MARKETING PLANNING & PROBLEM SOLVING

CHAPTER 6

MARKETING PLANNING B2C CUSTOMER “FOCUS”
Profiling the Customer Buying Decision Process

How can marketers learn about the stages in the buying process for their product? They can think about how they themselves would act (introspective method). They can interview a small number of recent purchasers, asking them to recall the events leading to their purchase (retrospective method). They can locate consumers who plan to buy the product and ask them to think out loud about going through the buying process (prospective method); or they can ask consumers to describe the ideal way to buy the product (prescriptive method). Each method yields a picture of the steps in the process.

Trying to understand the customer's behavior in connection with a product has been called mapping the customer's consumption system, customer activity cycle, or customer scenario. This can be done for such activity clusters as doing laundry, preparing for a wedding, or buying a car. Buying a car, for example, involves a whole cluster of activities, including choosing the car, financing the purchase, buying insurance, buying accessories, and so on.
FIGURE 5.1
Model of Buyer Behavior
FIGURE 6.2
Factors Influencing Consumer Behavior
FIG. 6.1 | Model of Consumer Behavior
Physiological Needs
(food, water, shelter)

Safety Needs
(security, protection)

Social Needs
(sense of belonging, love)

Esteem Needs
(self-esteem, recognition, status)

Self-actualization Needs
(self-development and realization)

5
Self-actualization
Needs
(self-development
and realization)

Fig 6.2
A Buick ad campaign features a popular celebrity endorser, the golfer Tiger Woods. Buick wants to appeal to younger drivers with a campaign designed to create a new benefit association for this well-known brand.
FIG. 6.3

Hypothetical Dole Mental Map
Five-Stage Model of the Consumer Buying Process
Successive Sets Involved in Consumer Decision Making
A "Got Milk" ad from the very successful campaign features Hong Kong star Zhang Ziyi from the film "Crouching Tiger, Hidden Dragon."
EXPECTANCY-VALUE MODEL  The consumer arrives at attitudes (judgments, preferences) toward various brands through an attribute evaluation procedure. He or she develops a set of beliefs about where each brand stands on each attribute. The expectancy-value model of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance.

Suppose Linda Brown has narrowed her choice set to four laptop computers (A, B, C, D). Assume that she is interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table 6.3 shows her beliefs about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that Linda would choose it. But, as is often the case, her choice set consists of brands that vary in their appeal. If Linda wants the best memory capacity, she should buy A; if she wants the best graphics capability, she should buy C; and so on.

<table>
<thead>
<tr>
<th>Computer</th>
<th>Memory Capacity</th>
<th>Graphics Capability</th>
<th>Size and Weight</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>10</td>
<td>8</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>B</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>C</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>D</td>
<td>4</td>
<td>3</td>
<td>7</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with a 10 representing the lowest price, because a consumer prefers a low price to a high price.

Most buyers consider several attributes in their purchase decision. If we knew the weights that Linda Brown attaches to the four attributes, we could more reliably predict her computer choice. Suppose Linda assigned 40 percent of the importance to the computer's memory capacity, 30 percent to graphics capability, 20 percent to size and weight, and 10 percent to price. To find Linda's perceived value for each computer, according to the expectancy-value model, we multiply her weights by her beliefs about each computer's attributes. This computation leads to the following perceived values:

- Computer A = 0.4(8) + 0.3(9) + 0.2(6) + 0.1(9) = 8.0
- Computer B = 0.4(7) + 0.3(7) + 0.2(7) + 0.1(7) = 7.0
- Computer C = 0.4(10) + 0.3(4) + 0.2(3) + 0.1(2) = 6.0
- Computer D = 0.4(5) + 0.3(3) + 0.2(6) + 0.1(5) = 5.0

An expectancy-model formulation would predict that Linda will favor computer A, which (at 8.0) has the highest perceived value.

Suppose most computer buyers form their preferences the same way. Knowing this, a computer manufacturer can do a number of things to influence buyer decisions. The marketer of computer B, for example, could apply the following strategies to stimulate greater interest in brand B:

- **Redesign the computer.** This technique is called real repositioning.
- **Alter beliefs about the brand.** Attempting to alter beliefs about the brand is called psychological repositioning.
- **Alter beliefs about competitors' brands.** This strategy, called competitive depositioning, makes sense when buyers mistakenly believe a competitor's brand has more quality than it actually has.
A useful technique to gain consumer insight is customer value analysis. Customer value analysis assumes that customers choose between competitive brand offerings on the basis of which delivers the most customer value. Customer value is given by:

Customer Value = Customer Benefits - Customer Costs

Customer benefits include product benefits, service benefits, personnel benefits, and image benefits. Assume customers can judge the relative benefit level or worth of different brands. Suppose a customer is considering three brands, A, B, and C, and judges the customer benefits to be worth $150, $140, and $135, respectively, if the customer costs are the same, the customer would clearly choose brand A.

However, the costs are rarely the same. In addition to purchase price, costs include acquisition costs, usage costs, maintenance costs, ownership costs, and disposal costs. Often a customer will buy a more expensive brand because that particular brand will impose lower costs of other kinds. Consider Table 6.4. A, the highest-priced brand, also involves a lower total cost than lower-priced brands B and C. Clearly, supplier A has done a good job of reducing customers' other costs. Now we can compare the customer value of the three brands:

Customer value of A = $150 - $130 = $20
Customer value of B = $140 - $135 = $5
Customer value of C = $135 - $140 = -$5

The customer will prefer brand A both because the benefit level is higher and because the customer costs are lower, but this need not be the case. Suppose A decided to charge $120 instead of $100 to take advantage of its higher perceived benefit level. Then A's customer cost would have been $150 instead of $130 and just offset its higher perceived benefit. Brand A, because of its greed, would lose the sale to brand B.

Very often, managers conduct a customer value analysis to reveal the company's strengths and weaknesses relative to various competitors. The major steps in such an analysis are:

1. Identify the major attributes customers value. Customers are asked what attributes and performance levels they look for in choosing a product and vendors.
2. Assess the quantitative importance of the different attributes. Customers are asked to rate the importance of the different attributes. If the customers diverge too much in their ratings, they should be clustered into different segments.
3. Assess the company's and competitors' performances on the different customer values against their rated importance. Customers describe where they see the company's and competitors' performances on each attribute.
4. Examine how customers in a specific segment rate the company's performance against a specific major competitor on an attribute-by-attribute basis. If the company's offer exceeds the competitor's offer on all important attributes, the company can charge a higher price (thereby earning higher profits), or it can charge the same price and gain more market share.
5. Monitor customer values over time. The company must periodically redo its studies of customer values and competitors' standings as the economy, technology, and features change.

TABLE 6.4: Customer Costs of Three Brands

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$100</td>
<td>$ 90</td>
<td>$ 80</td>
</tr>
<tr>
<td>Acquisition costs</td>
<td>15</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Usage costs</td>
<td>4</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Maintenance costs</td>
<td>2</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Ownership costs</td>
<td>3</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Disposal costs</td>
<td>6</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$130</td>
<td>$135</td>
<td>$140</td>
</tr>
</tbody>
</table>
NONCOMPENSATORY MODELS OF CONSUMER CHOICE The expectancy-value model is a compensatory model in that perceived good things for a product can help to overcome perceived bad things. But consumers may not want to invest so much time and energy to evaluate brands. They often take “mental shortcuts” that involve various simplifying choice heuristics.

With noncompensatory models of consumer choice, positive and negative attribute considerations do not necessarily net out. Evaluating attributes more in isolation makes decision making easier for a consumer, but also increases the likelihood that the person would have made a different choice if he or she had deliberated in greater detail. We highlight three such choice heuristics here.

1. With the conjunctive heuristic, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets the minimum standard for all attributes. For example, if Linda Brown decided that all attributes had to be rated at least a 7, she would choose computer B.

2. With the lexicographic heuristic, the consumer chooses the best brand on the basis of its perceived most important attribute. With this decision rule, Linda Brown would choose computer C.

3. With the elimination-by-aspects heuristic, the consumer compares brands on an attribute selected probabilistically—where the probability of choosing an attribute is positively related to its importance—and brands are eliminated if they do not meet minimum acceptable cutoff levels.

Characteristics of the person (e.g., brand or product knowledge), the purchase decision task and setting (e.g., number and similarity of brand choices and time pressure involved), and social context (e.g., need for justification to a peer or boss) all may affect if and how choice heuristics are used.

Consumers do not necessarily adopt only one type of choice rule in making purchase decisions. In some cases, they adopt a phased decision strategy that combines two or more decision rules. For example, they might use a noncompensatory decision rule such as the conjunctive heuristic to reduce the number of brand choices to a more manageable number and then evaluate the remaining brands. Understanding if and how consumers screen brands can be critical. One reason for the runaway success of the Intel Inside campaign in the 1990s was that it made the brand the first cutoff for many consumers—they would only buy a PC which had an Intel microprocessor. PC makers such as IBM, Dell, and Gateway had no choice but to support Intel’s marketing efforts.
The second factor is *unanticipated situational factors* that may erupt to change the purchase intention. Linda Brown might lose her job, some other purchase might become more urgent, or a store salesperson may turn her off. Preferences and even purchase intentions are not completely reliable predictors of purchase behavior.

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by *perceived risk*. There are many different types of risks that consumers may perceive in buying and consuming a product:

1. Functional risk – the product does not perform up to expectations.
2. Physical risk – the product poses a threat to the physical well-being or health of the user or others.
3. Financial risk – the product is not worth the price paid.
4. Social risk – the product results in embarrassment from others.
5. Psychological risk – the product affects the mental well-being of the user.
6. Time risk – the failure of the product results in an opportunity cost of finding another satisfactory product.

The amount of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the amount of consumer self-confidence. Consumers develop routines for reducing risk, such as decision avoidance, information gathering from friends, and preference for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce perceived risk.
INTERVENING FACTORS Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (Figure 6.6). The first factor is the attitudes of others. The extent to which another person's attitude reduces the preference for an alternative depends on two things: (1) the intensity of the other person's negative attitude toward the consumer's preferred alternative and (2) the consumer's motivation to comply with the other person's wishes. The more intense the other person's negativism and the closer the other person is to the consumer, the more the consumer will adjust his or her purchase intention. The converse is also true: A buyer's preference for a brand will increase if someone he or she respects favors the same brand strongly.
Steps Between Evaluation of Alternatives and a Purchase Decision
FIG. 6.7

How Customers Use or Dispose of Products

Level of Consumer Involvement

The expectancy-value model assumes a high level of involvement on the part of the consumer. Consumer involvement can be defined in terms of the level of engagement and active processing undertaken by the consumer in responding to a marketing stimulus (e.g., from viewing an ad or evaluating a product or service).

ELABORATION LIKELIHOOD MODEL  Richard Petty and John Cacioppo's elaboration likelihood model, an influential model of attitude formation and change, describes how consumers make evaluations in both low- and high-involvement circumstances. There are two means of persuasion with their model: The central route, where attitude formation or change involves much thought and is based on a diligent, rational consideration of the most important product or service information; and the peripheral route, where attitude formation or change involves comparatively much less thought and is a consequence of the association of a brand with either positive or negative peripheral cues. Examples of peripheral cues for consumers might be a celebrity endorsement, a credible source, or any object that engendered positive feelings.

Consumers follow the central route only if they possess sufficient motivation, ability, and opportunity. In other words, consumers must want to evaluate a brand in detail, must have the necessary brand and product or service knowledge in memory, and must be given sufficient time and the proper setting to actually do so. If any one of those three factors is lacking, consumers will tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions.

LOW-INvolvEMENT MARKETING STRATEGIES Many products are bought under conditions of low involvement and the absence of significant brand differences. Consider salt. Consumers have little involvement in this product category. They go to the store and reach for the brand. If they keep reaching for the same brand, it is out of habit, not strong brand loyalty. There is good evidence that consumers have low involvement with most low-cost, frequently purchased products.

Marketers use four techniques to try to convert a low-involvement product into one of higher involvement. First, they can link the product to some involving issue, as when Crest toothpaste is linked to avoiding cavities. Second, they can link the product to some involving personal situation—for example, fruit juice makers began to include vitamins such as calcium to fortify their drinks. Third, they might design advertising to trigger strong emotions related to personal values or ego defense, as when cereal makers began to advertise the heart-healthy nature of cereals to adults and the importance of living a long time to enjoy family life. Fourth, they might add an important feature—for example, when GE light bulbs introduced "Soft White" versions. These strategies at best raise consumer involvement from a low to a moderate level; they do not necessarily propel the consumer into highly involved buying behavior.

If, regardless of what the marketer can do, consumers will have low involvement with a purchase decision, they are likely to follow the peripheral route. Marketers must pay special attention to giving consumers one or more positive cues that they can use to justify their brand choice. Brand familiarity can be important if consumers decide to just buy the brand about which they have heard or seen the most. Frequent ad repetition, visible sponsorships, and vigorous PR are all ways to enhance brand familiarity. Other peripheral cues can also be used. A beloved celebrity endorser, attractive packaging, or an appealing promotion all might tip the balance in favor of the brand.

VARIETY-SEEKING BUYING BEHAVIOR Some buying situations are characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching. Think about cookies. The consumer has some beliefs about cookies, chooses a brand of cookies without much evaluation, and evaluates the product during consumption. Next time, the consumer may reach for another brand out of a wish for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction.

The market leader and the minor brands in this product category have different marketing strategies. The market leader will try to encourage habitual buying behavior by dominating the shelf space with a variety of related but different product versions, avoiding out-of-stock conditions, and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that tries to break the consumer's purchase and consumption cycle and presents reasons for trying something new.
Decision Heuristics and Biases

As the low-involvement and noncompensatory model discussions suggest, consumers do not always process information or make decisions in a deliberate, rational manner. Behavioral decision theory is a thriving area in consumer research. Behavioral decision theorists have identified many different heuristics and biases in everyday consumer decision making. **Heuristics** are rules of thumb or mental shortcuts in the decision process.

Heuristics can come into play when consumers forecast the likelihood of future outcomes or events.76

1. **The availability heuristic**: Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind. If an example comes to mind too easily, consumers might overestimate the likelihood of the outcome or event happening. For example, a recent product failure may lead a consumer to inflate the likelihood of a future product failure and make him or her more inclined to purchase a product warranty.

2. **The representativeness heuristic**: Consumers base their predictions on how representative or similar the outcome is to other examples. One reason that package appearances may be so similar for different brands in the same product category is that they want to be seen as representative of the category as a whole.

3. **The anchoring and adjustment heuristic**: Consumers arrive at an initial judgment and then make adjustments of that first impression based on additional information. For services marketers, it is critical to make a strong first impression to establish a favorable anchor so that subsequent experiences are interpreted in a more favorable light.
Mental Accounting

Researchers have found that consumers use mental accounting when they handle their money. Mental accounting refers to the manner by which consumers code, categorize, and evaluate financial outcomes of choices. Formally, it has been defined in terms of, "The tendency to categorize funds or items of value even though there is no logical basis for the categorization, e.g., individuals often segregate their savings into separate accounts to meet different goals even though funds from any of the accounts can be applied to any of the goals." For example, assume you spend $50 to buy a ticket to see a concert. As you arrive at the show, you realize you've lost your ticket. You may be unsure about purchasing another ticket for $50. Assume, on the other hand, that you realized you had lost $50 on the way to buy the ticket. You might be much more likely to go ahead and buy the ticket anyway. Although the amount lost in each case was the same—$50—the reactions were very different. In the first case, you may have mentally allocated $50 for going to a concert. Buying another ticket would therefore exceed your mental concert budget. In the second case, the money that was lost did not belong to any account, so the mental concert budget had not yet been exceeded.

According to Chicago's Richard Thaler, mental accounting is based on a set of key core principles:

1. Consumers tend to segregate gains. When a seller has a product with more than one positive dimension, it is desirable to have each dimension evaluated separately. Listing multiple benefits of a large industrial product, for example, can make the sum of the parts seem greater than the whole.

2. Consumers tend to integrate losses. Marketers have a distinct advantage in selling something if its cost can be added to another large purchase. House buyers are more inclined to view additional expenditures favorably given the high price of buying a house.

3. Consumers tend to integrate smaller losses with larger gains. The "cancellation" principle might explain why withholding taxes taken from monthly paychecks are less aversive than large, lump-sum tax payments—they are more likely to be absorbed by the larger pay amount.

4. Consumers tend to segregate small gains from large losses. The "silver lining" principle might explain the popularity of rebates on big-ticket purchases such as cars.

The principles of mental accounting are derived in part from prospect theory. Prospect theory maintains that consumers frame decision alternatives in terms of gains and losses according to a value function. Consumers are generally loss averse. They tend to overweight very low probabilities and underweight very high probabilities.