification** includes the final order with the chosen supplier or suppliers. Many large buyers now practise *vendor-managed inventory*, in which they turn over ordering and inventory responsibilities to their suppliers.
8. Buyers conduct a **performance review**. This review may lead the buyer to continue, modify, or drop the arrangement with the seller.

## **Discussion and Critical Thinking**

### **Discussion Questions**

- 5.1 How do subcultures affect consumer purchase decisions? Provide an example.

*Answer:*

Subcultures are groups of people with shared value systems based on common life experiences and situations and include nationalities, religions, racial groups, age cohorts, and geographic regions. Subcultural groups usually exhibit some distinct needs and preferences. Most brands and marketing campaigns today are multicultural in nature, inclusive of the diverse mix of subcultures that make up the Canadian consumer

marketplace. However, as with other types of market segments, subcultural groups usually exhibit some distinct needs and preferences, so marketers often supplement their diverse general-market offerings with additional products and programs tailored to specific subcultural segment needs. For example, a brand like Toyota may target Hispanic consumers with a specific campaign.

- 5.2 What four psychological factors influence a customer's purchase behaviour? Name and explain each of the four factors.

*Answer:*

*Motivation* comes from a need that reaches a level of intensity that must be satisfied. Motive (drive) is a pressing need that directs a person to seek satisfaction. A motivated person is ready to act. *Perception* is the process by which people select, organize, and interpret information to form a picture of the world. A person's actions are influenced by their own perception of the situation based on individual interpretation. *Learning* describes changes in an individual's behaviour arising from experiences. If an experience is rewarding, the consumer's behaviour is reinforced.

*Attitudes* are a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea. A person's attitudes fit into a pattern and are difficult to change.

- 5.3 What are the stages in the adoption process? Describe how a student goes through the adoption process when choosing a college or university.

*Answer:*

The *adoption process* is a mental process in which an individual learns about an innovation to finally adopting it. The stages in the adoption process are:

- *Awareness:* The consumer becomes aware of the new product but lacks information about it.
- *Interest:* The consumer seeks information about the new product.
- *Evaluation:* The consumer considers whether trying the new product makes sense.
- *Trial:* The consumer tries the new product on a small scale to improve his or her estimate of its value.
- *Adoption:* The consumer decides to make full and regular use of the new product.

Awareness could be when someone thinks about going to college or university but may not be aware of the higher education options. At the interest stage, the information gathering process begins on potential colleges and universities. Evaluating each of the potential higher education institutions may include cost, distance, programs offered, reputation, and so on. The trial stage could include taking one course in the summer, attending an orientation, or attending one semester as a "trial term." Fully engaging at the college or university may include attending full-time, joining campus organizations, or

living on campus.

### Critical Thinking Exercises

- 5.4 The characteristics of a new product affect its rate of adoption. Identify the five characteristics that influence the rate of adoption and describe how each factor will influence the rate of adoption of the Apple Watch.

*Answer:*

Five characteristics are especially important in influencing the rate of adoption:

- *Relative advantage:* The degree to which the innovation appears superior to existing products. There are a limited number of competitive products in this category. When doing a comparison among brands, the Apple watch will most likely appeal to the existing Apple customer because of its compatibility with the iPhone.
- *Compatibility:* The degree to which the innovation fits the values and experiences of potential consumers. The Apple watch is an extension of Apple's successful product line and consumers will be familiar with and able to interface easily with the technology.
- *Complexity:* The degree to which the innovation is difficult to understand or use. Purchasers of the Apple watch will most likely be loyal Apple users, so they will not have a high degree of difficulty understanding this product.
- *Divisibility:* The degree to which the innovation may be tried on a limited basis. Consumers can try on and try out the Apple watch in any Apple store or any retailer that carries the product.
- *Communicability:* The degree to which the results of using the innovation can be observed or described to others. The Apple watch needs little introduction to iPad or iPhone users. The brand maintains a majority market share in many categories.

- 5.5 Business buying can be a very involved process. Many companies employ procurement or purchasing experts dedicated to managing the firm's buying process. Visit [www.glassdoor.com/Salaries/index.htm](http://www.glassdoor.com/Salaries/index.htm) and [www.indeed.com/career/salaries](http://www.indeed.com/career/salaries) to conduct a search of the salary ranges for "procurement specialists," "procurement manager," or similar positions in purchasing. Present your findings. Can e-procurement help to streamline the buying process? Might it eventually replace employees in these careers? Discuss whether it is possible for all buying functions to be performed through e-procurement.

*Answer:*

Students accessing the websites will find that positions in the procurement field can vary. The variance takes into account differentiators such as educational attainment, years of direct work experience, depth and breadth of the position, as well as supervisory or management functions.

Although virtually unknown a decade and a half ago, e-procurement has grown exponentially with advances in IT. Now, online purchasing is standard for many companies. E-procurement gives buyers access to new suppliers, lowers purchasing costs, and speeds order processing and delivery. Additionally, business marketers can connect with customers online to share marketing information, sell products and services, provide customer support, and maintain ongoing customer relationships. Instead of the old model of sales reps calling on business customers at work or meeting at trade shows, the new digital approaches facilitate anytime, anywhere connections between seller and business buyer. It gives both sellers and buyers more control of and access to important information. B-to-B marketing has always been social network marketing, but today's digital environment offers an exciting array of new networking tools and applications.

Students should discuss the streamlined, simplified process made available by e-procurement and the impact of e-procurement on purchasing careers. It may not completely eliminate the value provided by face-to-face and in-person customer relationship management. Also, e-procurement may not be available or practical in all industries or markets.

## CHAPTER 6

### CUSTOMER VALUE-DRIVEN MARKETING STRATEGY: CREATING VALUE FOR TARGET CUSTOMERS

#### MARKETING STRATEGY

**Market segmentation** involves dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviours that might require separate marketing strategies or mixes.

**Market targeting** (or **targeting**) consists of evaluating each market segment's attractiveness and selecting one or more market segments to enter.

**Differentiation** involves actually differentiating the firm's market offering to create superior customer value.

**Positioning** consists of arranging for a market offering to occupy a clear, distinctive, and desirable place relative to competing products in the minds (and hearts) of target consumers.

#### MARKET SEGMENTATION

Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.

#### Segmenting Consumer Markets

Table 6.1 outlines the major variables that might be used in segmenting consumer markets.

##### *Geographic Segmentation*

**Geographic segmentation** calls for dividing the market into different geographical units such as nations, regions, provinces, cities, or even neighbourhoods.

##### *Demographic Segmentation*

**Demographic segmentation** divides the market into groups based on variables such as age, gender, life cycle stage, income, occupation, education, religion, ethnicity, and generation.

Demographic factors are the most popular bases for segmenting customer groups.

With **age and life-cycle segmentation**, firms offer different products or use different marketing approaches for different age and life-cycle groups.

**Gender segmentation** has long been used in clothing, cosmetics, toiletries, and magazines.



**Income segmentation** has long been used by the marketers of products and services such as automobiles, clothing, cosmetics, financial services, and travel.

### ***Psychographic Segmentation***

**Psychographic segmentation** divides buyers into different groups based on lifestyle or personality characteristics.

Marketers use *lifestyles* and *personality* variables to segment markets.

### ***Behavioural Segmentation***

**Behavioural segmentation** divides buyers into groups based on their knowledge, attitudes, uses, or responses concerning a product.

**Occasion segmentation** involves grouping buyers according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item.

**Benefit segmentation** is grouping buyers according to the different *benefits* that they seek from the product.

**User status** refers to segmenting markets into nonusers, ex-users, potential users, first-time users, and regular users of a product.

**Usage rate** involves grouping markets into light, medium, and heavy product users.

**Loyalty status** is dividing buyers into groups according to their degree of loyalty.

### ***Using Multiple Segmentation Bases***

Marketers rarely limit their segmentation analysis to only one or a few variables. Several business information services—such as Nielsen, Acxiom, Esri, and Experian—provide multivariable segmentation systems that merge geographic, demographic, lifestyle, and behavioural data.

For instance, Acxiom's Personix Lifestage system classifies U.S. households into one of 70 distinct clusters within 21 life stage groups.

### **Segmenting Business Markets**

Consumer and business marketers use many of the same variables to segment their markets.

Business marketers also use some additional variables, such as customer *operating characteristics*, *purchasing approaches*, *situational factors*, and *personal characteristics*.

## Segmenting International Markets

Companies can segment international markets using one or a combination of several variables.

- **Geographic factors:** Nations close to one another may have many common traits and behaviours.
- **Economic factors:** Countries may be grouped by population income levels or by their overall level of economic development.
- **Political and legal factors:** Type and stability of government, receptivity to foreign firms, monetary regulations, and the amount of bureaucracy should be considered.
- **Cultural factors:** Markets can be grouped according to common languages, religions, values and attitudes, customs, and behavioural patterns.

**Intermarket segmentation** is segmenting consumers who have similar needs and buying behaviours even though they are located in different countries.

## Requirements for Effective Segmentation

To be useful, market segments must be:

- *Measurable:* The size, purchasing power, and profiles of the segments can be measured.
- *Accessible:* The market segments can be effectively reached and served.
- *Substantial:* The market segments are large or profitable enough to serve.
- *Differentiable:* The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
- *Actionable:* Effective programs can be designed for attracting and serving the segments.

## MARKET TARGETING

### Evaluating Market Segments

In evaluating different market segments, a firm must look at three factors:

1. Segment size and growth,
2. Segment structural attractiveness, and
3. Company objectives and resources.

The largest, fastest-growing segments are not always the most attractive ones for every company.

The company also needs to examine major structural factors that affect long-run segment

attractiveness.

- A segment is less attractive if it already contains many strong and aggressive *competitors*.
- The existence of many actual or potential *substitute products* may limit prices and the profits.
- The relative *power of buyers* also affects segment attractiveness.
- A segment may be less attractive if it contains *powerful suppliers* who can control prices.

## Selecting Target Market Segments

A **target market** consists of a set of buyers who share common needs or characteristics that the company decides to serve. (Figure 6.2)

### *Undifferentiated Marketing*

Using an **undifferentiated marketing** (or **mass-marketing**) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer.

This mass-marketing strategy focuses on what is *common* in the needs of consumers rather than on what is *different*.

### *Differentiated Marketing*

Using a **differentiated marketing** (or **segmented marketing**) strategy, a firm decides to target several market segments and designs separate offers for each.

### *Concentrated Marketing*

When using a **concentrated marketing** (or **niche marketing**) strategy, instead of going after a small share of a large market, the firm goes after a large share of one or a few smaller segments or niches.

It can market more *effectively* by fine-tuning its products, prices, and programs to the needs of carefully defined segments.

It can market more *efficiently*, targeting its products or services, channels, and communications programs toward only consumers that it can serve best and most profitably.

### *Micromarketing*

**Micromarketing** is the practice of tailoring products and marketing programs to suit the tastes

of specific individuals and locations.

Micromarketing includes **local marketing** and **individual marketing**.

**Local marketing** involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighbourhoods, and even specific stores.

Local marketing has drawbacks.

- It can drive up manufacturing and marketing costs by reducing economies of scale.
- It can create logistics problems.

**Individual marketing** is the tailoring of products and marketing programs to the needs and preferences of individual customers.

Individual marketing has also been labelled **one-to-one marketing**, **mass customization**, and **markets-of-one marketing**.

### ***Choosing a Targeting Strategy***

Which strategy is best depends on:

- *Company resources;*
- *Product variability;*
- *Product's life-cycle stage;*
- *Market variability; and*
- *Competitors' marketing strategies.*

### **Socially Responsible Target Marketing**

Target marketing sometimes generates controversy and concern. Issues usually involve the targeting of vulnerable or disadvantaged consumers with controversial or potentially harmful products.

Problems arise when marketing adult products to kids, whether intentionally or unintentionally.

The growth of social media and other carefully targeted direct media has raised concerns about potential targeting abuses.

The issue is not so much who is targeted, but how and for what. Controversies arise when marketers attempt to profit when they unfairly target vulnerable segments or target them with questionable products or tactics.

Socially responsible marketing calls for segmentation and targeting that serve not just the interests of the company, but also the interests of those targeted.

## DIFFERENTIATION AND POSITIONING

**Value proposition:** How a company will create differentiated value for targeted segments and what positions it wants to occupy in those segments.

A **product's position** is the way the product is *defined by consumers* on important attributes.

### Positioning Maps

**Perceptual positioning maps** show consumer perceptions of their brands versus competing products on important buying dimensions.

### Choosing a Differentiation and Positioning Strategy

The differentiation and positioning task consists of three steps:

1. Identifying a set of differentiating competitive advantages upon which to build a position,
2. Choosing the right competitive advantages, and
3. Selecting an overall positioning strategy.

### Identifying and Differentiating Competitive Advantages

To the extent that a company can differentiate and position itself as providing superior customer value, it gains **competitive advantage**.

It can differentiate along the lines of *product, services, channels, people, or image*.

### Choosing the Right Competitive Advantages

#### How Many Differences to Promote

Former advertising executive Rosser Reeves believes a company should develop a *unique selling proposition* (USP) for each brand and stick to it.

Other marketers think that companies should position themselves on more than one differentiator.

#### Which Differences to Promote

A difference is worth establishing to the extent that it satisfies the following criteria:

- *Important:* The difference delivers a highly valued benefit to target buyers.

- *Distinctive*: Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- *Superior*: The difference is superior to other ways that customers might obtain the same benefit.
- *Communicable*: The difference is communicable and visible to buyers.
- *Preemptive*: Competitors cannot easily copy the difference.
- *Affordable*: Buyers can afford to pay for the difference.
- *Profitable*: The company can introduce the difference profitably.

### Selecting an Overall Positioning Strategy

The full positioning of a brand is called the brand's **value proposition**—the full mix of benefits on which a brand is differentiated and positioned. (See Figure 6.4)

**More for More** positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs.

**More for the Same** positioning involves introducing a brand offering comparable quality but at a lower price.

**The Same for Less** positioning can be a powerful value proposition—everyone likes a good deal.

**Less for Much Less** positioning is offering products that offer less and therefore cost less.

“Less-for-much-less” positioning involves meeting consumers’ lower performance or quality requirements at a much lower price.

**More for Less** positioning is the winning value proposition.

In the long run, companies will find it very difficult to sustain such best-of-both positioning.

### Developing a Positioning Statement

Company and brand positioning should be summed up in a **positioning statement**.

The statement should follow the form: *To (target segment and need) our (brand) is (concept) that (point of difference).*

### Communicating and Delivering the Chosen Position

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company’s marketing mix efforts must support

the positioning strategy.

## **Discussion and Critical Thinking**

### **Discussion Questions**

- 6.1 Describe how marketers segment business markets. How do business segmentation strategies differ from consumer segmentation strategies?

*Answer:*

Consumer and business marketers use many of the same variables to segment their markets. Business buyers can be segmented geographically, demographically (industry, company size), or by benefits sought, user status, usage rate, and loyalty status. Yet business marketers also use some additional variables, such as customer operating characteristics, purchasing approaches, situational factors, and personal characteristics.

- 6.2 How can a company gain competitive advantage through differentiation? Describe an example of a company that illustrates each type of differentiation discussed in the chapter.

*Answer:*

If a company positions its product as *offering* the best quality and service, it must actually differentiate the product so that it *delivers* the promised quality and service. It can differentiate along the lines of *product, services, channels, people, or image*. Through *product differentiation*, brands can be differentiated on features, performance, or style and design. Beyond differentiating its physical product, a firm can also differentiate the services that accompany the product. Some companies gain *services differentiation* through speedy, convenient, or careful delivery. Firms that practise *channel differentiation* gain competitive advantage through the way they design their channel's coverage, expertise, and performance. Companies can also gain a strong competitive advantage through *people differentiation*—hiring and training better people than their competitors do. Even when competing offers look the same, buyers may perceive a difference based on company or brand *image differentiation*. A company or brand image should convey a product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work.

- 6.3 What is a value proposition? Discuss the five winning value propositions on which a company might position its products and give an example of each.

*Answer:*

The five winning value propositions are more for more, more for the same, the same for less, less for much less, and more for less. *More-for-more* positioning involves providing the most upscale product or service and charging a higher price to cover the higher costs. A more-for-more market offering not only offers higher quality, it also gives prestige to the buyer. An example would be Mercedes automobiles. Using *more-for-the-same positioning*, a company can attack a competitor's value proposition by positioning its brand as offering more for the same price. Target claims to offer more in terms of service, and brand image but at lower prices. Offering *the same for less* can be a powerful value proposition. Companies using this strategy offer many of the same brands as department stores and specialty stores but at deep discounts based on superior purchasing power and lower-cost operations. Category killers such as Costco use this strategy. A market almost always exists for products that offer less and therefore cost less. *Less-for-much-less* positioning involves meeting consumers' lower performance or quality requirements at a much lower price. Motel 6 is an example of this strategy. Of course, the winning value proposition would be to offer *more for less*. Companies claim to do this and in the short-run this may be achieved; in the long-run, it is difficult to sustain.

### Critical Thinking Exercises

- 6.4 The breakfast cereal market is highly competitive and marketers for the many varieties of cereal attempt to differentiate their brands to appeal to specific segments. Choose five different breakfast cereal brands and match them with the segmentation variables that marketers might be using to target a specific market. Explain why you matched each cereal with the specific segmentation variables.

*Answer:*

Students' answers will vary. Examples could include cereals such as Kellogg's Fruit Loops or Rice Krispies as an example of age segmentation; Kellogg's Raisin Bran could be an example of benefit segmentation; Cascadian Farms organic cereal might be an example of behavioural segmentation; and Kellogg's Special K or Kashi Go Lean could be examples of life-cycle segmentation.

- 6.5 In a small group, identify a new business that has emerged in your community or online in the past few years. Using the steps described in the chapter, describe the company's customer value-driven marketing strategy. Write a positioning statement for this business.

*Answer:*

Students should identify the customers served by the business—how does the business segment the market and who are its target customers? Then, students should evaluate the company's value proposition, including its differentiation strategy—how the company creates superior customer value—and its positioning strategy—how the company creates a distinct offering in the mind of its target customer.



Once value differences and competitive advantages are identified, the positioning statement should follow the form: *To (target segment and need) our (brand—business in this case) is (concept) that (point of difference).*