

PRINCIPLES OF MARKETING

Tamar Avnet, Ph.D.
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2. Customer Driven Marketing Strategy

2.1 Consumer Behavior

2.2 What is Consumer Behavior?

2.3 Targeting

2.4 Differentiation and Positioning

2.5 Business-to-business Markets



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2.1 Consumer Behavior

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

Consumer market refers to all of the personal consumption of final consumers



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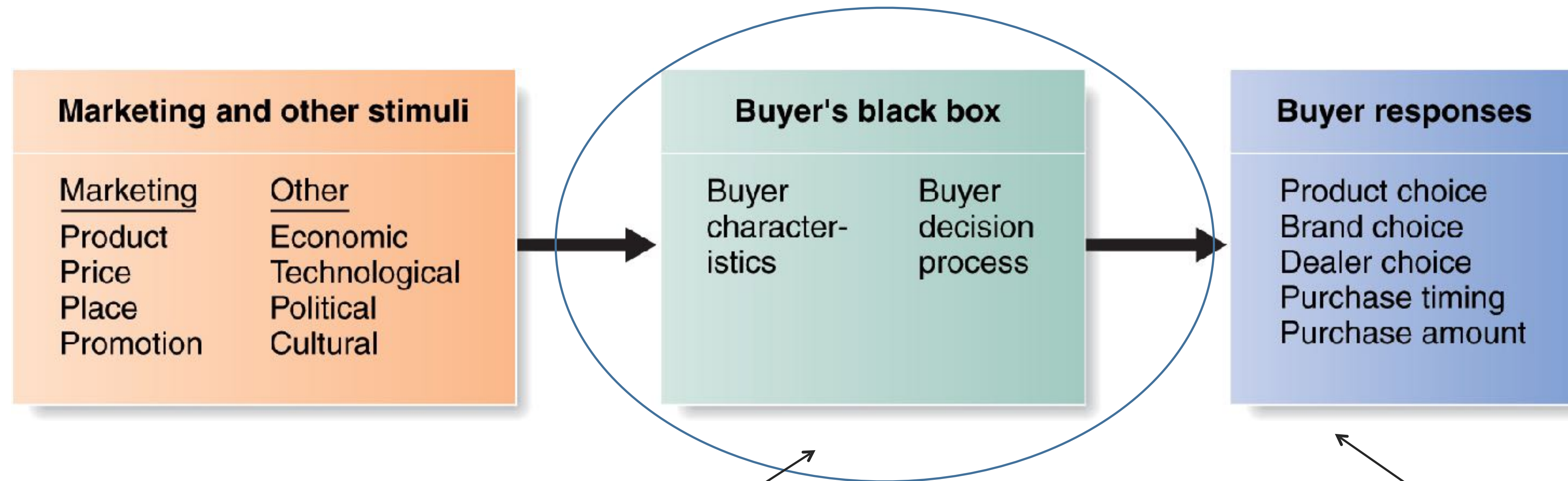




2.1.1 What is Consumer Behavior?

Model of Consumer Behavior

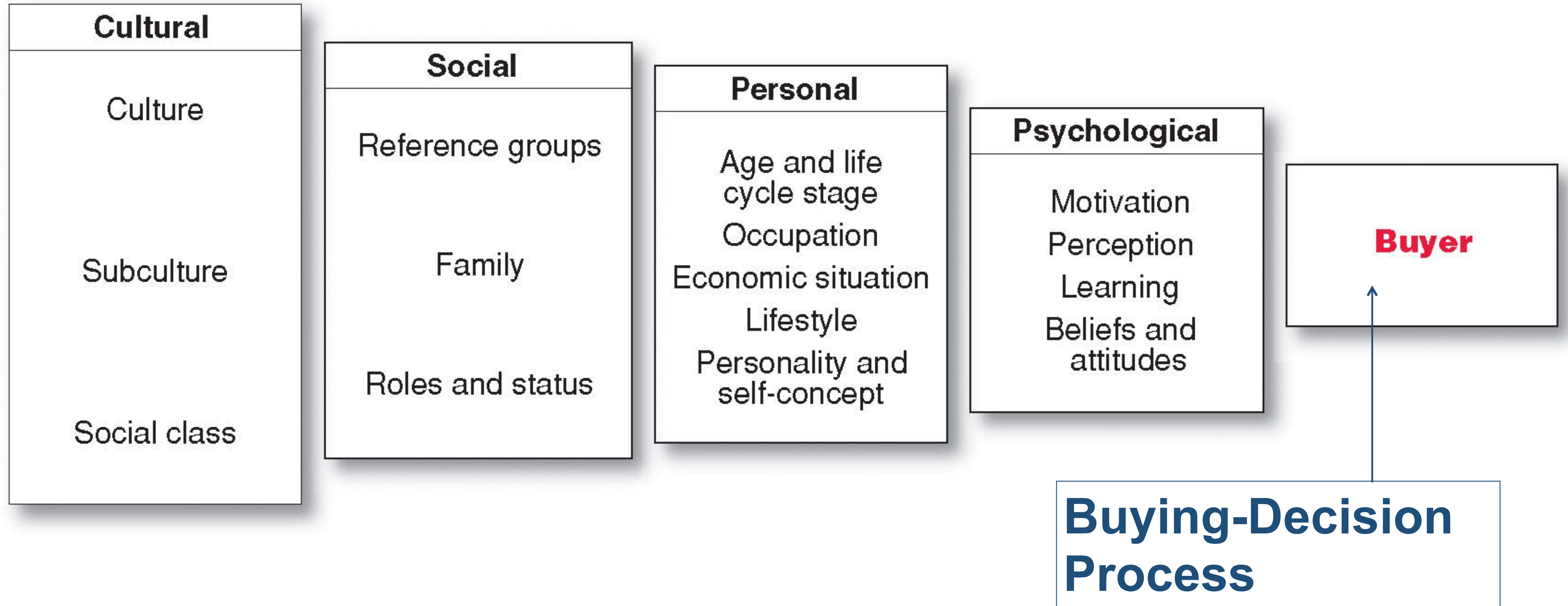
How do consumers respond to various marketing efforts the company might use?



Understanding the *whys* of buying behavior is very difficult

The buyer's brand and company relationship behavior (loyal, switcher...) and what the buyer's purchase: when, where and how often

Factors that Affect Consumer Behavior



Cultural Factors

1. Cultural Influences:

Cultures are meanings that are shared by most people in a social group. It is learned and changes over time (saw that in “environmental scanning”)

Subcultures are groups of people within a culture with shared value systems based on common life experiences and situations

- **Hispanic American**
- **African American**
- **Asian American**
- **Mature consumers**
- **Millennials**
- **Etc.**



Benetton

**This Firm Has Been
Successful Extending
Strategies Across
Cultural and National
Boundaries**

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2. Social Factors

Group membership influences an individual's purchase decisions and behavior in both overt and subtle ways

- Norms: are the values, attitudes, and behaviors that a group deems appropriate for its members**

2. Social Factors

- **Status: is the relative position of any individual member in a group**
- **Roles define behavior that members of a group expect of individuals who hold specific positions within the group**

Reference Groups

Groups that serve as a direct or indirect points of comparison or reference in the forming of a person's attitude or behavior

- **Membership groups**
 - **Primary groups: family, friends, neighbors, and colleagues**
 - **Secondary groups: religious, professional, class**
- **Aspirational groups**
 - **Groups to which a person would like to belong**

Opinion Leaders

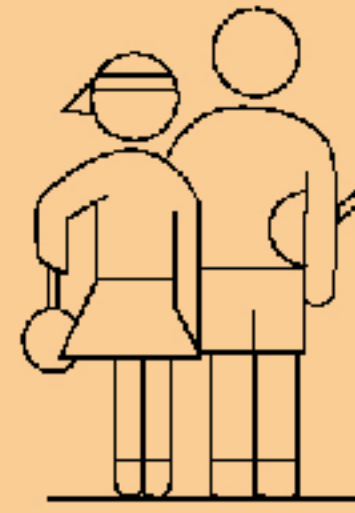
People within a reference group with special skills, knowledge, personality, or other characteristics that can exert social influence on others

- **Buzz marketing enlists opinion leaders to spread the word**
- **Social networking and media use opinion leaders to help campaigns go viral**

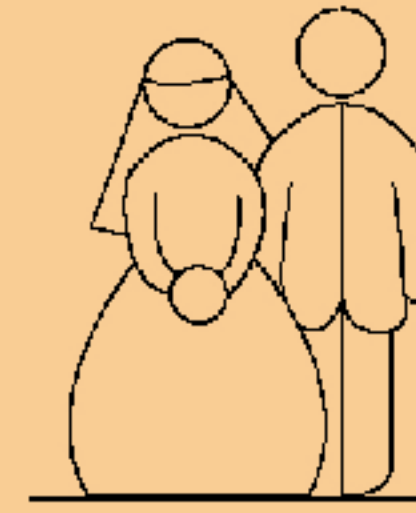
3. Personal Factors

Buyer's decisions influenced by personal characteristics such as age and life cycle, occupation, economic situation, personality, and self concept.

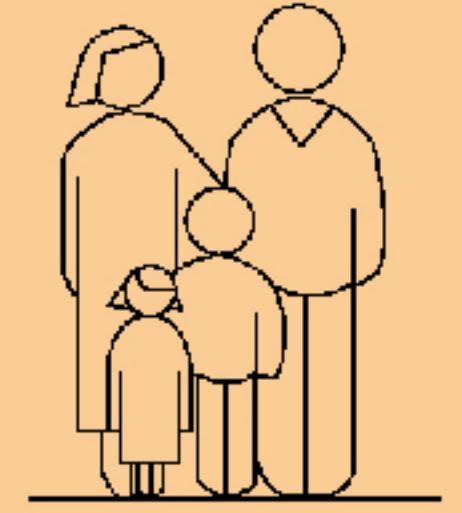
The Family Life Cycle



**1. Bachelor stage:
young, single
people**



**2. Young married
couples with no
children**



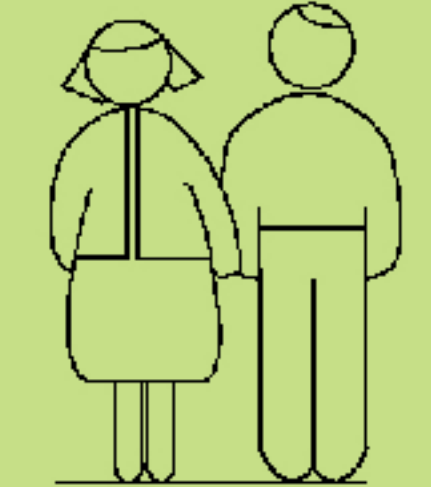
**3. Full nest I: young
married couples
with children**



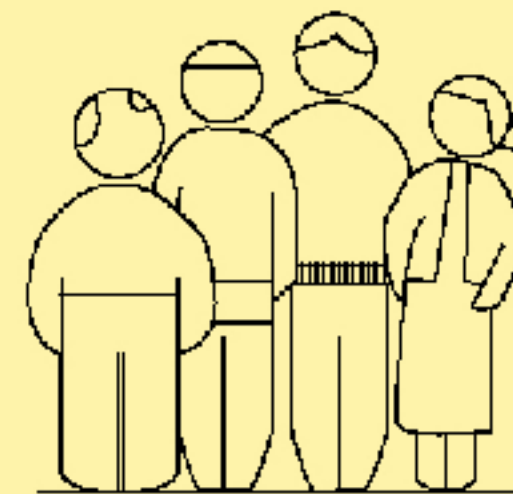
**A. Young or middle-
aged person with
dependent children —
the single parent**



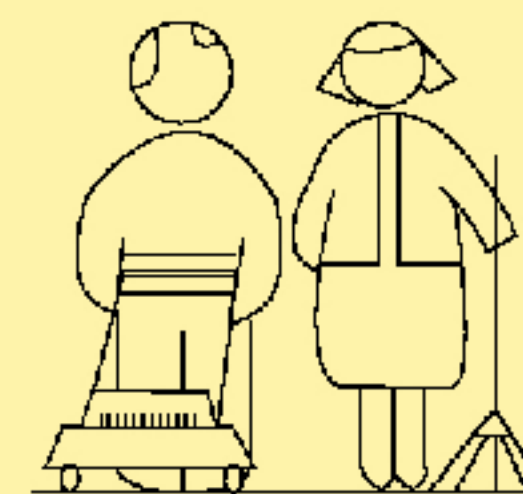
**B. Divorced person
without dependent
children**



**C. Middle-aged
married couples
without children**



**4. Full nest II: middle-
aged married
couples still with
dependent children**



**5. Empty nest: older
married couples with
no children living
with them**



**6. Older single people,
still working or
retired**

ALTERNATIVE STAGES

**Occupation affects the goods
and services bought by
consumers**

**Economic situation includes
trends in:**

**Personal
income**

Savings

**Interest
rates**

Lifestyle

Life style —people's decisions about how to live their daily lives, including family, job, social, and consumer activities. Consumers tend to buy products and services that are consistent with their lifestyle

Lifestyle =

(activities, interests, opinions)

Personality

- **Personality refers to the unique psychological characteristics that lead to consistent and lasting responses to the consumer's environment.**
- **A consumer tends to act in a way that is consistent with his or her self-concept**

Self-Concept

(Who do I think I am?)

A person's multifaceted picture of himself or herself, composed of the:

- **Real self**
- **Self-Images**
- **Looking-Glass Self**
- **Ideal Self**

Brand Personality

- **Set of traits people attribute to a product as if it were a person**
- **You are what you consume--
People can use their possessions to reflect their identity (Harley-Davidson; Gucci; Nike...)**

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2.1.2 Psychological Factors Affecting Consumer Behavior

Characteristics Affecting Consumer Behavior

Psychological Factors

Motivation

Perception

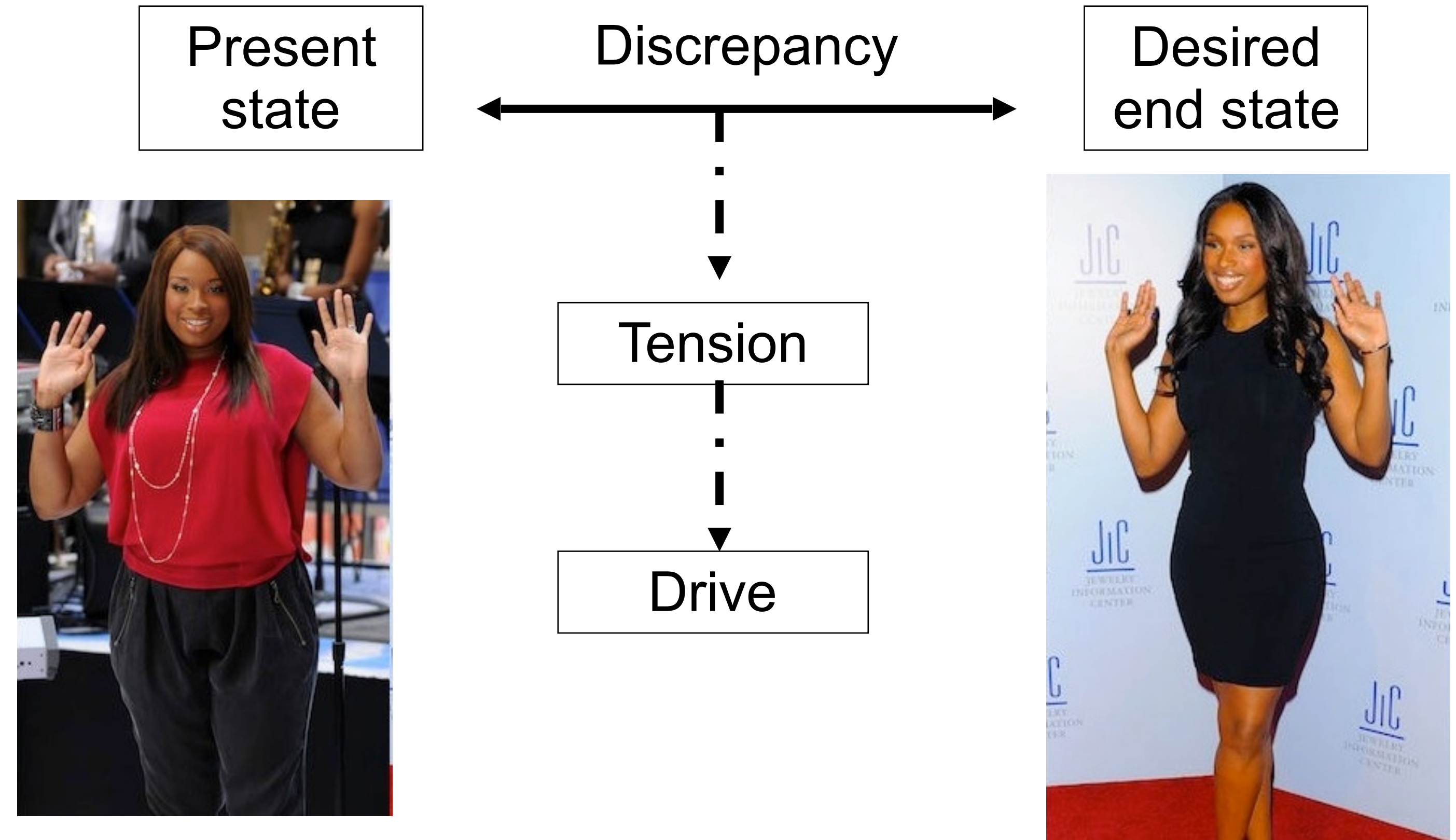
Learning

Beliefs and attitudes



The Motivation Process

Motivation: the process that leads us to behave the way we do



Products/services can help us achieve desired end states and as a result reduce tension

Motivation, a need sufficiently stimulated that an individual is moved to seek satisfaction.

- **Motives are either physiological or psychological (hunger, need to belong)**
- **Many different motives are often involved in a purchase (look good, pay less)**
- **Maslow presents a hierarchy of needs which helps us understand motivation.**

STEAL BRIT'S NEW DIET SECRET!

OK!

Britney

**LOST
15 LBS
IN JUST
4 WEEKS!**

\$1



Suri's big
birthday
surprise!



Jamie
Lynn's
wedding
details



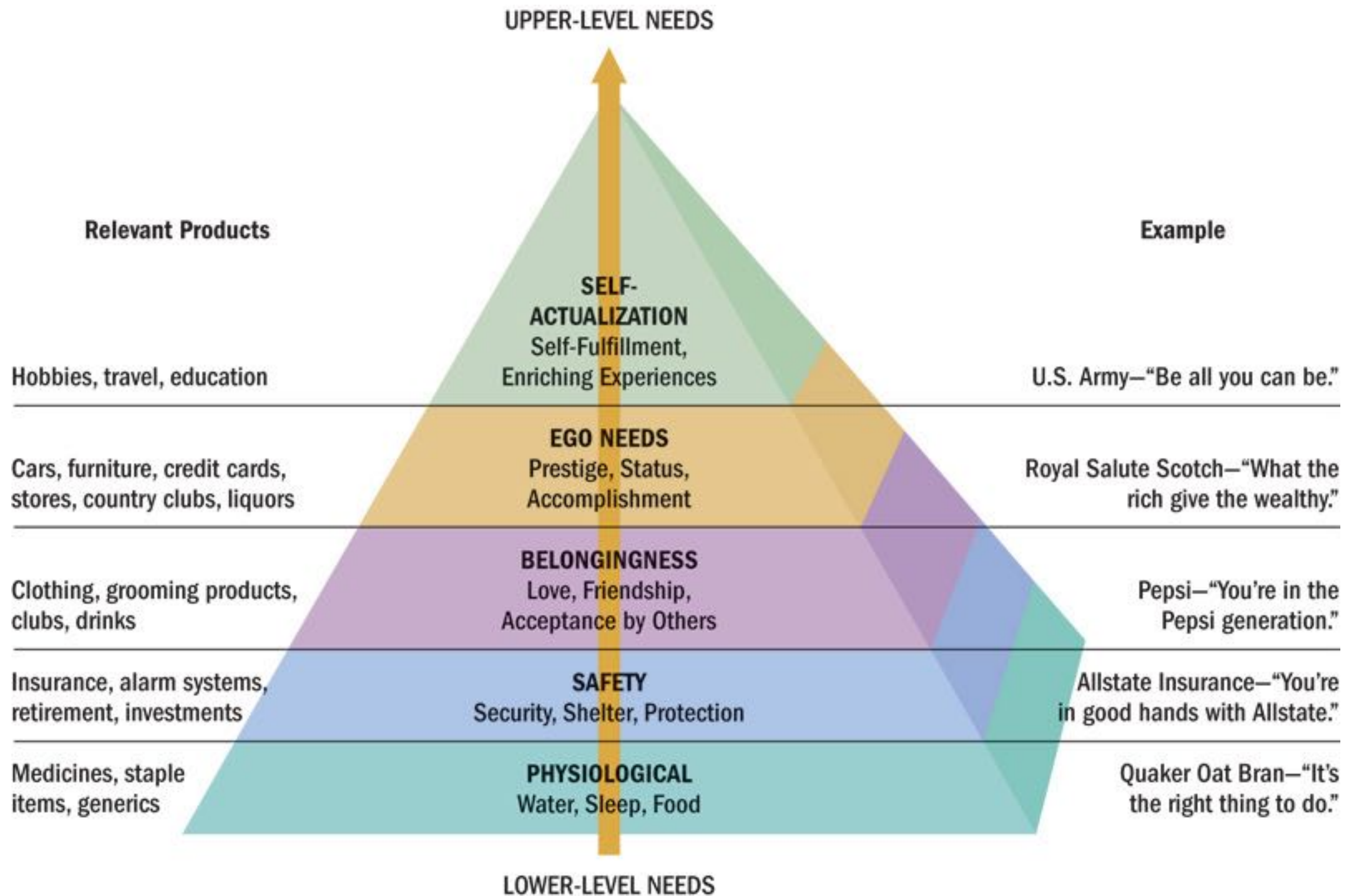
NO PILLS,
NO LIPO

Back to her old body
with the miracle food
that sheds weight fast

Maslow's Hierarchy of Needs

(psychogenic and biogenic)

**Must attain a certain level
before attaining to the next**



Perception

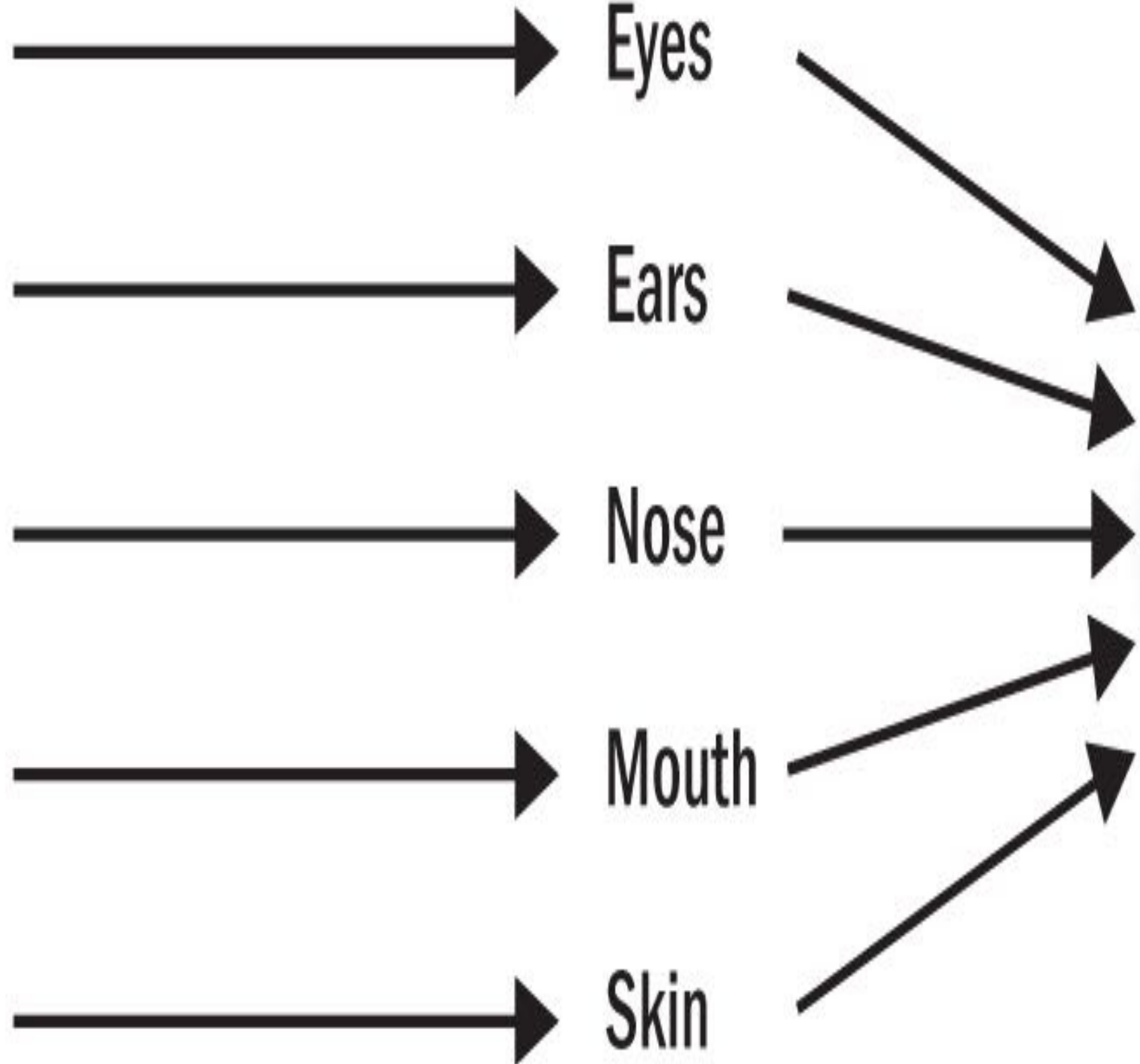
Process by which people select, organize, and interpret information to form a meaningful picture of the world

SENSORY STIMULI

- Sights
- Sounds
- Smells
- Taste
- Textures

SENSORY RECEPTORS

- Eyes
- Ears
- Nose
- Mouth
- Skin



What Might Affect Perception?

The level of attention we give to different pieces of information:

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

How we interpret different cues from the environment:

Selective distortion is the tendency for people to interpret information in a way that will support what they already believe

Selective retention is the tendency to remember good points about competing brands

Psychological Factors

Beliefs and Attitudes

Belief is a descriptive thought that a person has about something based on:

- Knowledge**
- Opinion**
- Faith**

Attitudes describe a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea (like/dislike)

Changing Attitudes

- **Very difficult (especially if based on beliefs. How can you refute that Volvo is not necessarily the “safest” car? That PC is as “creative” as a MAC?)**
- **Better for a company to fit into existing attitudes than to try to change them**



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2.1.3 The Decision Making Process

Level of Involvement

How much a consumer cares that the purchase decision is “perfect,”

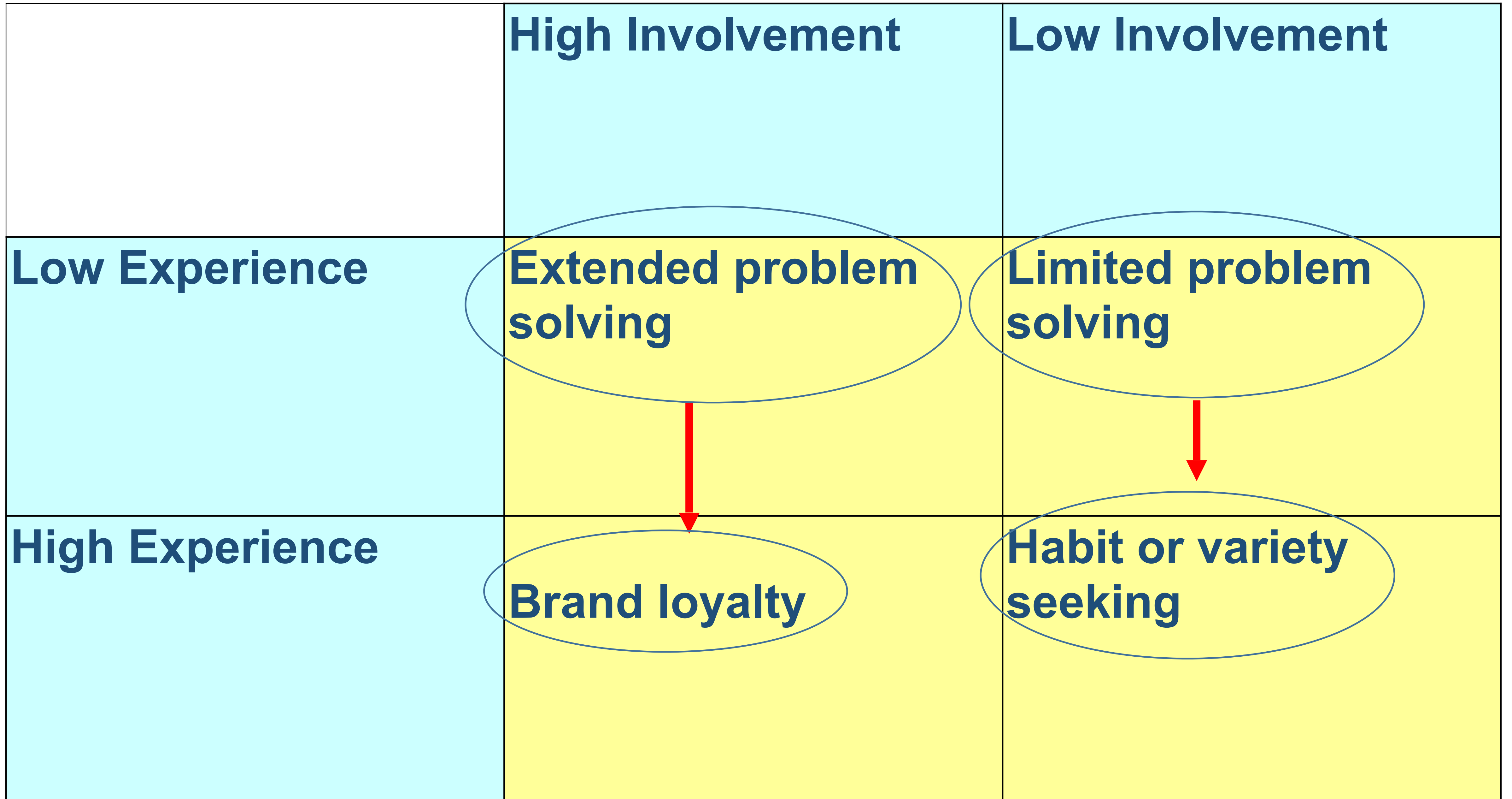
How important is it to not make a mistake and buy the wrong thing.



Four Types of Buying Decision Behavior

Based on:

- 1. Degree of involvement**
- 2. Degree of experience with product (ability to search)**



Why is it important to make these distinctions?

Affects marketing strategy

Key strategy questions:

What is the level of involvement?

What is the competitive environment?

What is the brand differentiation?

Example: Cars

High involvement/ monopolistic competition/ high differentiation. Strategy?

Create brand loyalty, differentiate based on attributes (safety (Volvo); prestige (Ferrari); economic (Japanese))

Example: Rice

**Low involvement/ pure
competition/ low
differentiation. Strategy?**

**Create availability; wide
distribution, shelf placement.**

Buyer Decision-Making Process

Problem Recognition

Richard realizes that he dislikes his old car

Information Search

Richard surfs Web to learn about cars

Evaluation of Alternatives

Richard compares models on reputation and features

Product Choice

Richard chooses a car with an appealing feature

Outcomes

Richard brings car home and enjoys his purchase

Involvement Level will determine the stages of the consumers' decision process

Involvement with the decision affects how much time, effort, and energy to expend when satisfying a need

➤ High involvement

- Go through all five stages – more systematic**

➤ Low involvement

- Usually more common**
- Some stages are skipped (e.g., from need recognition to purchase)**

1. Problem Recognition

- **A problem recognition arises when a need is not met**
- **It can happen as a result of**
 - **Internal stimulus (e.g. hunger; Maslow hierarchy of needs; discrepancy between current state and desired state)**

or

- **External stimulus (e.g. advertising; 4 P's)**

2. Information Search

Information search starts when a consumer wants to know more about how to solve the problem



Where can information be found?

➤ Internal (memory):

- **Previous experience with the product or similar products (attitude)**
- **Previous experience with solving the specific need (alternatives)**
- **Previous repeated exposure to advertising/promotion (beliefs)**

➤ External search

- Personal (friends, relatives, WOM)
- Commercial (retail store, ads, promotions)
- Professional (online reviews, consumers' report)
- Internet as a search engine



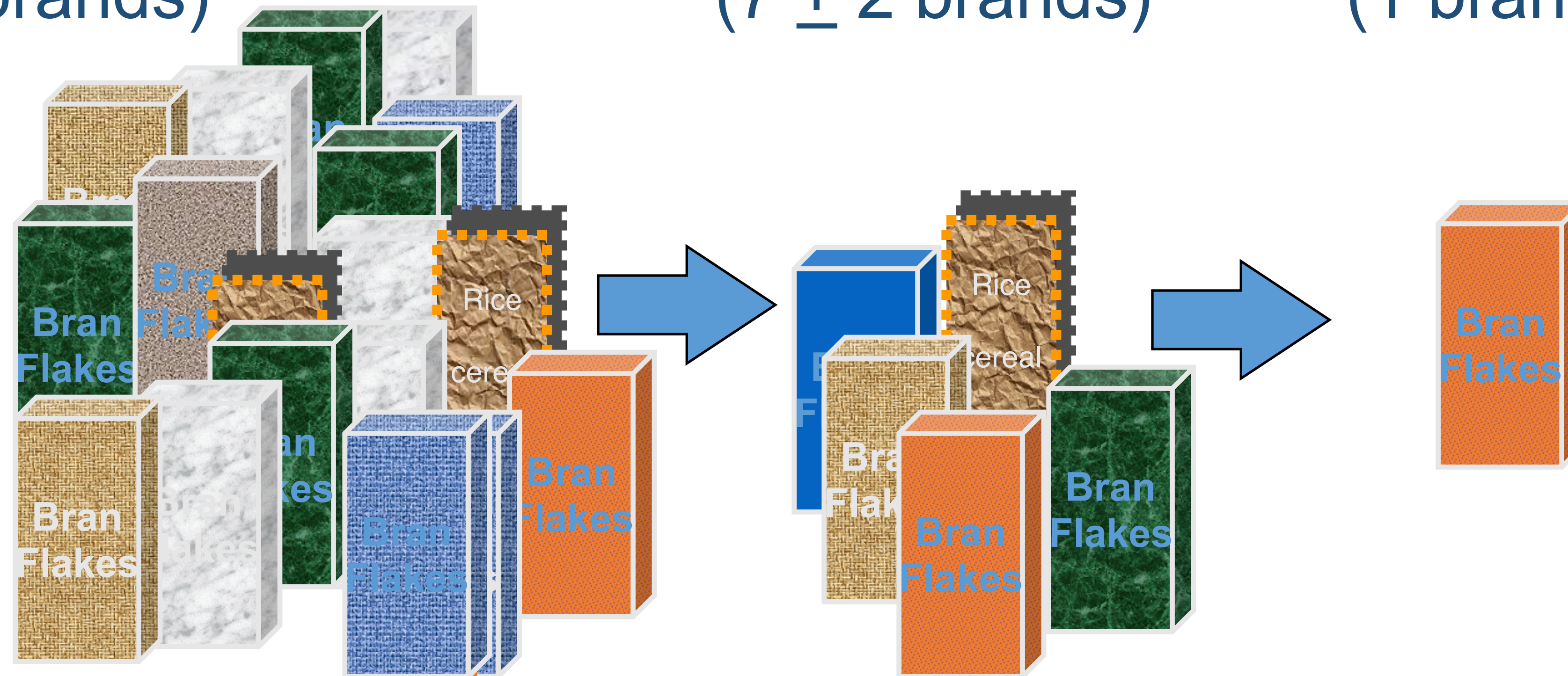
**Internal and external search
lead to forming attitudes
about different alternatives**

3. Evaluation of Alternatives

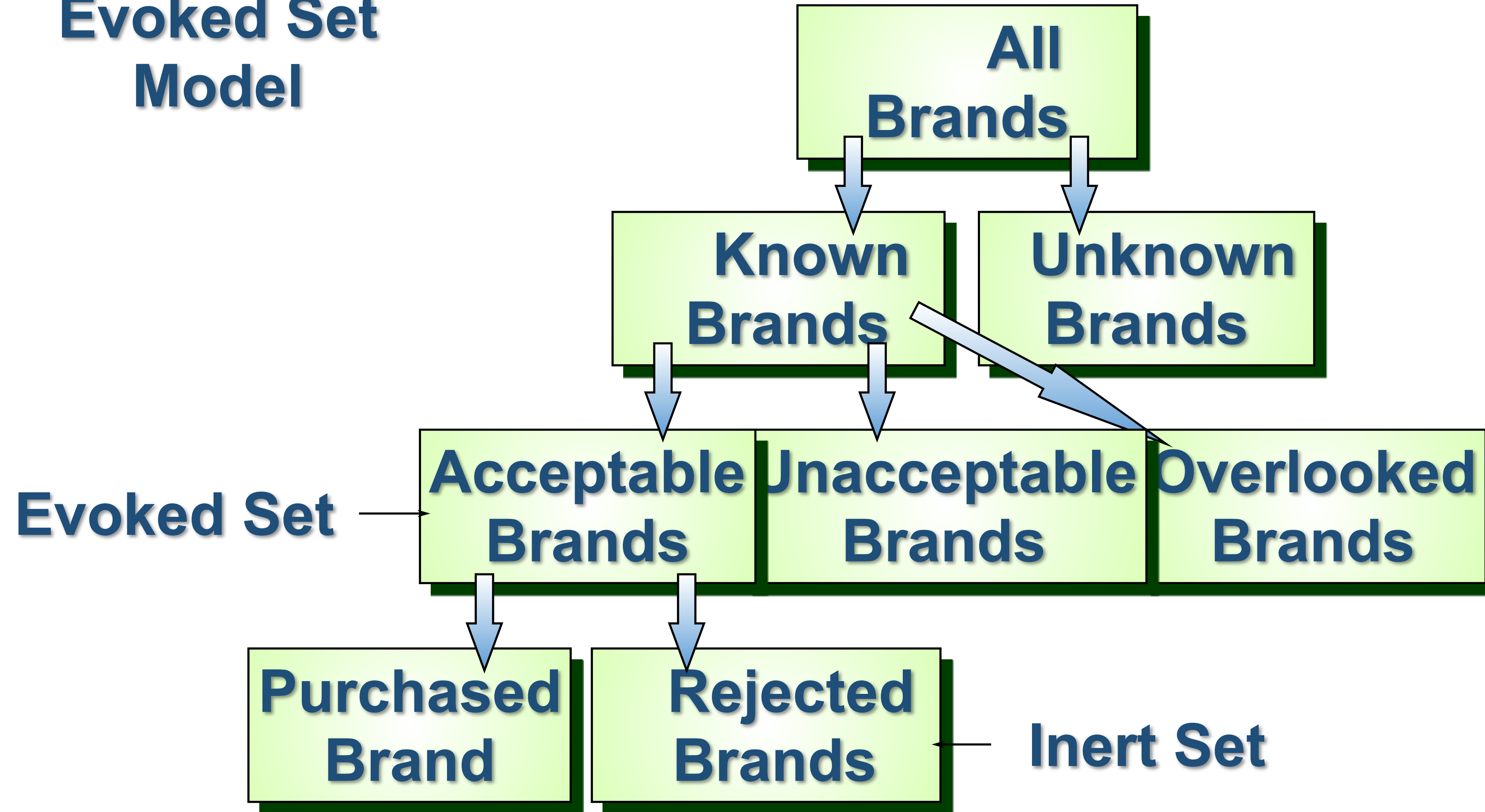
Brands available
in the marketplace
(>20 brands)

Consideration Set
(7 ± 2 brands)

Choice
(1 brand)



Evoked Set Model



How consumers evaluate alternatives:

- **Product attributes**

Quality, price, features (ex: choosing an airline based on reliability: on time and technical)

- **Degree of importance**

Which attributes matter most? (price; on time; food; technical)



Brand beliefs

Beliefs about each brand on each attribute (“United airlines flights are never delayed”; “jet blue is the cheapest”)

Evaluation process

Combining beliefs, importance, etc., to form attitudes and preferences

4. Product choice:

Decision heuristics

- **First brand that comes to mind (Pepsi, Coke)**
- **Price-quality relation (the higher the price the higher the quality...)**
- **Brand name (Diesel, Seventeen..)**

Decision Heuristics

- Country of origin (Japan=high quality electronics; china=cheap products...)
- Store image (Barney's vs. K-mart)
- Personal recommendation (friend, family..)



5. Purchase and Related Decisions

The additional decisions include:

- **Where to buy (on line; dept. store vs. brand store...)**
- **How to pay for the purchase (credit, cash, payments)**
- **How to take the product (delivery, carry...)**
- **Whether to buy the extended warranty, etc.**

Marketers must make it as easy as possible for the customer to make these decisions

Postpurchase Behavior

When the purchased product meets or exceeds expectations, the customer is satisfied →

When satisfied, customers buy the same product again (loyalty) →

When the product falls short of expectations, the consumer is disappointed

→ When dissatisfied, customers spread bad word-of-mouth to an estimated 11 people (online much more!)

Postpurchase Behavior

Cognitive dissonance

A state of anxiety caused by the difficulty of choosing from among several alternatives – decision is always imperfect. The feelings of doubt and concern after a purchase is made.



Dissonance increases when the downsides of buying the “wrong” product are high, a riskier decision:

- **The purchase price is high**
- **There are many close alternatives**
- **The item is intangible**
- **The purchase is important**
- **The item purchased lasts a long time**



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2.2 Segmentation

What is Segmentation?

***Segmentation* is the process of dividing the total heterogeneous market for a product or service into several segments, each of which tends to be homogeneous in some significant aspects.**

Segment 1



Segment 2



**Different needs
from each other**

Market segmentation: dividing market into distinct groups which will require separate marketing mixes

Target marketing: choosing which group(s) to appeal to

Market positioning: creating a clear, distinctive position in the consumer's mind relative to competition (Volvo=safety; Geico=cheaper)

Positioning Strategy: Selecting key themes to communicate to a target market (safety, good value, cool...).

Marketing Strategy: Evolves as a result of the above

Who?

Select customers to serve

Segmentation

Divide the total market into smaller segments

Targeting

Select the segment or segments to enter



Create value for targeted customers



How?

Decide on a value proposition

Differentiation

Differentiate the market offering to create superior customer value

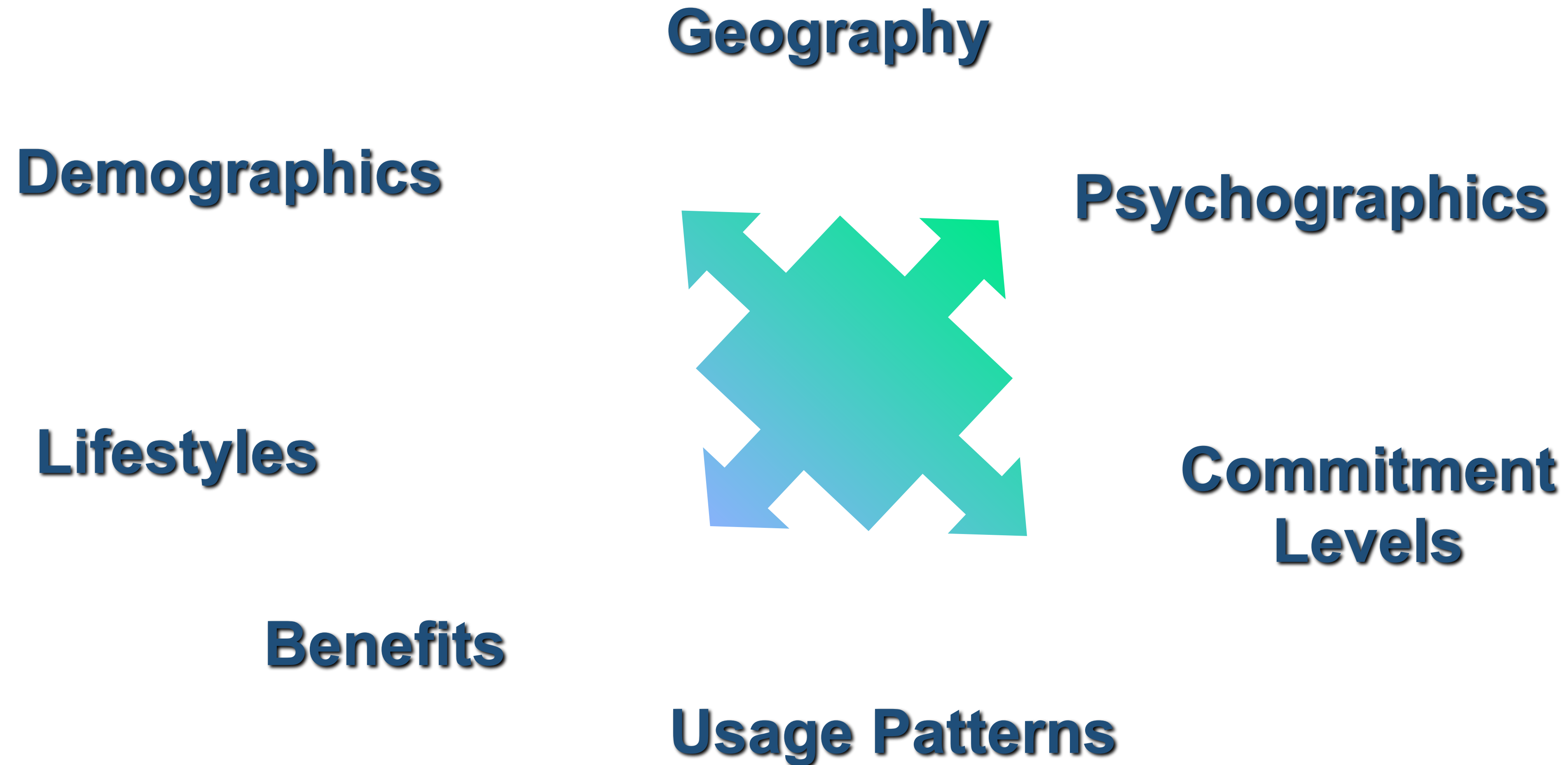
Positioning

Position the market offering in the minds of target customers

Requirements for Effective Segmentation

- **Profitable** - and sustainable over time
- **Measurable** - with accessible data
- **Accessible** - through existing distribution, advertising, etc.
- **Homogenous** - similar needs and desires within segments
- **Mutually exclusive** - Different needs and desires among segments

Bases for Market Segmentation (or how to divide your consumers to homogenous groups)



Geographic Segmentation:

Dividing an overall market into homogeneous groups on the basis of their physical locations

- **Usually will be done when the need for the product is derived from the consumer's location (weather related, terrain related, etc.)**
- **Or when the general patterns of consumption are affected by the social/cultural environment (political views, ethnic flavors and tastes, etc.)**

Demographic Segmentation

1. Age

2. Gender



3. Race

4. Marital Status



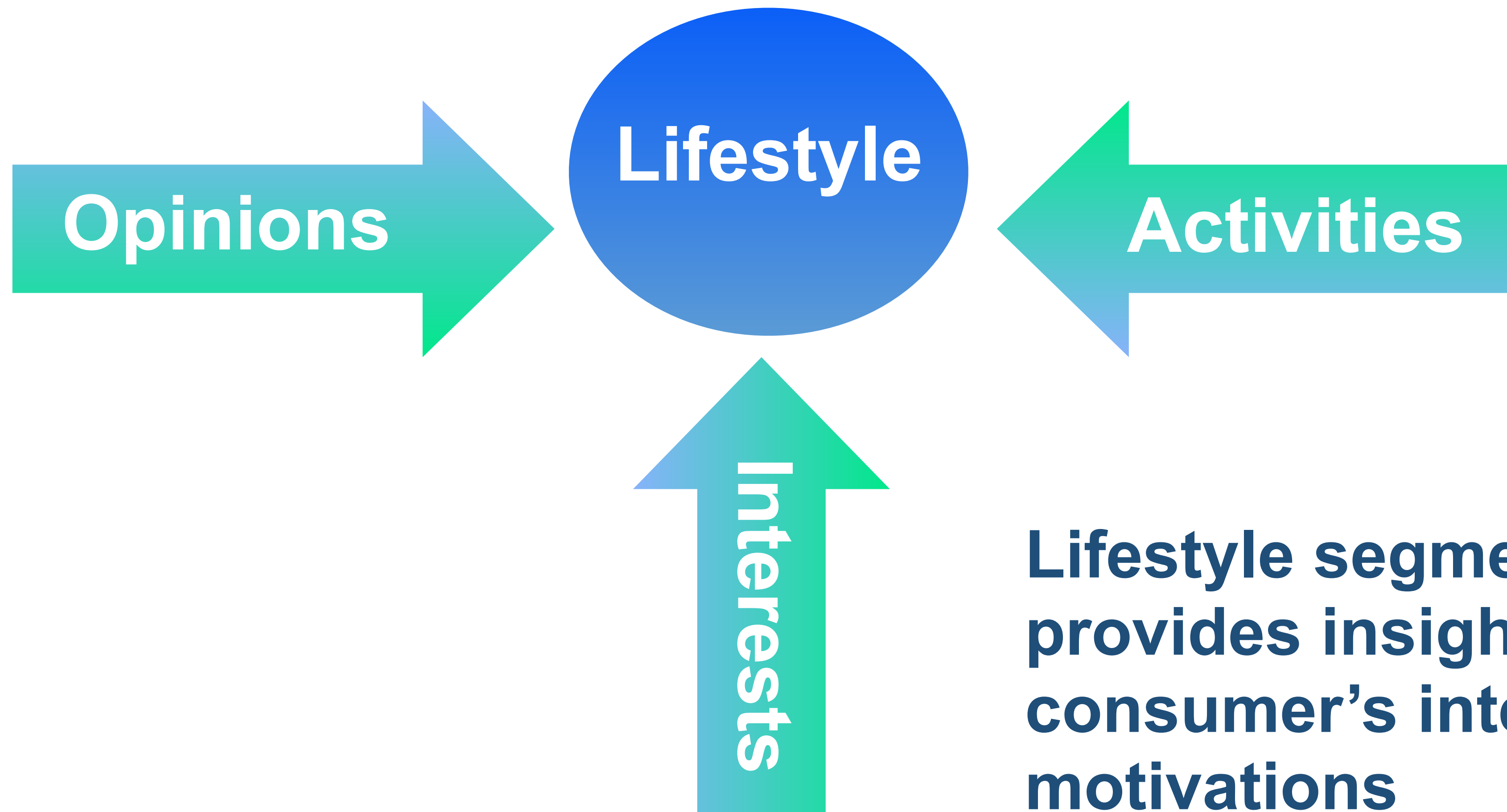
5. Income

6. Education



7. Occupation

Psychographics and Lifestyle Segmentation



Lifestyle segmentation provides insight into consumer's internal motivations

Segmentation by Psychographics

Divides a population into groups that have similar psychological characteristics, values, and lifestyles

- Personality (like the same things, have the same values...)**

- Life style: people's decisions about how to live their daily lives, including family, job, social, and consumer activities. Consumers tend to buy products and services that are consistent with their lifestyle**

Lifestyle = (activities, interests, opinions)



Segmentation by Behavior

Relationship (to the company)

- **Frequency of Contact: Do consumers visit often?**
(Ex: how often do consumers fly United? Buy coffee at Starbucks?)
- **Loyalty: Do they only visit you?**
(United only or use other airlines as well?)

Segmentation by Behavior

Benefits Desired (e.g. clothes)

- **Sensories: sensitive to texture and touch (Comfortable fabric, cotton only...)**
- **Sociables: Stylish look**
- **Worriers: Hypo-allergenic (safe for the environment?)**
- **Usage Rate**
- **How much and how often? (light users, heavy users...)**

Usage Situation

NyQuil: Nighttime Cold Medicine



J&J Baby Shampoo



Benefit Segmentation

Prestige?

**Passenger
Safety?**



Fuel Economy?

Benefits in Toothpaste Market

Crest

- Cavity prevention
- Whitening
- Tartar control
- Sensitivity
- Flavor
- Texture (gel, paste)



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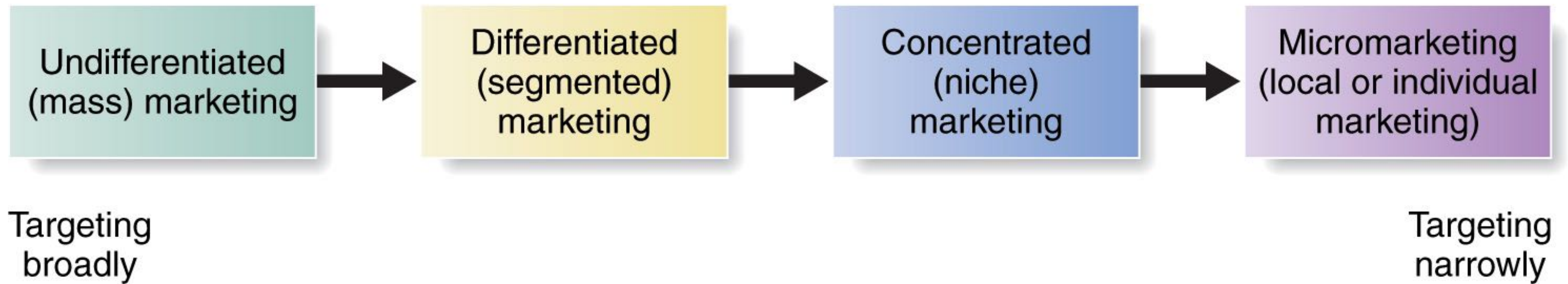
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2.3 Targeting

Target Marketing Strategies



Target Marketing Strategies

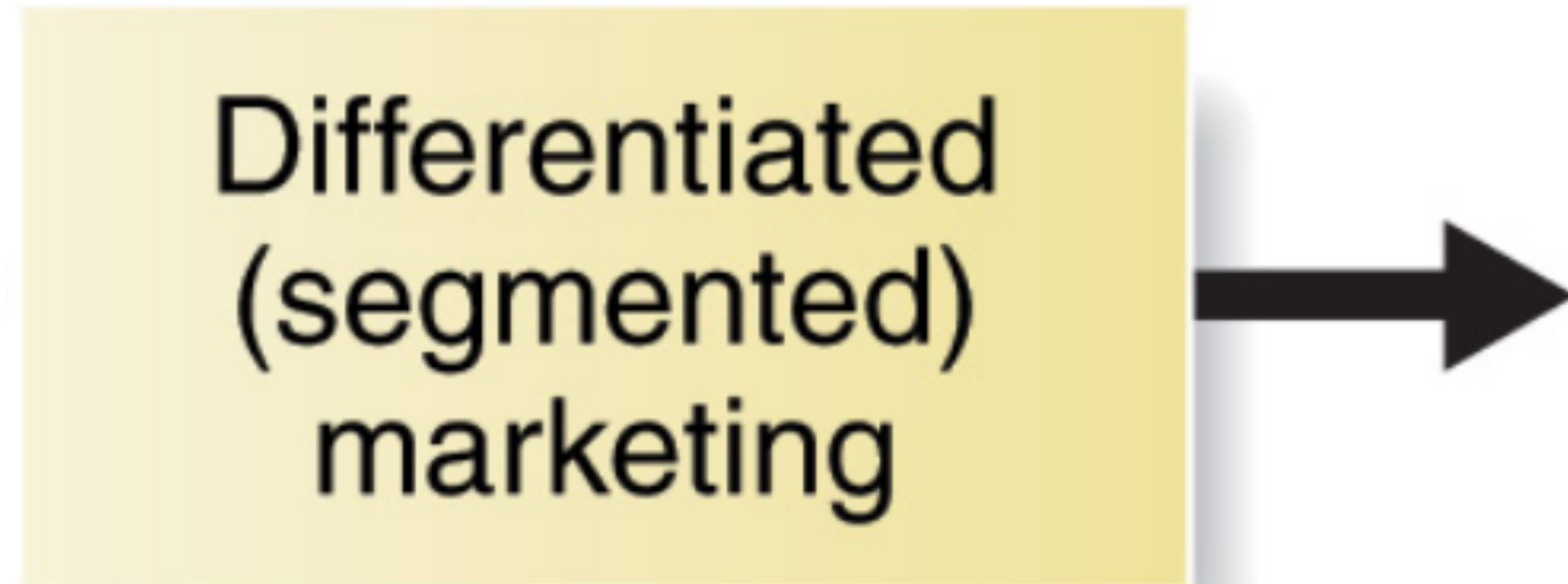


Undifferentiated marketing targets the whole market with one offer

Mass marketing

- Focuses on common needs rather than what's different (milk, rice, salt)

Target Marketing Strategies



Differentiated marketing targets several different market segments and designs separate offers for each. Goal is to achieve higher sales and stronger position. More expensive than undifferentiated marketing. P&G (Tide, Dreft)

Target Marketing Strategies



Concentrated marketing targets a small share of a large market

- **Limited company resources**
- **Knowledge of the market**
- **More effective and efficient (Head and Shoulders, Johnson and Johnson)**

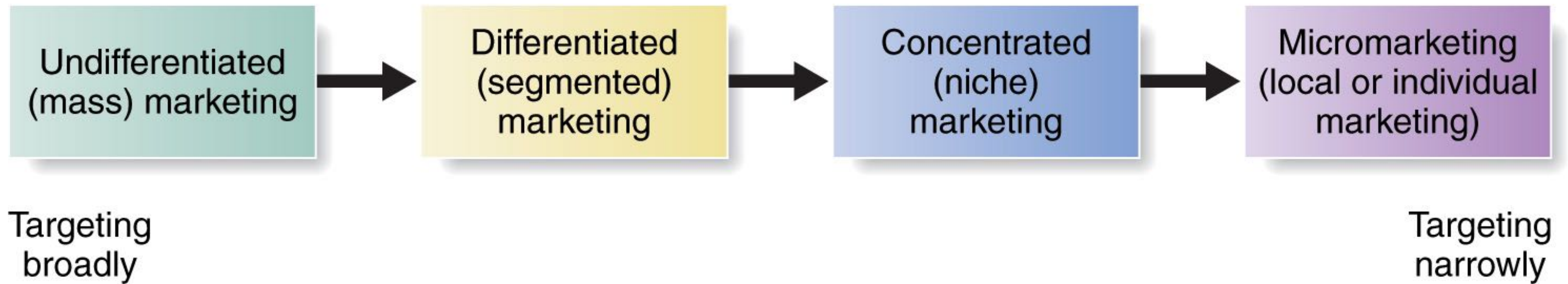
Target Marketing Strategies

Micromarketing
(local or individual
marketing)

Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations

Local marketing (Designer clothes, Rolex, Rolls Royce)

Target Marketing Strategies



Choosing a Targeting Strategy Depends On:

- **Company resources**
- **Product availability (how easy it is to get)**
- **Product's life cycle (new or mature)**
- **Competitors' marketing strategies**



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2.4 Differentiation and Positioning

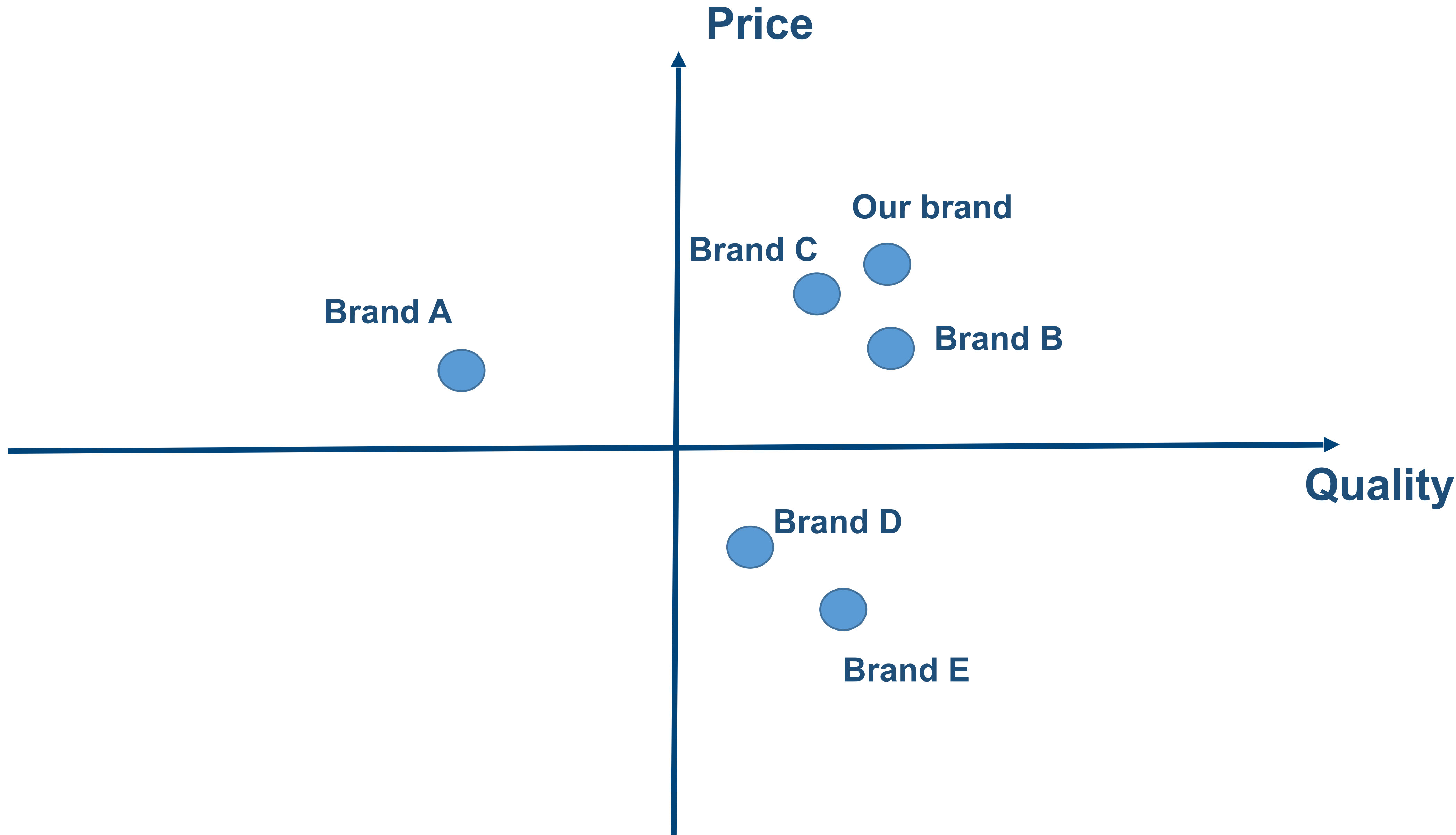
Product Position is the way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products

During the buying process consumers categorize products and position them in their mind compare to competitors.

Perceptual Positioning Map Research Tool

**Positioning maps show
companies the consumers'
perceptions of their brands
versus competing products on
important buying dimensions**

- For example: Price and quality**



Choosing a Differentiation and Positioning Strategy

- **Identifying a set of possible competitive advantages to build a position on**
- **Choosing the right competitive advantages**
- **Selecting an overall positioning strategy**

 **communicating positioning to the market**

Identifying a set of possible competitive advantages to build a position by providing superior value from:

- **Product differentiation (features – Volvo)**
- **Service differentiation (same day delivery, free returns)**
- **Channel differentiation (online vs retailer)**
- **People differentiation (Disney, Baristas at SB)**
- **Image differentiation (Nike, Rolex, BMW)**

**WHAT'S
YOUR
COMPETITIVE
ADVANTAGE**



Repositioning

- **Used to revive an ailing brand or fix a lackluster new market entry (Old Spice – from aging men to young men; Bell Atlantic to Verizon – increase service reputation)**
- **The Challenge: Changing perceptions of a brand forged over years of advertising.**

Possible Value Propositions

- **More for more**
High quality, high price: **BMW**
- **More for the same**
High quality, lower price: **Lexus**
- **More for less**
Better quality, lower prices: **Target, Trader's Joe**
- **The same for less**
Same products, lower price: **Amazon, Wal-Mart, Geico,**
- **Less for much less**
Less quality, lower price: **Motel6, Kmart**



		Price		
		More	The same	Less
Benefits	More	More for more	More for the same	More for less
	The same	Losing Propositions	Marginal Propositions	The same for less
	Less	Losing Propositions	Losing Propositions	Less for much less

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2.5 Business-to-business Markets

Nature and Scope of B2B Market

- **Consists of organizations that buy products and services:**
 - **to make other products and services**
 - **to resell to business users or to consumers**
 - **to conduct the operations of the organization**

Nature and Scope of B2B Market

- the business market is larger than the consumer market because many businesses sell to other businesses and many products change hands several times before reaching the end consumer



B2B Market Demand

- **the demand for a business product is often *derived* from demand for a consumer product**
- **demand for business products is generally relatively *price inelastic***

B2B Market Demand

- **demand in the business market tends to *fluctuate* more widely than that in consumer markets**
- **buyers in the business market are generally much *better informed* than are end consumers and the decision making is more *rational***

Determinants of Demand

Different from the consumer market in a number of ways:

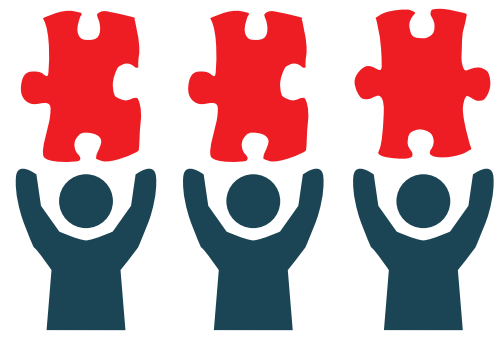
- **fewer (although much larger) business customers**
- **buying power is often concentrated in a few firms and organizations**

Determinants of Demand

Different from the consumer market in a number of ways:

- **industries are often geographically concentrated**
- **business markets may be vertical or horizontal**

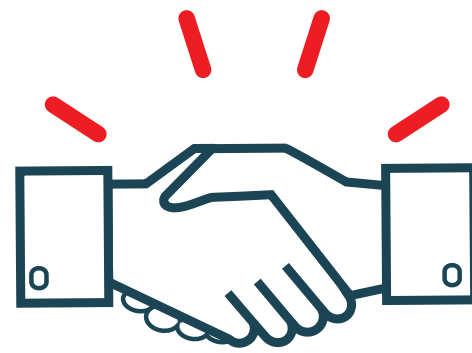
B2B



COOPERATION



MARKETING



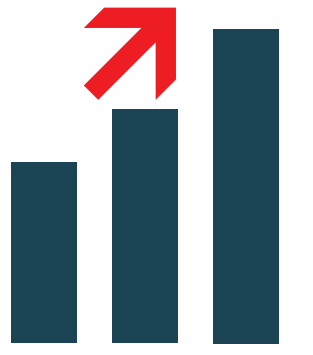
TRANSACTION



SUPPLY CHAIN



COMMERCE



SALES

Business Buying

- **buying or purchasing is a very important activity in most firms as it affects how well a business can serve its customers**
- **through outsourcing, many firms are making less and buying more of what they need**

Business Buying

- **firms are under time pressures to reduce inventories and to obtain things just in time**
- **many are concentrating their purchases with a small number of “partner” suppliers**

Business Buying Motives

- **business buyers are motivated by both organizational and personal goals**
- **the business buying situation can fit into one of three categories: new-task buying, straight rebuy, or modified rebuy**
- **each will likely require a different approach on the part of the B2B marketer**

Multiple Buying Influences in the Decision Making Process

- a number of people involved in most business buying decisions

A buying center includes people playing the following roles:

- *users*: those who will use the product/service
- *influencers*: often set specifications to follow



Multiple Buying Influences in the Decision Making Process

A buying center includes people playing the following roles:

- ***deciders***: make the actual decision to buy
- ***gatekeepers***: control the flow of information
- ***buyers***: actually process the purchase order

Business Buying Patterns

- **buy directly from the producer**
- **suppliers establish long-term close relationships with their customers**
- **some products are bought very infrequently**
- **negotiations often go on for months or years**

Business Buying Patterns

- **sometimes there is *reciprocity* involved**
- **often considerable need for after-sale service**
- **customers are very dependent on suppliers to guarantee a consistency of supply**

Segmenting B2B Markets

- **can use some of the same bases as used to segment B2C markets**
- **often segment business markets on the type of customer or on industry classification**



Segmenting B2B Markets

- **segmentation by size of customer really considers sales volume or potential**
- **can also consider segmenting on the basis of the type of buying situation the customer is in**
- **more pragmatic bases for segmentation**

