

## Chapter 1: Defining Marketing for the New Realities

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Finance, operations, accounting, and other business functions won't really matter without sufficient demand for products and services so the firm can make a profit.

Marketing:

- meeting needs profitably
- an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders

Marketing management: the art and science of choosing target markets and getting, keeping, and growing customers through creating, communicating, and delivering superior customer value.

What is marketed?

1. Goods
2. Services
3. Events
4. Experiences
5. Persons
6. Places
7. Properties
8. Organizations
9. Information
10. Ideas

Who is a marketer? Someone who seeks a response from another party called a prospect

Different demand states:

1. Negative demand
2. Nonexistent demand
3. Latent demand
4. Declining demand
5. Irregular demand

6. Full demand
7. Overfull demand
8. Unwholesome demand

What is a market? a place where buyers and sellers gather to buy and sell products and services

Key customer markets:

1. Consumer markets
2. Business markets
3. Global markets
4. Nonprofit and governmental markets

Difference between needs, wants and demands

- Need: a basic human requirement
- Want: needs that are mostly shaped by the society we live in
- Demand: wants for specific products backed by an ability to pay

Marketers do not create needs, needs pre-exist marketers

Types of needs:

1. Stated needs
2. Real needs
3. Unstated needs
4. Delight needs
5. Secret needs

Brand: an offering from a known source

Marketing channels:

1. Communication channels
2. Distribution channels
3. Service channels

Types of media:

1. Paid
2. Owned
3. Earned

Value: the sum of the tangible and intangible benefits and costs.

Value is usually a combination of:

1. Quality
2. Service
3. Price

Also called the customer value triad

Competition: all the actual and potential rival offerings and substitutes a buyer might consider.

The marketing environment is separated into:

1. The task environment: includes the actors engaged in producing, distributing, and promoting the offering.
2. The broad environment: consists of the following components
  - a. Demographic
  - b. Environment
  - c. Economic
  - d. Social-cultural
  - e. Natural
  - f. Technological
  - g. Political-legal

Transformative forces:

1. Technology
2. Globalization
3. Social responsibility

New consumer capabilities:

1. Can use the Internet as a powerful information and purchasing aid
2. Can search, communicate, and purchase on the move
3. Can tap into social media to share opinions and express loyalty

4. Can actively interact with companies
5. Can reject marketing they find inappropriate

New company capabilities:

1. Can use the Internet as a powerful information and sales channel, including for individually differentiated goods
2. Can collect fuller and richer information about markets, customers, prospects, and competitors
3. Can reach customers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information
4. Can improve purchasing, recruiting, training, and internal and external communications
5. Can improve cost efficiency

Coca-Cola marketing:

Impressions → expressions → conversations → transactions

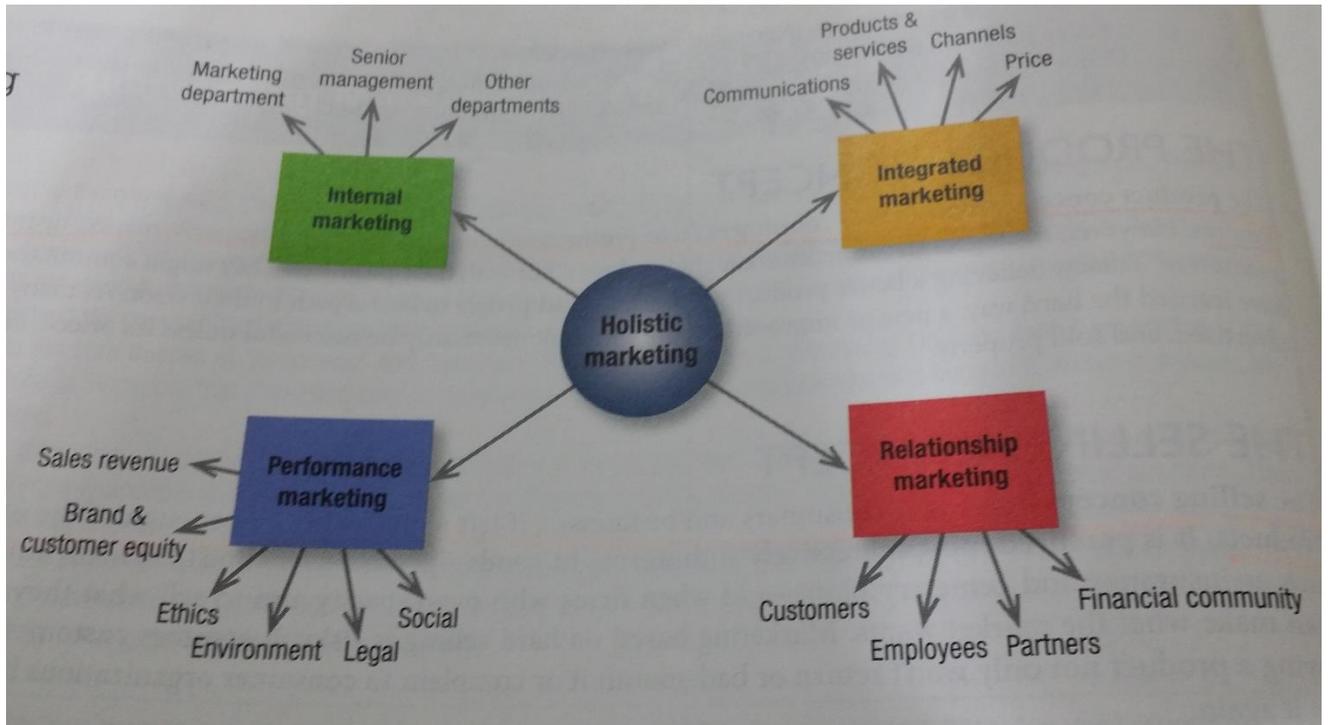
Marketing metrics:

1. Brand equity
2. Customer life time value
3. Return on marketing investment

Evolution of marketing philosophies:

1. The production concept
2. The product concept
3. The selling concept
4. The marketing concept
5. The holistic marketing concepts

## Holistic Marketing:



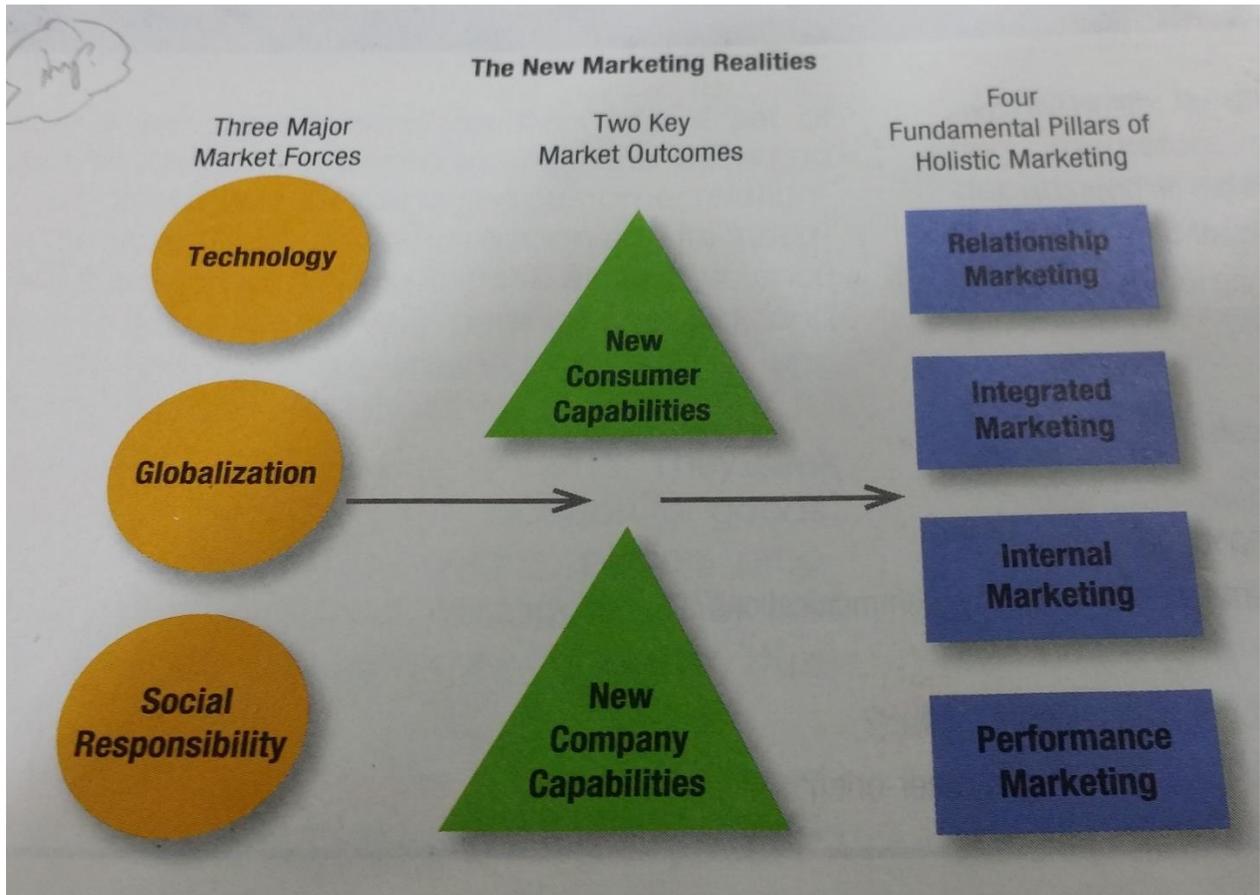
## Traditional marketing mix:

1. Product
2. Price
3. Promotion
4. Place

## Modern marketing mix:

1. People
2. Processes
3. Programs
4. Performance

New marketing realities:



## Chapter 2: Developing Marketing Strategies and Plans

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The task of any business is to deliver customer value at a profit

The value delivery process:

1. Choosing the value
2. Providing the value
3. Communicating the value

Porter's value chain, a tool for identifying ways to create more customer value



Core business processes:

1. The market sensing process
2. The new offering realization process
3. The customer acquisition process
4. The customer relationship management process
5. The fulfillment management process

Characteristic of a core competency:

1. It is a source of competitive advantage and makes a significant contribution to perceived customer benefits

2. It has applications in a wide variety of markets
3. It is difficult for competitors to imitate

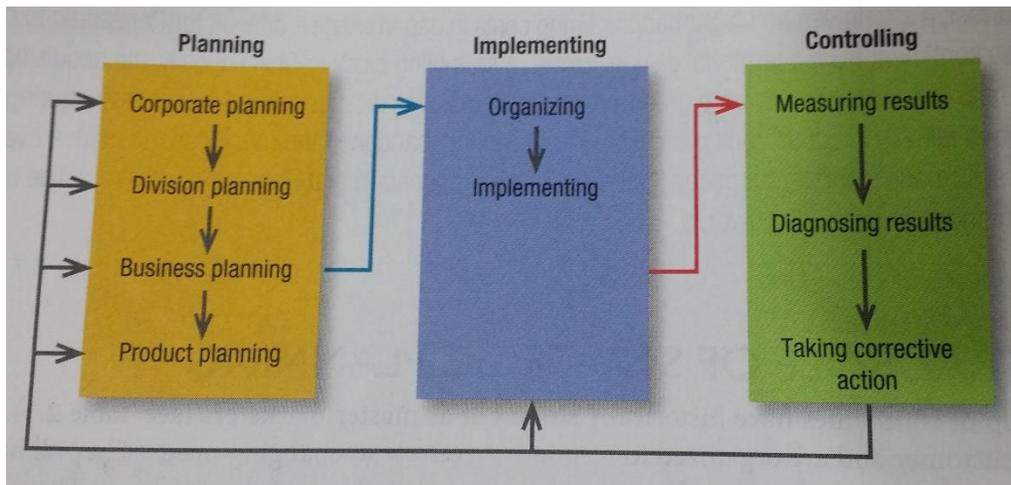
Priorities / key areas of strategic planning:

1. Managing the businesses as an investment portfolio
2. Assessing the market growth rate and the company's position in that market
3. Establishing a strategy

Marketing plan: a central instrument for directing and coordinating the marketing effort.

1. Strategic marketing plan: lays out the target markets and the firm's value proposition, based on an analysis of the best market opportunities
2. Tactical marketing plan: specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels and service

The strategic planning, implementation, and control processes



Corporate and division strategic planning

1. Defining the corporate mission
2. Establishing strategic business units
3. Assigning resources to each strategic business unit
4. Assessing growth opportunities

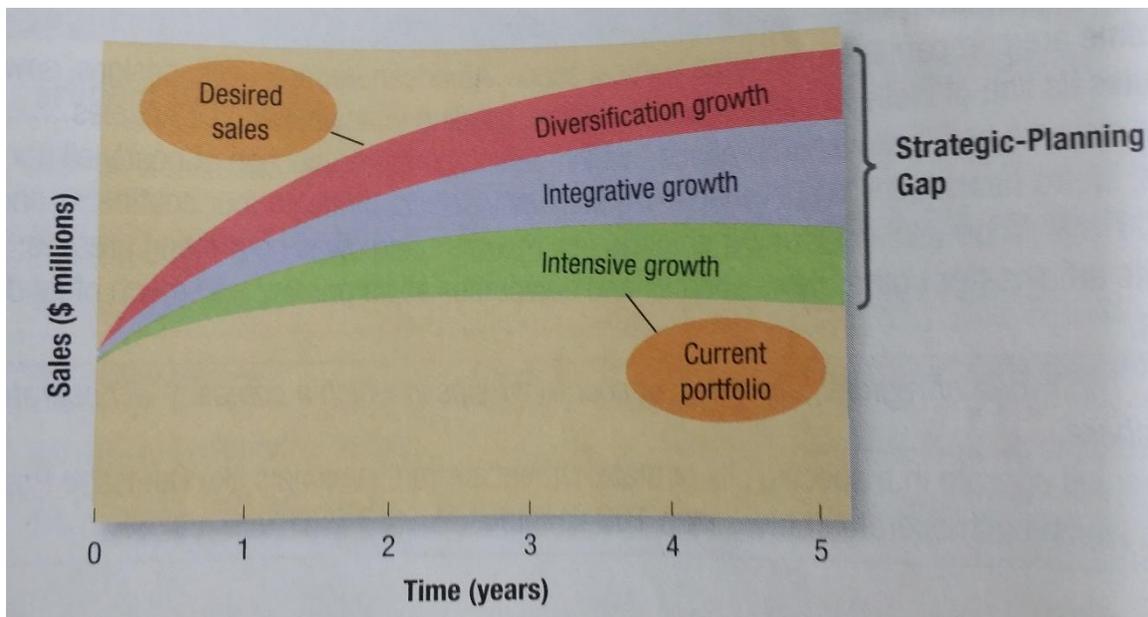
Characteristics of a good mission statement:

1. They focus on a limited number of goals
2. They stress the company's major policies and values
3. They define the major competitive spheres within which the company will operate
4. They take a long-term view
5. They are as short, memorable, and meaningful as possible

Characteristics of a strategic business unit:

1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company
2. It has its own set of competitors
3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit

The strategic planning gap



1. Intensive growth: identify opportunities for growth within current businesses
  - a. Market penetration strategy
  - b. Market development strategy
  - c. Product development strategy
2. Integrative growth: identify opportunities to build or acquire businesses related to current businesses
  - a. Backward integration
  - b. Forward integration
  - c. Horizontal integration

3. Diversification growth: identify opportunities to add attractive unrelated businesses
  - a. Can also downsize / divest older businesses

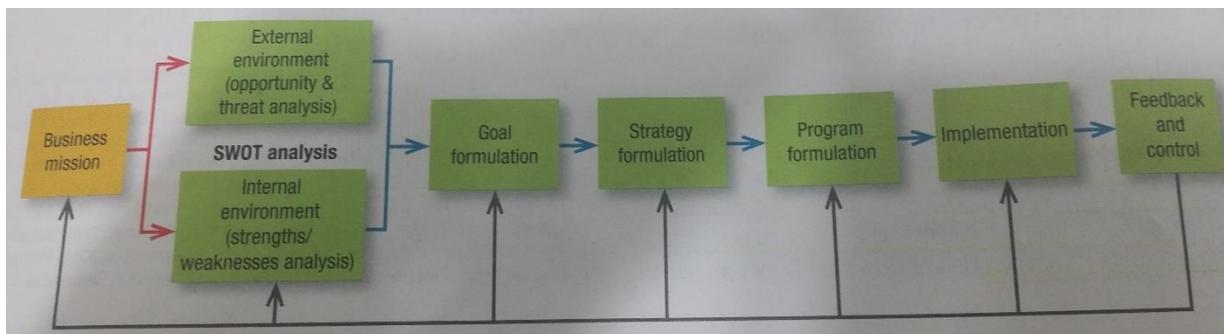
Company organization: the structures, policies, and corporate culture.

Corporate culture: the shared experiences, stories, beliefs, and norms that characterize an organization.

Senior management should identify and encourage fresh ideas from three generally underrepresented groups:

1. Employees with youthful or diverse perspectives
2. Employees far removed from company headquarters
3. Employees new to the industry

Business unit strategic planning



To evaluate opportunities, companies can use market opportunity analysis (MOA) to ask questions like:

1. Can we articulate the benefits convincingly to a defined target market(s)?
2. Can we locate target market(s) and reach them with cost-effective media and trade channels?
3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
4. Can we deliver the benefits better than any actual or potential competitors?
5. Will the financial rate of return meet or exceed our required threshold for investment?

For a management by objectives to work (MBO), the SBU objectives must meet the following criteria:

1. They must be arranged hierarchically, from most to least important
2. Objectives should be quantitative whenever possible
3. Goals should be realistic
4. Objectives must be consistent

Goals indicate what a SBU wants to achieve; strategy is a game plan for getting there.

Porter's generic strategies:

1. Overall cost leadership
2. Differentiation
3. Focus

Strategic group: competing firms directing the same strategy to the same target market.

Types of strategic alliances:

1. Product or service alliances
2. Promotional alliances
3. Logistics alliances
4. Pricing collaborations

It is more important to be effective (do the right things) than to be efficient (doing things right). Ideally, it is better to be both.

Marketing plan: a written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.

Marketing plan criteria:

1. Is the plan simple and succinct?
2. Is the plan complete?
3. Is the plan specific?
4. Is the plan realistic?

Marketing plan sections:

1. Executive summary and table of contents
2. Situation analysis
3. Marketing strategy
4. Marketing tactics
5. Financial projections
6. Implementation controls

## Chapter 3: Collecting Information and Forecasting Demand

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Marketing information system (MIS): a system used by marketing managers to carry out their analysis, planning, implementation, and control responsibilities. It is used to assess information needs, develop the needed information, and distribute it in a timely manner.

Components:

1. Internal records system
2. Marketing intelligence system
3. Marketing research system

Internal records system:

1. Order to payment cycle
2. Sales information system
3. Databases, data warehousing, and data mining

Marketing intelligence system: a set of procedures to obtain everyday information about the marketing environment.

Steps to improve:

1. Train and motivate the sales force to spot and report new developments
2. Motivate distributors, retailers, and other intermediaries to pass along important intelligence
3. Hire external experts to collect intelligence
4. Network internally and externally
5. Set up a customer advisory panel
6. Take advantage of government related data sources
7. Purchase information from outside research firms and vendors

Marketing research system: allows for the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation.

Fad vs. trend vs. megatrend

1. Fad: unpredictable, short-lived, and without social, economic, and political significance
2. Trend: a direction or a sequence of events with momentum and durability
3. Megatrend: a large social, economic, political, and technological change that is slow to form, and once in place, influences us for some time (7+ years)

Six major environmental forces to monitor:

1. Demographic
  - a. Worldwide population growth
  - b. Population age mix
  - c. Ethnic and other markets
  - d. Educational groups
  - e. Household patterns
2. Economic
  - a. Consumer psychology
  - b. Income distribution
  - c. Income, savings, debt, and credit
3. Social-cultural
  - a. Different views of
    - i. Ourselves
    - ii. Others
    - iii. Organizations
    - iv. Society
    - v. Nature
    - vi. Universe
  - b. Core cultural values
    - i. Core beliefs
    - ii. Secondary beliefs
  - c. Subcultures
4. Natural
5. Technological
  - a. Accelerating pace of change
  - b. Unlimited opportunities for innovation
  - c. Varying R&D budgets
  - d. Increased regulation of technological change
6. Political-legal
  - a. Increased business legislation
  - b. Growth of special-interest groups

Measures of market demand

1. Potential market: the set of consumers with a sufficient level of interest in a market offer
2. Available market: the set of consumers who have interest, income, and access to a particular offer
3. Target market: the part of the qualified available market the company decides to pursue
4. Penetrated market: the set of consumers who are buying the company's products

Market demand: the total volume that would be bought in a given marketing environment.

Market potential: the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment.

Total market potential: the maximum sales available to all firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions.

A common way to estimate total market potential:

potential number of buyers x average quantity each purchases x price

to estimate current demand, companies attempt to:

1. Determine total market potential
2. Area market potential
3. Industry sales
4. Market share

To estimate future demand, companies:

1. Survey buyers' intentions
2. Solicit their salesforce input
3. Gather expert opinions
4. Analyze past sales
5. Engage in market testing

## Chapter 4: Conducting Marketing Research

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Marketing research: the function that links the consumer, customer, and public to the marketer through information.

Ways to conduct marketing research:

1. By the company itself
2. By hiring another company
3. Engaging students or professors to design and carry out projects
4. Using the Internet
5. Checking out rivals
6. Tapping into marketing partner expertise
7. Tapping into employee creativity and wisdom

Types of marketing research firms:

1. Syndicated service research firms
2. Custom marketing research firms
3. Specialty line marketing research firms

The marketing research process:

1. Define the problem and research objectives
  - a. Problem shouldn't be too broad or narrow
2. Develop the research plan
  - a. Data sources
    - i. Primary data
    - ii. Secondary data
  - b. Research approaches
    - i. Observation
    - ii. Focus groups
    - iii. Surveys
    - iv. Behavioral data
    - v. Experiments → most scientifically valid
  - c. Research instruments
    - i. Questionnaire
    - ii. Qualitative measures
      1. Word associations
      2. Projective techniques

3. Visualization
  4. Brand personification
  5. Laddering
  - iii. Technological devices
    1. Measure brain activity for example
  - d. Sampling plan
    - i. Sampling unit
    - ii. Sampling size
    - iii. Sampling procedure
  - e. Contact methods
    - i. Mail
    - ii. Telephone
    - iii. Personal
    - iv. Online
      1. Advantages
        - a. Inexpensive
        - b. Expansive
        - c. Fast
        - d. Versatile
        - e. Honest and thoughtful responses
      2. Disadvantages
        - a. Small and skewed sample
        - b. Turnover from online communities
        - c. Technological problems and inconsistencies
3. Collect the information
    - a. Can be expensive
    - b. Can be error prone
    - c. Can be inconsistent
  4. Analyze the information
    - a. Using summary statistics
  5. Present the findings
  6. Make the decision

Characteristics of good marketing research:

1. Scientific method
2. Research creativity
3. Multiple methods
4. Interdependence of models and data
5. Value and cost of information
6. Healthy skepticism
7. Ethical marketing

Measuring marketing productivity:

1. Marketing metrics
  - a. Internal
    - i. Awareness of goals
    - ii. Commitment to goals
    - iii. Autonomy
  - b. External
    - i. Awareness
    - ii. Market share
    - iii. Retention
2. Marketing mix modeling
  - a. Multivariate regression analysis

Both feed into a marketing dashboard:

1. Customer performance scorecard
2. Stakeholder performance scorecard

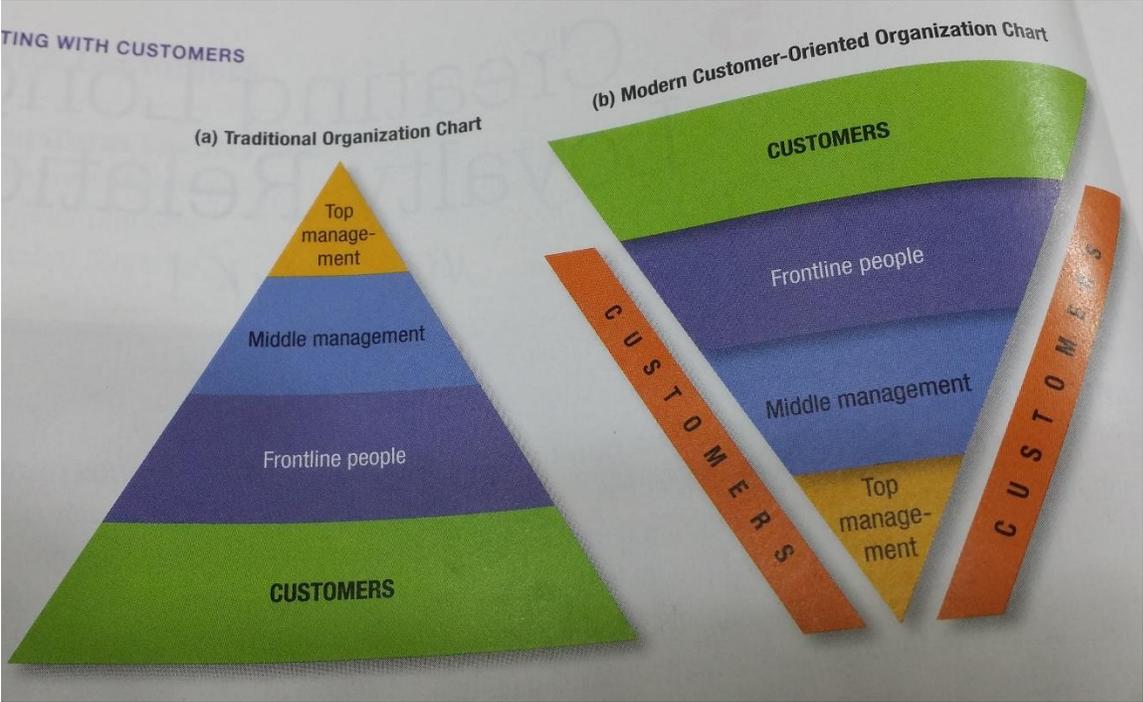
Marketing metrics: the set of measures that helps marketers quantify, compare, and interpret their performance.

Marketing mix modeling: analyze data from a variety of sources to understand more precisely the effects of specific marketing activities.

**Chapter 5: Creating Long Term Loyalty Relationships**

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Traditional organization vs. modern customer oriented customer organization

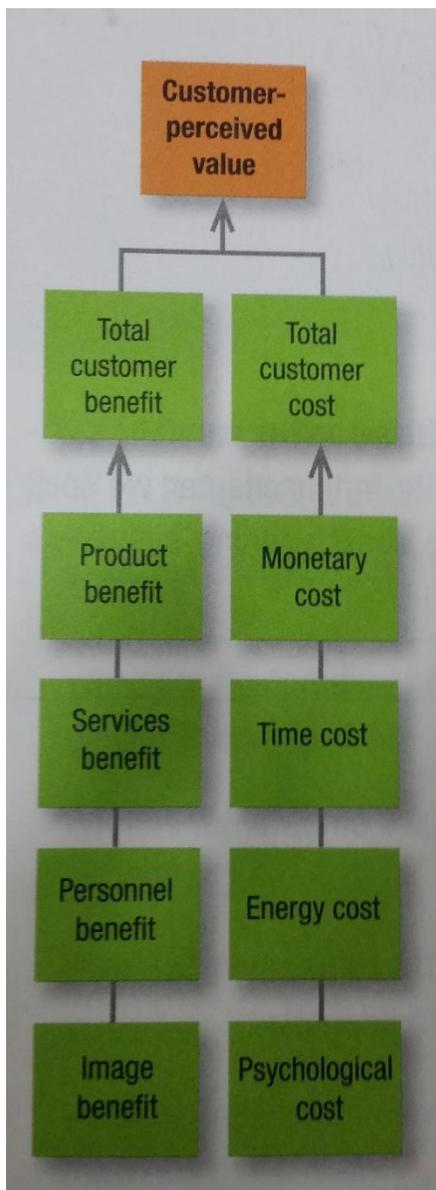


How do customers ultimately make choices? They tend to be value maximizers, within the bounds of search costs and limited knowledge, mobility, and income.

Customer perceived value: the difference between the prospective customer's evaluation of all the benefits and costs of an offering and the perceived alternatives.

Total customer benefit: the perceived monetary value of the bundle of economic, functional, and psychological benefits customers expect from a given market offering because of the product, service, people, and image.

Total customer cost: the perceived bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given market offering, including monetary, time, energy, and psychological cost.



Adam Smith, the wealth of nations, “the real price of anything is the toil and trouble of acquiring it”.

Steps for customer value analysis:

1. Identify the major attributes and benefits that customers value
2. Assess the quantitative importance of the different attributes and benefits
3. Assess the company’s and competitors’ performances on the different customer values against their rated importance
4. Examine how customers in a specific segment rate the company’s performance against a specific major competitor on an individual attribute or benefit bases
5. Monitor customer values over time

Loyalty: a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior.

Value proposition: consists of the whole cluster of benefits the company promises to deliver; it is more than the core positioning of the offering.

Satisfaction: a person’s feelings of pleasure or disappointment that result from comparing a product or service’s perceived performance (or outcome) to expectations.

→ the negative effect on customer satisfaction of failing to meet expectations is disproportionately stronger than the positive effect of exceeding expectation

How do buyers form their expectations? Expectations result from past buying experience, friends’ and associates’ advice, public information and discourse, and marketers’ and competitors’ information and promises.

Satisfaction is key to customer retention

→ The link between customer satisfaction and customer loyalty is not proportional

Customer satisfaction measurement techniques:

1. Periodic surveys
2. Competition monitoring

Quality: the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

1. Conformance quality
2. Performance quality

80-20 rule: 80 percent or more of the company's profits come from the top 20 percent of its customers.

Profitable customer: a person, household, or company that over time yields a revenue stream exceeding by an acceptable amount the company's cost stream for attracting, selling, and serving that customer (lifetime profit, not from a particular transaction).

### Customer product profitability analysis

		Customers			
		C <sub>1</sub>	C <sub>2</sub>	C <sub>3</sub>	
Products	P <sub>1</sub>	+	+	+	Highly profitable product
	P <sub>2</sub>	+			Profitable product
	P <sub>3</sub>		-	-	Unprofitable product
	P <sub>4</sub>			-	Highly unprofitable product
		High-profit customer	Mixed-bag customer	Losing customer	

Customer profitability analysis is best conducted with the tools of an accounting technique called activity based accounting.

Customer lifetime value (CLV): describes the net present value of the stream of future profits expected over the customer's lifetime purchases.

→ different acquisition methods yield customers with varying CLV's.

## Calculating customer lifetime value

marketing  
memo

### Calculating Customer Lifetime Value

Researchers and practitioners have used many different approaches for modeling and estimating CLV. Columbia's Don Lehmann and Harvard's Sunil Gupta recommend the following formula to estimate the CLV for a not-yet-acquired customer:

$$CLV = \sum_{t=0}^T \frac{(p_t - c_t)r_t}{(1+i)^t} - AC$$

where  $p_t$  = price paid by a consumer at time  $t$ ,

$c_t$  = direct cost of servicing the customer at time  $t$ ,

$i$  = discount rate or cost of capital for the firm,

$r_t$  = probability of customer repeat buying or being "alive" at time  $t$ ,

$AC$  = acquisition cost, and

$T$  = time horizon for estimating  $CLV$ .

A key decision is what time horizon to use for estimating CLV. Typically, three to five years is reasonable. With this information and estimates of other variables, we can calculate CLV using spreadsheet analysis.

Gupta and Lehmann illustrate their approach by calculating the CLV of 100 customers over a 10-year period (see Table 5.3). In this example, the firm acquires 100 customers with an acquisition cost per customer of \$40. Therefore, in year 0, it spends \$4,000. Some of these customers defect each year. The present value of the profits from this cohort of customers over 10 years is \$13,286.52. The net CLV (after deducting acquisition costs) is \$9,286.52, or \$92.87 per customer.

Using an infinite time horizon avoids having to select an arbitrary time horizon for calculating CLV. In the case of an infinite time horizon, if margins (price minus cost) and retention rates stay constant over time, the future CLV of an existing customer simplifies to the following:

$$CLV = \sum_{t=1}^{\infty} \frac{mr^t}{(1+i)^t} = m \frac{r}{(1+i-r)}$$

In other words, CLV simply becomes margin ( $m$ ) times a *margin multiple* [ $r/(1+i-r)$ ].

Table 5.4 shows the margin multiple for various combinations of  $r$  and  $i$  and a simple way to estimate CLV of a customer. When retention rate is 80 percent and discount rate is 12 percent, the margin multiple is about two and a half. Therefore, the future CLV of an existing customer in this scenario is simply his or her annual margin multiplied by 2.5.

**Sources:** Sunil Gupta and Donald R. Lehmann, "Models of Customer Value," Berend Wierenga, ed., *Handbook of Marketing Decision Models* (Berlin, Germany: Springer Science and Business Media, 2007); Sunil Gupta and Donald R. Lehmann, "Customers as Assets," *Journal of Interactive Marketing* 17, no. 1 (Winter 2006), pp. 9–24; Sunil Gupta and Donald R. Lehmann, *Managing Customers as Investments* (Upper Saddle River, NJ: Wharton School Publishing, 2005); Peter Fader, Bruce Hardie, and Ka Lee, "RFM and CLV: Using Iso-Value Curves for Customer Base Analysis," *Journal of Marketing Research* 42, no. 4 (November 2005), pp. 415–30; Sunil Gupta, Donald R. Lehmann, and Jennifer Ames Stuart, "Valuing Customers," *Journal of Marketing Research* 41, no. 1 (February 2004), pp. 7–18.

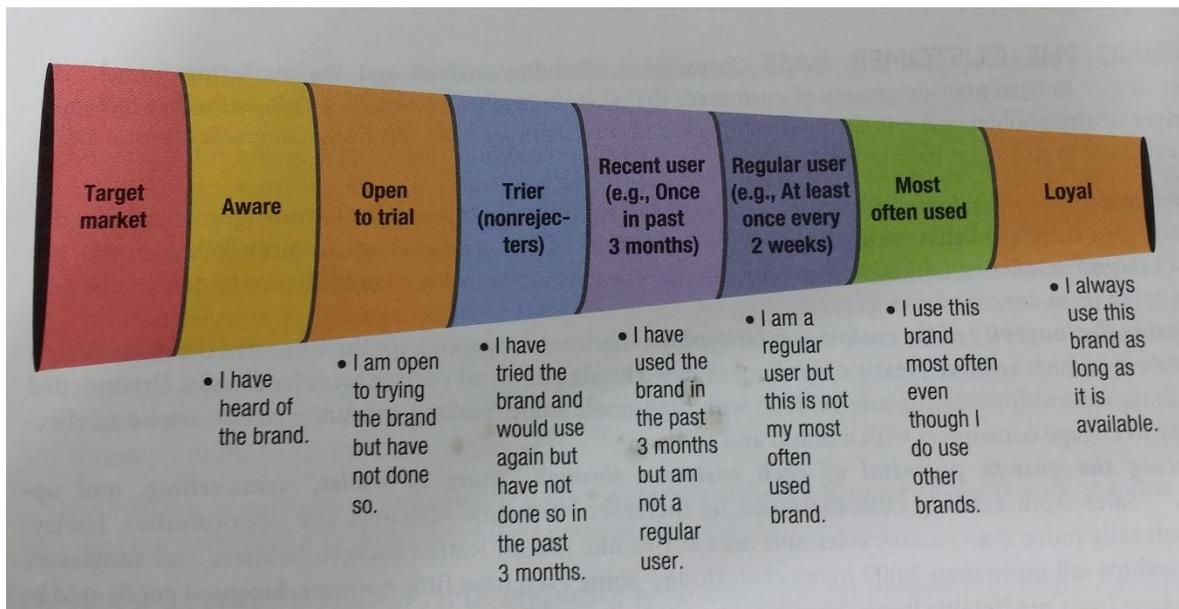
**TABLE 5.3** A Hypothetical Example to Illustrate CLV Calculations

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Number of Customers	100	90	80	72	60	48	34	23	12	6	2
Revenue per Customer		100	110	120	125	130	135	140	142	143	145
Variable Cost per Customer		70	72	75	76	78	79	80	81	82	83
Margin per Customer		30	38	45	49	52	56	60	61	61	62
Acquisition Cost per Customer	40										
Total Cost or Profit	-4,000	2,700	3,040	3,240	2,940	2,496	1,904	1,380	732	366	124
Present Value	-4,000	2,454.55	2,512.40	2,434.26	2,008.06	1,549.82	1,074.76	708.16	341.48	155.22	47.81

To reduce the churn / defection / attrition rate, a company must:

1. Define and measure its retention rate
2. Distinguish the causes of customer attrition and identify those that can be managed better
3. Compare the lost customer's lifetime value to the costs of reducing the defection rate

The marketing funnel:



→ by calculating conversion rates the funnel allows marketers to identify any bottleneck stage or barrier to building a loyal customer franchise.

#### Churn facts:

1. Acquiring new customers can cost 5 times more than satisfying and retaining current ones
2. The average company loses 10 percent of its customers each year
3. A 5 percent reduction in the customer defection rate can increase profits by 25 to 85 percent, depending on the industry
4. Profit rate tends to increase over the life of the retained customer due to increased purchases, referrals, price premiums, and reduced operating costs to service

#### Managing the customer base:

1. Reducing the rate of customer defection
2. Increasing the longevity of customer relationship
3. Enhancing the growth potential of each customer through “share of wallet”, cross-selling, and up-selling
4. Making low-profit customers more profitable or terminating them
5. Focusing disproportionate effort on high-profit customers

#### Building loyalty:

1. Interacting closely with customers
2. Develop loyalty programs
  - a. Frequency programs
  - b. Club membership programs
3. Create institutional ties

Brand community: a specialized community of consumers and employees whose identification and activities focus around the brand.

#### Characteristics:

1. A “consciousness of kind”, or a sense of felt connection to the brand, company, product, or other community members
2. Shared rituals, stories, and traditions that help convey the meaning of the community
3. A shared moral responsibility or duty to both the community as a whole and individual community leaders

#### Types:

1. Organic, from brand users
2. Company sponsored

Enhancing online brand communities:

1. Enhance the timeliness of information exchanged
2. Enhance the relevance of information posted
3. Extend the conversation
4. Increase the frequency of information exchanged

Value creation practices:

<b>SOCIAL NETWORKING</b>	
<b>Welcoming</b>	Greeting new members, beckoning them into the fold, and assisting in their brand learning and community socialization.
<b>Empathizing</b>	Lending emotional and/or physical support to other members, including support for brand-related trials (product failure, customizing) and/or for nonbrand-related life issues (illness, death, job).
<b>Governing</b>	Articulating the behavioral expectations within the brand community.
<b>IMPRESSION MANAGEMENT</b>	
<b>Evangelizing</b>	Sharing the brand "good news," inspiring others to use, and preaching from the mountaintop.
<b>Justifying</b>	Deploying rationales generally for devoting time and effort to the brand and collectively to outsiders and marginal members in the boundary.
<b>COMMUNITY ENGAGEMENT</b>	
<b>Staking</b>	Recognizing variance within the brand community membership and marking intragroup distinction and similarity.
<b>Milestoning</b>	Noting seminal events in brand ownership and consumption.
<b>Badging</b>	Translating milestones into symbols and artifacts.
<b>Documenting</b>	Detailing the brand relationship journey in a narrative way, often anchored by and peppered with milestones.
<b>BRAND USE</b>	
<b>Grooming</b>	Cleaning, caring for, and maintaining the brand or systematizing optimal use patterns.
<b>Customizing</b>	Modifying the brand to suit group-level or individual needs. This includes all efforts to change the factory specs of the product to enhance performance.
<b>Commoditizing</b>	Distancing/approaching the marketplace in positive or negative ways. May be directed at other members (you should sell/should not sell that) or may be directed at the firm through explicit link or through presumed monitoring of the site (you should fix this/do this/change this).

Customer relationship management (CRM): the process of carefully managing detailed information about individual customers and all customer "touch points" to maximize loyalty.

Customer value management (CVM): describes the company's optimization of the value of its customer base.

→ it focuses on the analysis of individual data on prospects and customers to develop marketing strategies to acquire and retain customers and drive customer behavior.

Customer touch point: any occasion when the customer encounters the brand and product. From actual experience to personal or mass communications to casual observation.

Personalizing marketing: making sure the brand and its marketing are as personally relevant as possible to as many customers as possible.

Customer complaints:

→ statistics: while customers are dissatisfied with their purchases about 25 percent of the time, only about 5 percent complain

→ companies should make it easier for customers to complain

→ to recover a customer goodwill:

1. Set up a 24 hour free hotline
2. Contact the complaining customer as quickly as possible
3. Accept responsibility for the customer's disappointment
4. Use customer service people who are friendly and empathic
5. Resolve the complaint swiftly and to the customer's satisfaction

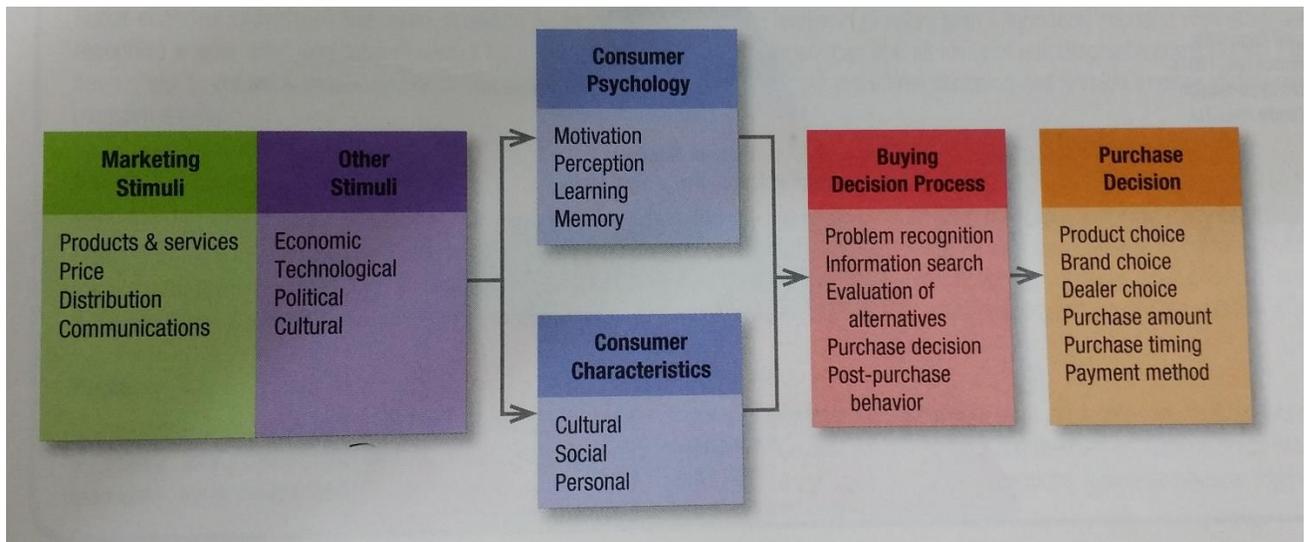
→ one strategy for companies active in CSR is to actively shape their public image during quiet times and then leverage that goodwill in media during difficult times

## Chapter 6: Analyzing Consumer Markets

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Consumer behavior: the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants.

The stimulus response model for understanding consumer behavior



Influencing factors on consumer characteristics:

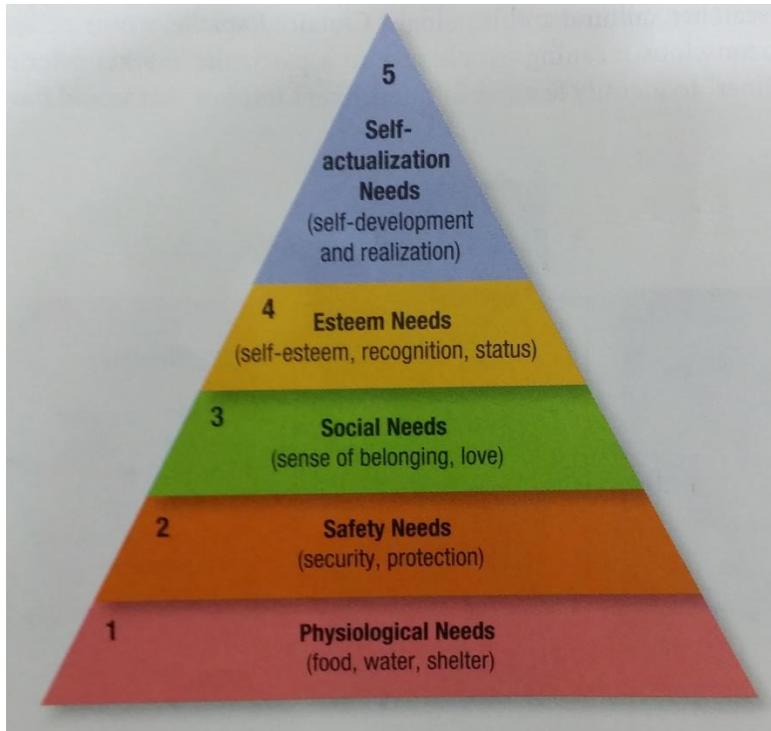
1. Cultural factors
  - a. Culture: the fundamental determinants of a person's wants and behavior
  - b. Subculture: provide more specific identification and socialization for their members
  - c. Social class: relatively homogenies and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests, and behavior
2. Social factors
  - a. Reference group: a group that have a direct or indirect influence on a person's attitude or behavior
    - i. Primary group
    - ii. Secondary group
    - iii. Aspirational group
    - iv. Dissociative
  - b. Clique: small groups whose members interact frequently
  - c. Family
    - i. Family of orientation
    - ii. Family of procreation

- d. Roles and status
  - i. Role: the activities a person is expected to perform
  - ii. Status: associated with a role
- 3. Personal factors
  - a. Age and stage in the life cycle
    - i. Family life cycle
    - ii. Psychological life cycle
    - iii. Critical life events or transitions
  - b. Occupation and economic circumstances
  - c. Personality and self concept
    - i. Personality: a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli including buying behavior
    - ii. Brand personality: the specific mix of human traits that we can attribute to a particular brand
    - iii. Brand personality traits
      - 1. Sincerity
      - 2. Excitement
      - 3. Competence
      - 4. Sophistication
      - 5. Ruggedness
  - d. Life style and values
    - i. Life style: a person's pattern of living in the world as expressed in activities, interests, and opinions
    - ii. Core values: the belief systems that underlie attitudes and behaviors

## Consumer psychology / key psychological processes

### 1. Motivation

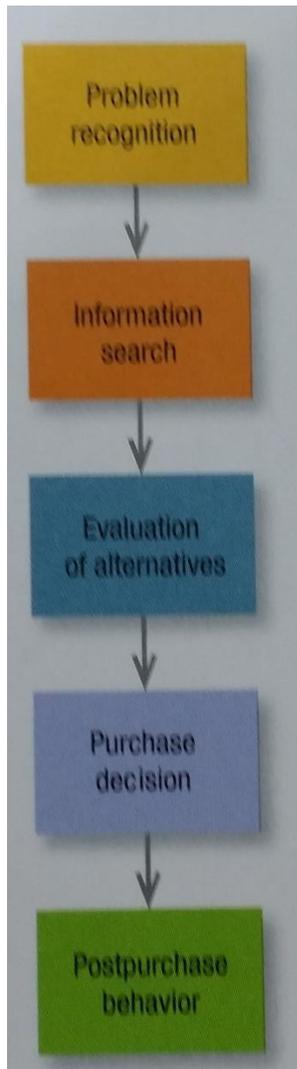
- a. Sigmund Freud
  - i. Psychological forces are largely unconscious
  - ii. Use laddering to trace motivation from stated to terminal
  - iii. Projective techniques: word association, sentence completion, ...
- b. Abraham Maslow
  - i. Hierarchy of needs



- c. Frederick Herzberg
    - i. Satisfiers
    - ii. Dissatisfiers
    - iii. The absence of dissatisfiers is not enough for motivation, satisfiers must be present
- ### 2. Perception: the process by which we select, organize, and interpret information inputs to create a meaningful picture of the world
- a. Selective attention
    - i. People are more likely to notice a stimuli that relate to a current need
    - ii. People are more likely to notice a stimuli they anticipate
    - iii. People are more likely to notice a stimuli whose deviations are large in relationship to the normal size of the stimuli
  - b. Selective distortion: the tendency to interpret information in a way that fits our perceptions

- c. Selective retention: we tend to retain information that supports our attitudes and beliefs
  - d. Subliminal perception: no evidence to support the effects of subliminal messages on consumer behavior
- 3. Learning
  - a. Learning: induces changes to our behavior
  - b. Drive: a strong internal stimulus impelling action
  - c. Cues: minor stimuli that determine when, where, and how a person responds
  - d. Hedonic bias: people have a general tendency to attribute success to themselves and failure to external causes
- 4. Emotions
- 5. Memory
  - a. Short term memory: limited
  - b. Long term memory: unlimited
    - i. Associative network memory model: nodes with links of varying strength
  - c. Brand associations: whatever you link to the brand node
  - d. Memory processes
    - i. Memory encoding: the more attention we pay to the meaning of information during encoding, the stronger the resulting associations in memory will be
    - ii. Memory retrieval
      - 1. Other information can produce interference effects
      - 2. Links decay very slowly over time
      - 3. Information can be available but not accessible for recall without the proper retrieval cues or reminders

## The five-stage model of the consumer buying process

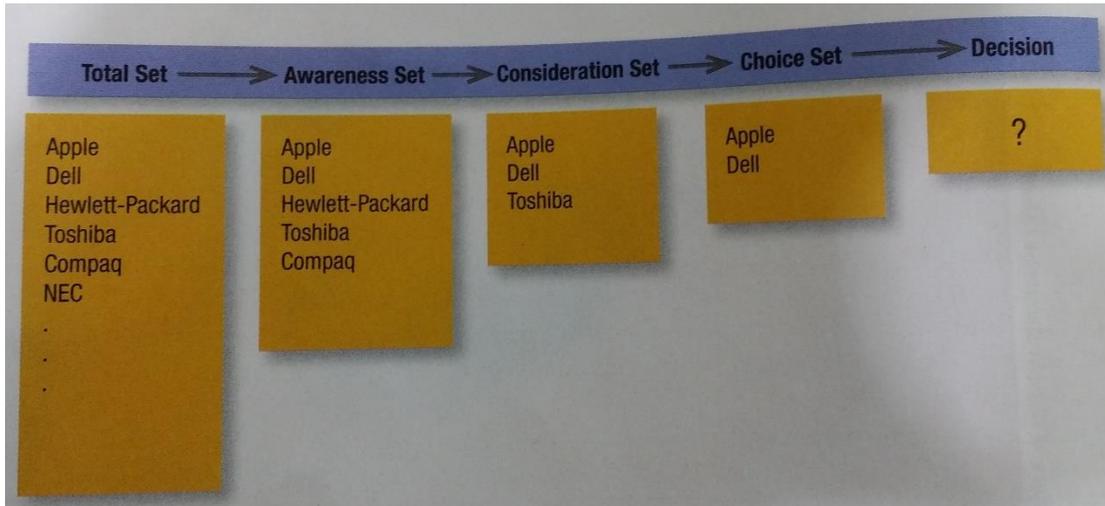


→ consumers don't always go through the five stages, they may skip or reverse some

1. Problem recognition
  - a. Recognize a problem or need triggered by an internal or external stimuli
2. Information search
  - a. Levels of engagement
    - i. Heightened attention
    - ii. Active information search
  - b. Information sources
    - i. Personal
    - ii. Commercial
    - iii. Public
    - iv. Experiential

c. Search dynamics

i. The following hierarchy could be brand based, nation based, ...



3. Evaluation of alternatives

a. Beliefs and attitudes

- i. Belief: a descriptive thought that a person holds about something
- ii. Attitude: a person's enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies towards some object or idea

b. Expectancy value model of attitude formation (can be considered a compensatory model)

- i. Consumers evaluate their brand beliefs according to importance

CONNECTING WITH CUSTOMERS

TABLE 6.3 A Consumer's Brand Beliefs about Laptop Computers

Laptop Computer	Attribute			
	Memory Capacity	Graphics Capability	Size and Weight	Price
A	8	9	6	9
B	7	7	7	7
C	10	4	3	2
D	5	3	8	5

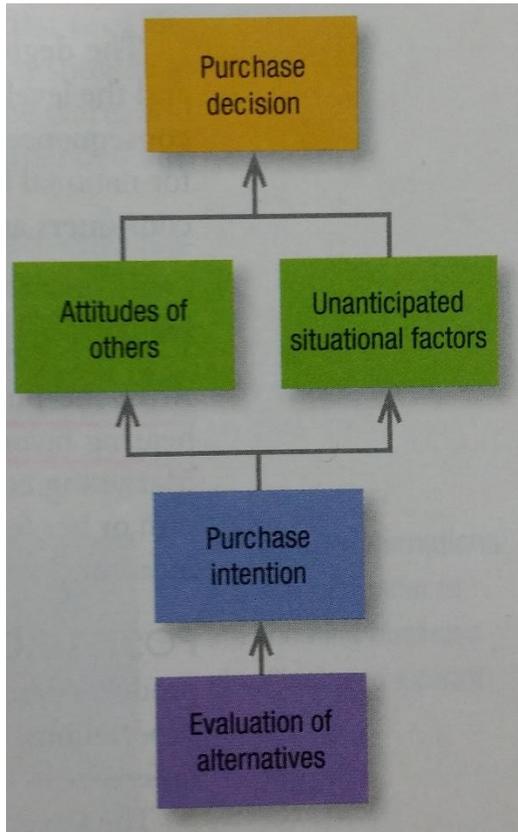
Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with 10 representing the lowest price, because a consumer prefers a low price to a high price.

the expectancy-value model, we multiply her weights by her beliefs about each computer's attributes. This computation leads to the following perceived values:

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

#### 4. Purchase decision

##### a. Steps between evaluation of alternatives and a purchase decision



##### b. Non-compensatory models of consumer choice (using heuristics, i.e., mental shortcuts)

- i. Conjunctive heuristics: minimum acceptable cutoff level for each attribute
- ii. Lexicographic heuristics: best in terms of the perceived important attribute
- iii. Elimination by aspects heuristic: minimum acceptable cutoff level for a single probabilistic / important attribute

##### c. Intervening factors

- i. Attitudes of others
  1. The intensity of others attitudes
  2. Do we want to comply with them
- ii. Unanticipated situational factors
  1. Functional risk
  2. Physical risk
  3. Financial risk
  4. Social risk
  5. Psychological risk
  6. Time risk

#### 5. Post-purchase behavior

- a. Post-purchase satisfaction
- b. Post-purchase actions
- c. Post-purchase use and disposal

## Moderating effects on consumer decision making

1. Low-involvement consumer decision making
2. Variety seeking buying behavior

## Decision heuristics

1. Availability heuristic: does an example come to mind quickly?
2. Representativeness heuristic: do we have a similar example?
3. Anchoring and adjustment heuristic: adjusting initial judgement based on additional information

## Decision framing: the manner in which choices are presented to and seen by a decision maker

→ Prospect theory: consumers frame their decision alternatives in terms of gains and losses according to a value function (consumers are generally loss-averse)

→ Mental accounting (derived from prospect theory)

1. Ticket example
2. Based on a set of core principles
  - a. Consumers tend to segregate gains
  - b. Consumers tend to aggregate losses
  - c. Consumers tend to integrate smaller losses with larger gains
  - d. Consumers tend to segregate small gains from large losses

## Chapter 9: Identifying Market Segments and Targets

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Market segmentation: dividing the market into well-defined groups of consumers with similar needs and wants.

Groups of variables to segment consumer markets:

- Descriptive segmentation
- Psychographic / Behavioral segmentation

Descriptive segmentation:

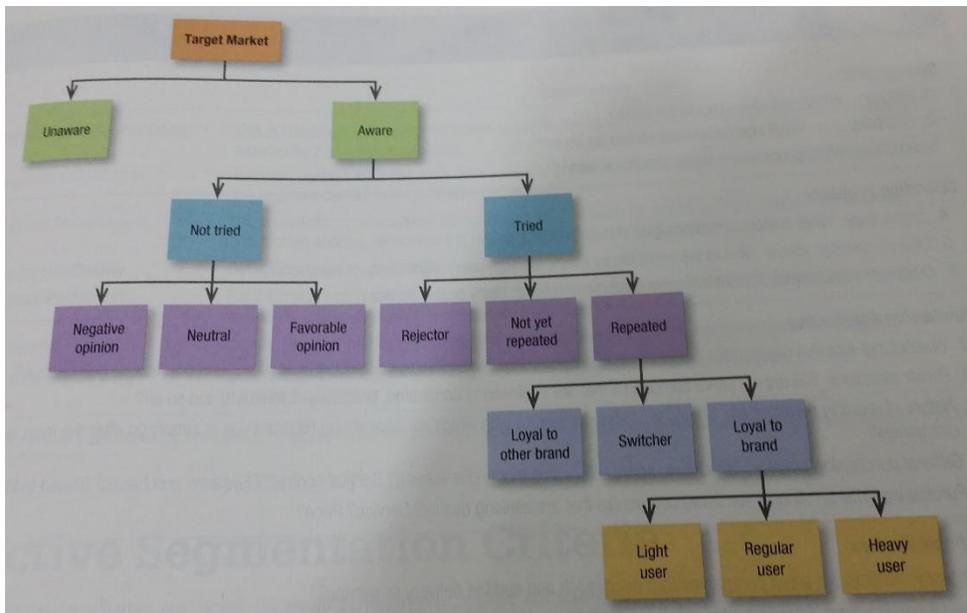
1. Geographic
2. Demographic
  - a. Age and life-cycle stage
  - b. Life stage
  - c. Gender
  - d. Income
  - e. Generation
    - i. Silent generation → 1925 – 1945
    - ii. Baby boomers → 1946 – 1964
    - iii. Gen X → 1964 – 1978
    - iv. Millennials (gen Y) → 1977 - 1994
  - f. Race and culture
    - i. Hispanic American
    - ii. Asian American
    - iii. African American
    - iv. LGBT

Psychographic / Behavioral segmentation:

1. Needs and benefits
2. Decision roles
  - a. Initiator
  - b. Influencer
  - c. Decider
  - d. Buyer
  - e. User
3. User and usage-related variables
  - a. User status
  - b. Buyer-readiness stage

- c. Usage rate
  - d. Occasions
- 4. Loyalty status
  - a. Hard-core loyals
  - b. Split loyals
  - c. Shifting loyals
  - d. Switcher
- 5. Attitude
  - a. Enthusiastic
  - b. Positive
  - c. Indifferent
  - d. Negative
  - e. Hostile
- 6. Multiple bases

Behavioral segmentation breakdown example:



Steps in the segmentation process:

1. Needs based segmentation
2. Segment identification
3. Segment attractiveness
4. Segment profitability
5. Segment positioning
6. Segment "acid test"
7. Marketing mix strategy

Effective segmentation criteria:

1. Market segments should rate favorably on:
  - a. Measurable
  - b. Substantial
  - c. Accessible
  - d. Differentiable
  - e. Actionable
2. Michael Porter's five forces that determines the intrinsic long run attractiveness of a market segment:
  - a. Threat of intense segment rivalry
  - b. Threat of new entrants
  - c. Threat of substitute products
  - d. Threat of buyers growing bargaining power
  - e. Threat of suppliers growing bargaining power
3. In evaluating market segments, the firm must look at two factors:
  - a. The segment overall attractiveness
  - b. The company's objectives and resources
4. Possible levels of segmentation:
  - a. Full market coverage
  - b. Multiple segments
  - c. Single segments
  - d. Individuals as segments

## Chapter 10: Crafting the Brand Positioning

---

All marketing strategy is built on segmentation, targeting, and positioning (STP).

Positioning: the act of designing a company's offering and image to occupy a distinctive place in the minds of the target market.

Positioning requires:

1. Choosing a frame of reference
  - a. Identifying competition
  - b. Analyzing competition
2. Identifying points of parity and points of difference
  - a. Points of difference
    - i. Desirable
    - ii. Deliverable
    - iii. Differentiable
  - b. Points of parity
    - i. Category points of parity
    - ii. Correlational points of parity
    - iii. Competitive points of parity
3. Creating a brand mantra
  - a. Role of brand mantra → economically communicate what the brand is and what it is not by summarizing the positioning and essence of the brand (mostly has internal purpose)
  - b. Designing a brand mantra
    - i. Communicate
    - ii. Simplify
    - iii. Inspire

When multiple frames of reference exist:

→ Can you use one set of POP and POD?

→ if yes then straddle (overlap) positioning

→ if no then choose the most important set of competitors as a frame of reference

Choosing specific POPs and PODs:

1. Means of differentiation
2. Perceptual maps
3. Emotional branding

Establishing a brand positioning:

1. Communicating category membership (frame of reference)
  - a. Announcing category benefits
  - b. Comparing to exemplars
  - c. Relying on the product descriptor
2. Communicating POPs and PODs
3. Monitoring competition
  - a. Share of market
  - b. Share of mind
  - c. Share of heart

Alternative approaches to positioning:

1. Brand narratives and storytelling
2. Cultural branding

Positioning and branding for a small business:

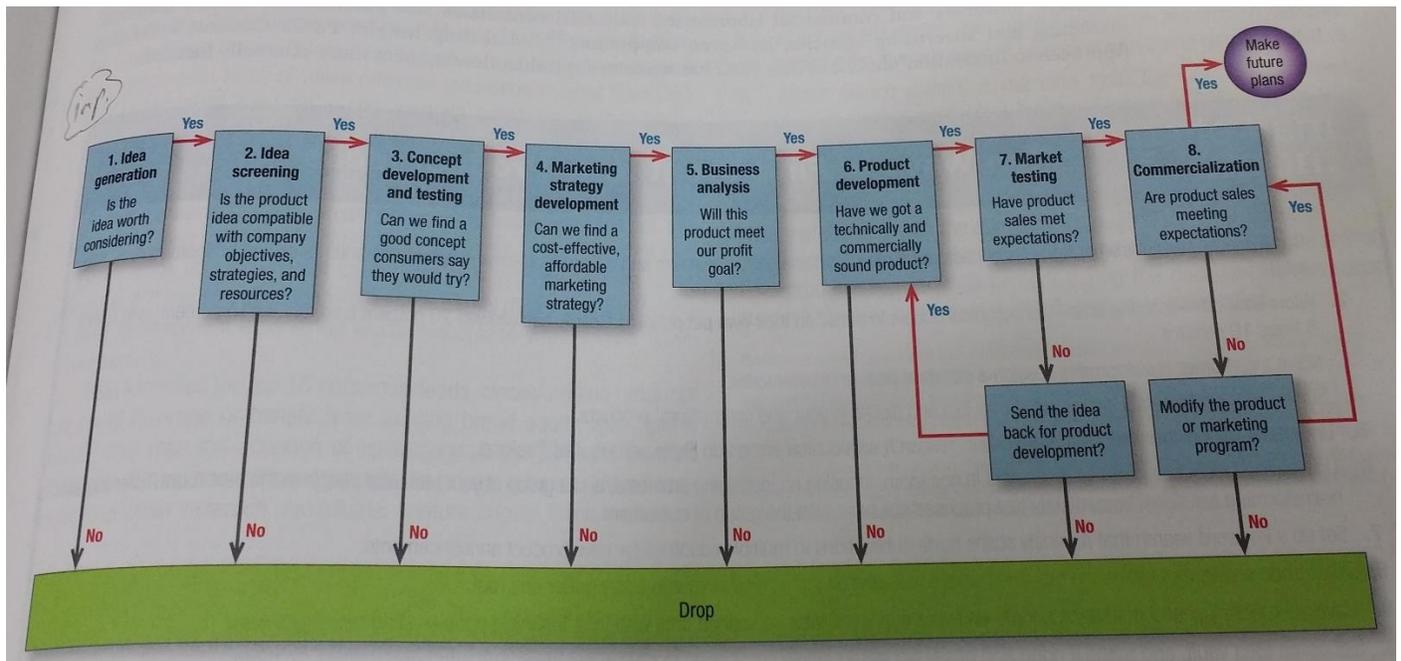
1. Find a compelling product or service performance advantage
2. Encourage product or service trial in any way possible
3. Create buzz and loyal brand community

## Chapter 15: Introducing new Market Offerings

Some reasons for new product failure:

1. No market research
2. Overestimates of market size
3. Poor design
4. Incorrect positioning
5. Capital shortages
6. Poor timing

New product development decision process:



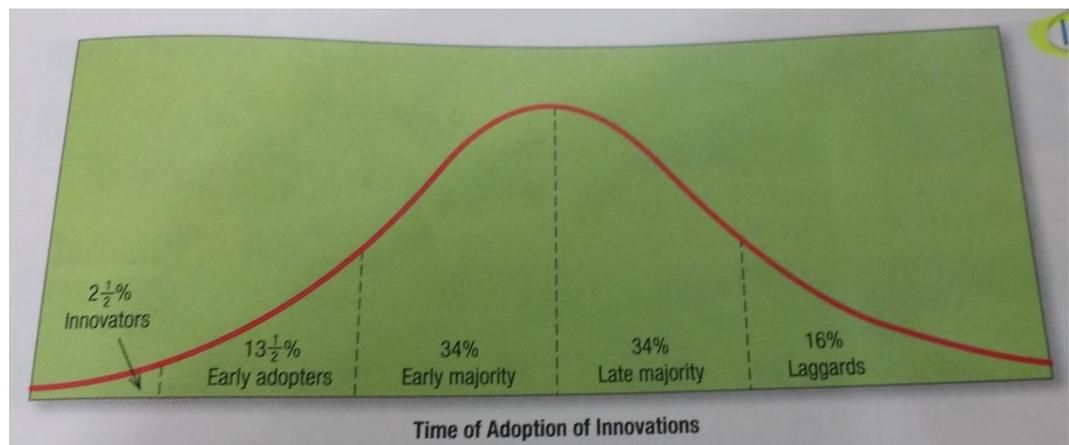
1. Idea generation:
  - a. Interacting with employees
  - b. Interacting with outsiders
  - c. Studying competitors
  - d. Adopting creativity techniques
    - i. Attribute listing
    - ii. Forced relationships
    - iii. Morphological analysis
    - iv. Reverse-assumption analysis
    - v. New contexts

- vi. Mind mapping
- 2. Idea screening
  - a. Overall probability of success = probability of technical completion x probability of commercialization given technical completion x probability of economic success given commercialization
- 3. Concept development and testing
  - a. Each idea can be turned into different concepts.
  - b. Concept testing:
    - i. Communicability and believability
    - ii. Need level
    - iii. Gap level
    - iv. Perceived value
    - v. Purchase intention
    - vi. User targets, purchase occasions, purchasing frequency
  - c. Conjoint analysis
    - i. Form different offers by combining varying levels of the attributes and rank them
- 4. Marketing strategy development
  - a. Part 1
    - i. Target market size, structure, and behavior
    - ii. Planned positioning
    - iii. Sales, market share, and profit goals sought
  - b. Part 2
    - i. Planned price
    - ii. Distribution strategy
    - iii. Marketing budget
  - c. Part 3
    - i. Long run sales
    - ii. Profit goals
    - iii. Marketing mix strategy
- 5. Business analysis
  - a. Estimating total sales
  - b. Estimating costs and profits
- 6. Product development
  - a. Physical properties
  - b. Customer tests
- 7. Market testing
  - a. Consumer goods market testing
    - i. Sales wave research
    - ii. Simulated test marketing
    - iii. Controlled test marketing
    - iv. Test markets
  - b. Business goods market testing
    - i. Alpha and beta testing

- ii. Observe during beta testing
- 8. Commercialization
  - a. When (timing)
    - i. First entry
    - ii. Parallel entry
    - iii. Late entry
  - b. Where (geographic strategy)
    - i. Market potential
    - ii. Company's local reputation
    - iii. Influence of the rollout area on other areas
  - c. To whom (target market prospects)
    - i. Best prospect group (i.e., early adopters, heavy users, and opinion leaders)
  - d. How (introductory market strategy)
    - i. Allocate sufficient time and resources as the new product gains traction in the marketplace
    - ii. Good coordination of the tasks needed to launch a product (e.g., critical path scheduling)

The consumer adoption process:

1. Stages in the adoption process:
  - a. Awareness
  - b. Interest
  - c. Evaluation
  - d. Trial
  - e. Adoption
2. Factors influencing the adoption process
  - a. Consumer characteristics: readiness to try new products and personal influence



- b. Innovation characteristics
  - i. Relative advantage
  - ii. Compatibility

- iii. Complexity
- iv. Divisibility
- v. Communicability
- c. Recipient organization characteristics: organizations' readiness to adopt innovations
  - i. Used mostly in the case of a business oriented product / service

## Chapter 16: Developing Pricing Strategies and Programs

---

Price is the only element of the marketing mix that produces revenue.

Understanding pricing:

1. Pricing in a digital world
  - a. Enhanced capabilities of buyers
  - b. Enhanced capabilities of sellers
2. Changing pricing environment
  - a. Bartering
  - b. Renting
3. How companies price
  - a. By management
  - b. Using pricing strategies
4. Consumer psychology and pricing
  - a. Reference prices
  - b. Price-quality inferences
  - c. Price endings

Setting the price:

1. Selecting the pricing objective
  - a. Survival
  - b. Maximum current profit
  - c. Maximum market share
  - d. Maximum market skimming
  - e. Product-quality leadership
  - f. Other objectives
2. Determining demand
  - a. Price sensitivity
  - b. Estimating demand curve
  - c. Price elasticity of demand
3. Estimating costs
  - a. Types of costs and levels of production
  - b. Accumulated production
  - c. Target costing
4. Analyzing competitors' costs, prices, and offers
  - a. Value-priced competitors
5. Selecting a pricing method

- a. Markup pricing
  - b. Target-return pricing
  - c. Perceived-value pricing
  - d. Value pricing
  - e. EDLP
  - f. Going-rate pricing
  - g. Auction type pricing
6. Selecting the final price
    - a. Impact of other marketing activities
    - b. Company pricing policies
    - c. Gain and risk sharing pricing
    - d. Impact of price on other parties

Adapting the price:

1. Geographical pricing
2. Price discounts and allowances
  - a. Discount
  - b. Quantity discount
  - c. Seasonal discount
  - d. Allowance
3. Promotional pricing
  - a. Loss leader pricing
  - b. Special event pricing
  - c. Special customer pricing
  - d. Cash rebates
  - e. Low interest financing
  - f. Longer payment terms
  - g. Warranties and service contracts
  - h. Psychological discounting
4. Differentiated pricing
  - a. Customer segment pricing
  - b. Product form pricing
  - c. Image pricing
  - d. Channel pricing
  - e. Location pricing
  - f. Time pricing

Initiating and responding to price changes:

1. Initiating price cuts
  - a. Low quality trap
  - b. Fragile market share trap
  - c. Shallow pockets trap
  - d. Price war trap
2. Initiating price increases
  - a. Delayed quotation pricing
  - b. Escalator clauses
  - c. Unbundling
  - d. Reduction of discounts
3. Anticipating competitive responses:
  - a. Profit maximization objective → increase advertising or improve quality
  - b. Market share objective → match changes in price
4. Responding to competitors' price changes:
  - a. Depends → page 509

## Chapter 18: Managing Retailing, Wholesaling, and Logistics

---

Retailing includes all the activities in selling goods or services directly to final consumers for personal, non-business use.

Types of retailers:

1. Store retailers
2. Non-store retailing
3. Corporate retailing and franchising

Franchising system: individual *franchisees* are a group of enterprises whose systematic operations are planned, directed, and controlled by the operation's innovator, called a *franchisor*.

Marketing decisions for a retailer:

1. Target market
2. Channels
3. Product assortment
4. Procurement
5. Prices
6. Services
  - a. Pre-purchase
  - b. Post-purchase
  - c. ancillary
7. Store atmosphere
8. Store activities and experiences
9. Communications
10. Location

Private brand: a brand that retailers and wholesalers develop.

Wholesalers differ from retailers in:

1. Less attention to promotion, atmosphere, and location
2. Larger transactions
3. Different legal regulations and taxes

Market logistics decisions:

1. Order processing
2. Warehousing
3. Inventory
4. Transportation

## Chapter 21: Communicating Value

---

Main categories of online marketing communications:

1. Web sites
2. Search ads
3. Display ads
4. Email

Website visitors will judge it by:

1. Ease of use
  - a. Downloads quickly
  - b. Easy to understand landing page
  - c. Easy and quick navigation to other pages
2. Physical attractiveness
  - a. Clean content
  - b. Readable content
  - c. Good design

Online ads stats:

1. Search ads → 2% click rate
2. Display ads → .08% to .14%

Search engine optimization (SEO) guidelines:

1. For general brand building, use broad search terms
2. For a particular product / service, be more specific
3. Search terms need to be spotlighted on the appropriate pages of the website
4. Have popular sites link back to your website
5. Bid on terms generating the highest revenue

Email ads can be very effective. But they need to be:

1. Timely
2. Targeted
3. Relevant

Rule of social medial marketing:

Only some consumers want to engage with some brands, and even then, only some of the time

Most word of mouth is not generated online

The customer loyalty ladder:

1. Satisfaction
2. Repeat purchase
3. Word of mouth
4. Evangelism
5. Ownership

Distinctive characteristics of mobile marketing:

1. Uniquely tied to one user
2. Virtually always on
3. Allows for immediate consumption (since linked with a payment system)
4. Highly interactive give the sensors available

## Chapter 22: Managing Personal Communications: Direct and Database Marketing and Personal Selling

---

Direct Marketing: the use of consumer direct channels to reach and deliver goods and services to customers without using marketing middlemen

→ it makes the company's offer and strategy less visible to competitors

Indicators for an attractive sales prospect:

1. Recency of purchase
2. Frequency of purchase
3. Monetary amount of purchase

Issues with direct marketing:

1. Irritation
2. Unfairness
3. Deception and fraud
4. Invasion of privacy

Customer database: an organized collection of comprehensive information about individual customers or prospects that is current, accessible, and actionable for lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships.

Database marketing: the process of building, maintaining and using customer databases and other databases to contact, transact, and build customer relationships.

Customer database  $\neq$  mailing list

Some data mining techniques:

1. Cluster analysis
2. Automatic interaction detection
3. Predictive modeling
4. Neural networking

Ways to use a customer database:

1. To identify prospects
2. To decide which customers should receive a particular offer
3. To deepen customer loyalty
4. To reactivate customer purchases
5. To avoid serious customer mistakes

The downside of database marketing:

1. Some situations are just not conducive to database marketing
2. Building and maintaining a customer database require a large investment
3. Employees may resist becoming customer-oriented and using the available information
4. Not all customers want a relationship with the company
5. The assumptions behind CRM may not always hold true

Salesforce representatives can cover the following positions:

1. Deliverer
2. Order taker
3. Missionary
4. Technician
5. Demand creator
6. Solution vendor

And they perform the following tasks:

1. Prospecting
2. Targeting
3. Communicating
4. Selling
5. Servicing
6. Information gathering
7. Allocating

Figure 22.2, page 666 → important example

Major steps in effective selling:

1. Prospecting and qualifying
2. Pre-approach
3. Presentation and demonstration
4. Overcoming objections

5. Closing
6. Follow-up and maintenance

Important shifts in marketing and business practices:

1. Reengineering
2. Outsourcing
3. Benchmarking
4. Supplier partnering
5. Customer partnering
6. Merging
7. Globalizing
8. Flattening
9. Focusing
10. Justifying
11. Accelerating
12. Empowering
13. Broadening
14. Monitoring
15. Uncovering

Internal marketing:

1. Realization of the importance of marketing
2. Organizing the marketing department as a:
  - a. Functional organization
  - b. Geographic organization
  - c. Product / brand management organization
  - d. Market management organization
  - e. Matrix management organization
3. Relationship with other departments
4. Creative marketing

Socially responsible marketing:

1. Corporate social responsibility
  - a. Ethical behavior
  - b. Social responsibility behavior
  - c. Sustainability
2. Socially responsible business models
3. Cause-related marketing
  - a. Benefits

- i. Improve social welfare
  - ii. Create differentiated brand positioning
  - iii. Goodwill
- b. Costs
  - i. Consumers questioning the company's intentions
  - ii. Could backfire if not consistent and sufficiently responsible
- c. Designing a cause program
  - i. Select a focus area that aligns with your mission, goals, and organization
  - ii. Evaluate your "will" and resources
  - iii. Analyze your competitors' cause positioning
- d. Social marketing

Marketing implementation and control:

1. Marketing implementation
2. Marketing control
  - a. Annual plan control
  - b. Profitability control
  - c. Efficiency control
  - d. Strategic control

Marketing metrics:

1. Sales metrics
  - a. Sales growth
  - b. Market share
  - c. Sales from new products
2. Customer readiness to buy metrics
  - a. Awareness
  - b. Preference
  - c. Purchase intention
  - d. Trial rate
  - e. Repurchase rate
3. Customer metrics
  - a. Customer complaints
  - b. Customer satisfaction
  - c. Ratio of promoters to detractors
  - d. Customer acquisition costs
  - e. New customer gains
  - f. Customer losses
  - g. Customer churn
  - h. Retention rate
  - i. Customer lifetime value

- j. Customer equity
- k. Customer profitability
- l. Return on customer
- 4. Distribution metrics
  - a. Number of outlets
  - b. Share in shops handling
  - c. Weighted distribution
  - d. Distribution gains
  - e. Average stock volume (value)
  - f. Stock cover in days
  - g. Out of stock frequency
  - h. Share of shelf
  - i. Average sales per point of sale
- 5. Communication metrics
  - a. Spontaneous (unaided) brand awareness
  - b. Top of mind brand awareness
  - c. Prompted (aided) brand awareness
  - d. Spontaneous (unaided) advertising awareness
  - e. Prompted (aided) advertising awareness
  - f. Effective reach
  - g. Effective frequency
  - h. Gross rating points
  - i. Response rate

The future of marketing:

1. The demise of the marketing department and the rise of holistic marketing
2. The demise of free spending and the rise of ROI marketing
3. The demise of marketing intuition and the rise of marketing science
4. The demise of manual marketing and the rise of both automated and creative marketing
5. The demise of mass marketing and the rise of precision marketing

To become truly holistic, marketers need a new set of skills and competencies in:

1. Customer relationship management
2. Partner relationship management
3. Database marketing and data mining
4. Contact center management and telemarketing
5. Digital marketing and social media
6. Public relations marketing
7. Brand building and brand asset management
8. Experiential marketing
9. Integrated marketing communications

## 10. Profitability analysis by segment, customer, and channel