

# Strategic Market Planning: Take the Big Picture

## Real People Profiles



## Jay Minkoff

### Profile

#### ▼ A Decision Maker at First Flavor, Inc.

Jay Minkoff is a serial entrepreneur who specializes in creating innovative marketing solutions. Currently, Jay is the co-founder and president of First Flavor, which provides the patent-pending Peel 'n Taste® flavor sampling platform for marketing food, beverage, and flavored product industries using edible film technology. Prior to this, he co-founded HomeBuilder.com, an online marketing and listing site for the home building industry, which was sold to Homestore, Inc. (now Move.com) in

1999 and which he continued to manage until 2003. His prior business, Tri-State Publishing & Communications, publisher of the *Apartment Shoppers Guide* and *New Homes Guide* consumer real estate magazines, was sold to Primedia in 1996. This company was recognized in 1990 as the 91st fastest growing company in the country on *Inc. Magazine's* Inc. 500 List. Prior to this, Jay was a successful commercial real estate broker, having sold or financed over a quarter billion dollars of institutional properties.

A graduate of Tufts University majoring in civil engineering, he holds an MBA in entrepreneurial management and real estate finance from The Wharton School at the University of Pennsylvania. Jay lives in Wynnewood, PA with his wife and two daughters.

### Info

#### Jay's Info

##### What do I do when I'm not working?

A) Staying fit by cycling, playing golf, scuba diving, and skiing.

##### First job out of school?

A) Real estate investment banking.

##### Career high?

A) Getting offered a cash-out on selling my first company at 50 percent more than I felt the company was worth!

##### A job-related mistake I wish I hadn't made?

A) Raising my voice to *any* employee when it was not appropriate.

##### Business book I'm reading now?

A) *Buy-ology* by Martin Lindstrom.

##### My hero?

A) William Jefferson Clinton, a brilliant man who has dedicated his life to making a difference in the world for hundreds of millions of people. A true global citizen.

##### My motto to live by?

A) Make a difference and enjoy what you do!

##### What drives me?

A) Doing what hasn't been done before. My version of Star Trek's "exploring strange new worlds and civilizations."

##### My management style?

A) Micro management meets delegation with accountability.

##### Don't do this when interviewing with me?

A) Playing with a pen, tapping your fingers, any nervous habit.

##### My pet peeve?

A) Not keeping your word. If you can't do what you told me you're going to do, renegotiate your promise vs. dropping the ball.



# Here's my **problem.** . . .

## Real People, Real Choices

First Flavor had just completed product development of its marketing services product, the Peel 'n Taste® marketing system. This product provides marketers, for the first time, with the ability to use the sense of taste to market a consumer product. The company's technology allows it to infuse virtually any taste onto an edible flavor strip (à la popular breath strips). The consumer can "sample" the

product—whether it's fruit juice, toothpaste, frozen desserts, or any beverage—simply by plucking a strip from a dispenser in a grocery aisle or peeling one off a magazine ad. The strip completely dissolves on the tongue and provides a realistic approximation of what the item will taste like. This new taste sampling vehicle had the potential to be for the food and beverage industry what Scratch 'n Sniff® was for the fragrance industry; it's a way to sample a sensory attribute without actually purchasing the product! Better yet, it could be included in any printed marketing media.

As First Flavor started to see its first sales of Peel 'n Taste® from consumer product manufacturers (Arm & Hammer toothpaste, Old Orchard fruit juice, Welch's grape juice, Sunny Delight Elations®, etc.), the startup became aware of other uses for its capability to produce great-tasting edible film strips. Several different applications presented themselves. Here are a few examples:

- When people saw samples of edible films that tasted like Krispy Kreme® glazed donuts, buttered popcorn, and

butter pecan ice cream, some of them asked, "How many calories do they have?" and "Can I use these when I'm on a diet?" Jay realized that providing dieters with no-calorie edible film strips in indulgent flavors could be a new market for First Flavor given the size of the \$30 billion diet industry.

- Several people during those early years also contacted the company as a result of online searches to provide convalescing relatives with flavor strips. The intended recipients of the flavor strips had a medical condition that prevented them from swallowing (dysphagia) and thus they could not taste food. Quite literally, one of their five senses was not being activated. First Flavor's strips could improve the quality of life for many people and possibly generate a new revenue stream.
- One of First Flavor's clients had a line of herbal-flavored waters it wanted to sell on QVC. Because the water weighed so much compared to the cost, it was as expensive to ship the flavored water as it was to buy it. The owner of the water company asked Jay if First Flavor could create "flavor strips" that contained the flavoring used in these herbal flavored waters. The consumer could simply drop a flavoring strip in a bottle of water to create the herbal flavor at home.

### Things to remember

First Flavor's new technology allows it to duplicate virtually any taste in a plastic strip that dissolves on a person's tongue. This provided several potential benefits, including novelty/entertainment, risk reduction (people could taste a product before they bought it), and a new way to promote a product in-store or even in print media (by attaching a flavor strip to a mailing or a magazine ad). Jay has to understand which application(s) hold the most promise and also to decide on a strategic focus so that First Flavor can identify marketing objectives based on what the company hopes to accomplish in the short term and then farther into the future.

As entrepreneurs, Jay and his partners wanted to jump on all of these new opportunities. But they were concerned with losing focus while in the middle of launching First Flavor's first product, Peel 'n Taste®. Also, they didn't think they would be able to secure intellectual property protection (such as patents) for any of these three new product ideas. In addition, as an under-capitalized company that Jay was primarily funding, First Flavor was also concerned with the cost of launching these other products. The decision regarding whether to diversify into new product categories was a major strategic crossroads for the young company.

## Jay considered his options 1·2·3

**1 Option** Investigate all three new business ideas and start product development even as Peel 'n Taste® was still a fledgling product trying to gain market acceptance. This strategy could create new revenue opportunities and give the company other options to fall back upon if Peel 'n Taste® took off slower than First Flavor hoped. And, since the new applications couldn't be patented, the extra lead time would give First Flavor a first-to-market advantage. On the other hand, these other initiatives would drain the company's limited financial resources. And management needed to stay focused on maximizing the market's acceptance of Peel 'n Taste® at this crucial point in its young life-cycle.

**2 Option** Continue to focus on introducing Peel 'n Taste® into the market until it gained market acceptance. This product would provide the company with the cash flow to invest in new product launches at a later point. A single approach will keep management and staff focused on the company's initial mission. It will reduce costs and thus the initial investment required to bring the company to profitability. Still, it's not clear how long this process will take. There may be missed market opportunities if another company picks up on one or more of these ideas and brings them to market first.

**3 Option** Pick just one or two of these new products and investigate the opportunity of launching it with limited resources and management attention while Peel 'n Taste® remained the company's primary focus. This more selective approach would minimize the cost of launching a new product. Management's time and attention would be diverted, but not on such a significant basis. And this strategy would force First Flavor to look at each of the opportunities more critically because it would have to pick only one to push forward. Still, there was the problem of the "road not taken." Two of the ideas would not get implemented in the near future, and First Flavor faced a possible loss of first-mover advantage in the marketplace for these new products. Now, put yourself in Jay's shoes: Which option would you pick, and why?

### You Choose

Which **Option** would you choose, and **why**?

1.  Yes  No
2.  Yes  No
3.  Yes  No

See what **option** Jay chose on **page 61** →

## Chapter 2

## Objective Outline

## 1. Explain business planning and its three levels. (pp. 40–46)

BUSINESS PLANNING: COMPOSE THE BIG PICTURE (p. 40)

## 2. Describe the steps in strategic planning. (pp. 46–53)

STRATEGIC PLANNING: FRAME THE PICTURE (p. 46)

## 3. Describe the steps in marketing planning. (pp. 53–61)

MARKETING PLANNING: SELECT THE CAMERA SETTING (p. 53)

The great success Jay Minkoff and First Flavor have had with its innovative product line didn't just happen by luck. A great deal of planning went into creating value with the innovative First Flavor Peel 'n Taste® Marketing System. The company's ongoing business planning at all levels of the firm—strategic, marketing, and operational—drives the market success of its patent-pending technology; this process replicates the flavor of a product in quick-dissolving edible film strips that prospective customers can sample by tasting individually packaged pouches. Implementation of these plans led to First Flavor's ability to pitch easy integration of Peel 'n Taste® into a variety of clients' promotional marketing programs in order to drive consumer trial—a powerful service. In this chapter, you will experience the power of effective business planning and lay the groundwork for your own capability to do the kind of planning that has led to Jay's success at First Flavor. We even include a handy foldout guide later in this chapter that shows you step-by-step how to build a plan and where to find the information throughout the book to be able to do it.

For Jay Minkoff at First Flavor, or any marketer engaged in planning for the future of the business, the knowledge you gain from going through a formal planning process is worth its weight in gold! You see, without market planning as an ongoing activity in a business, there's no real way to know where you want the firm to go, how it will get there, or even if it is on the right or wrong track right now. There's nothing like a clear map when you're lost in the wilderness.

As part of the planning process, firms like First Flavor must come to grips with their own resources and capabilities—or *internal environment*—as one part of the *Situation Analysis* section of their Marketing Plan. Jay has to have a clear understanding of First Flavor's mission and marketing objectives before he can develop plans to invest in future products and markets for company growth.

## 1

## OBJECTIVE

Explain business planning and its three levels. (pp. 40–46)

## Business Planning: Compose the Big Picture

Jay Minkoff at First Flavor understands that planning is everything—well, almost. Part of Jay's role as a planner is to define his offering's distinctive identity and purpose. Careful planning enables a firm to speak in a clear voice in the marketplace so that customers understand what the firm is and what it has to offer that competitors don't—especially as it decides how to create value for customers, clients, partners, and society at large.

We think this process is so important that we're launching into our exploration of marketing by starting with a discussion about what planners do and the questions they (both First Flavor and marketers in general) need to ask to be sure they keep their companies and products on course. The foldout marketing planning “road map” we mentioned earlier is useful to help you make your way through the book, keeping the big picture in mind no matter which chapter you're reading. In many ways, developing great business planning is like taking a great digital photo. The metaphor works because

Check out chapter 2 **Study Map** on page 62

success in photography is built around capturing the right information in the lens of your camera, positioning the image correctly, and snapping the picture you'll need to set things in motion. A business plan is a lot like that.

Whether a firm is a well-established company like General Mills (which we'll feature in a later chapter) or a relatively new firm like First Flavor, planning for the future is a key to prosperity. Sure, it's true that a firm can succeed even if it makes some mistakes in planning, and there are times when even the best planning cannot anticipate the future accurately. It's also true that some seat-of-the-pants businesses are successful. But without good planning for the future, firms will be less successful than they could be. In the worst-case scenario, a lack of planning can be fatal for both large and small businesses. So, like a Boy Scout, it's always better to be prepared.

**Business planning** is an ongoing process of decision making that guides the firm both in the short term and the long term. Planning identifies and builds on a firm's strengths, and it helps managers at all levels make informed decisions in a changing business environment. *Planning* means that an organization develops objectives before it takes action. In large firms like Microsoft and Honda, which operate in many markets, planning is a complex process involving many people from different areas of the company's operations. At a very small business like Mac's Diner in your home town, however, planning is quite different. Mac himself is chief cook, occasional dishwasher, and the sole company planner. With more entrepreneurial firms the planning process falls somewhere in between, depending on the size of the firm and the complexity of its operations.

In this chapter, we'll look at the different steps in an organization's planning. First, we'll see how managers develop a **business plan** that includes the decisions that guide the entire organization or its business units. Then we'll examine the entire strategic planning process and the stages in that process that lead to the development and implementation of a **marketing plan**—a document that describes the marketing environment, outlines the marketing objectives and strategies, and identifies how the company will implement and control the strategies embedded in the plan. But first, let's consider one of the most important overarching issues in planning—ethics.

## Ethics Is Up Front in Marketing Planning

It's hard to overemphasize the importance of ethical marketing decisions. Businesses touch many stakeholders, and they need to do what's best for all of them where possible. On a more selfish level, unethical decisions usually come back to bite you later. The consequences of low ethical standards become very visible when you consider a slew of highly publicized corporate scandals that have made news headlines since the turn of the century. These include the fall of Enron and WorldCom due to unsavory financial and management practices, Martha Stewart's stint as a jailbird for using insider information in stock trading, the subprime mortgage meltdown that contributed to the woes of AIG and other financial giants, and Bernie Madoff's infamous Ponzi scheme that robbed thousands of their retirement nest eggs. And these are only a few especially high-profile examples!

The fallout from these and other cases raises the issue of how damaging unethical practices can be to society at large. The business press is filled with articles about accountability, corporate accounting practices, and government regulation as the public and corporate worlds rethink what we define as ethical behavior. When major companies defraud the public, everyone suffers. Thousands of people lose their jobs, and in many cases the pensions they counted on to support them in retirement vanish overnight.

Other stakeholders are punished as well, including stockholders who lose their investments, and consumers who end up paying for worthless merchandise or services. Even confidence in our political system suffers, as was the case with the 2007–2008 government bailouts of major financial institutions while some of these same firms continued to pay

### business planning

An ongoing process of making decisions that guides the firm both in the short term and for the long term.

### business plan

A plan that includes the decisions that guide the entire organization.

### marketing plan

A document that describes the marketing environment, outlines the marketing objectives and strategy, and identifies who will be responsible for carrying out each part of the marketing strategy.

## Ripped from the Headlines

### Ethical/Sustainable Decisions in the Real World

In late 2009 Anheuser-Busch rolled out a new marketing campaign that features Bud Light beer cans emblazoned with local college and university team colors. Not surprisingly, many college administrators contend that the promotions near college campuses will contribute to underage and binge drinking and give the impression—because of the color connection—that the colleges are endorsing the brew and associated behaviors. The “Fan Cans” renewed the debate over the role of beer makers in encouraging college drinking.

#### ETHICS CHECK:

Find out what other students taking this course **would do** and **why** on [www.mypearsonmarketinglab.com](http://www.mypearsonmarketinglab.com)



As a college administrator, would you ask Budweiser to pull its Bud Light Fan Can promotion if it involved your institution?

Yes  No

#### business ethics

Rules of conduct for an organization.

#### code of ethics

Written standards of behavior to which everyone in the organization must subscribe.

Bud Light’s school-colors campaign, also called “Team Pride” in the marketing materials, aims to use “color schemes to connect with fans of legal drinking age in fun ways in select markets across a variety of sports,” says Carol Clark, Anheuser-Busch’s vice president of corporate social responsibility. She also says that the program

is voluntary and that roughly half the brand’s wholesalers have chosen to participate. A number of schools asked Anheuser-Busch to drop the campaign near their campuses.

“Show your true colors with Bud Light,” the company says, according to copies of internal marketing materials obtained by colleges. “This year, only Bud Light is delivering superior drinkability in 12-ounce cans that were made for game day.” Ms. Clark says Anheuser-Busch values its relationships with college administrators and has “a longstanding commitment to promoting responsible drinking.” Since 1982, the company and its U.S. wholesalers have spent more than \$750 million to fight alcohol abuse, including underage drinking and drunk driving, she says.

The National Institute on Alcohol Abuse and Alcoholism says 45 percent of college students report engaging in binge drinking, which is defined as five or more alcoholic drinks in one sitting. Nearly 600,000 students between the ages of 18 and 24 are injured annually because of alcohol, it says, and 97,000 are the victims of alcohol-related sexual assault. What would you do?

managers healthy performance bonuses. All taxpayers will wind up paying for some of these ethical transgressions for decades to come.<sup>1</sup>

### Codes of Business Ethics

Ethics are rules of conduct—how most people in a culture judge what is right and what is wrong. **Business ethics** are basic values that guide a firm’s behavior. These values govern all sorts of marketing planning decisions that managers make, including what goes into their products, where they source raw materials, how they advertise, and what type of pricing they establish. Developing sound business ethics is a major step toward creating a strong relationship with customers and others in the marketplace.

With many rules about doing business—written and unwritten—floating around, how do marketers know what upper management, investors, and customers expect of them? In order to answer this question definitively, many firms develop their own **code of ethics**—written standards of behavior to which everyone in the organization must subscribe—as part of the planning process. These documents eliminate confusion about what the firm considers to be ethically acceptable behavior by its people, and also set standards for how the organization interacts with its stakeholders. For example, the Dow Chemical Company’s Code of Business Conduct, available in 20 different languages through its Web site at [www.dow.com](http://www.dow.com), is based on Dow’s stated corporate values of integrity and respect for people. The code deals with the following issues: diversity; the environment; financial integrity; accurate company records; conflicts of interest; obligations to customers, competitors, and regulators; computer systems and telecommunications security; safeguarding important information; interactions with the public; and corporate social responsibility.<sup>2</sup>

To help marketers adhere to ethical behavior in their endeavors, the American Marketing Association (AMA) developed the code of ethics that we reproduce in Table 2.1. Note that this code spells out norms and expectations relating to all aspects of the marketing process, from pricing to marketing research.

### The Three Levels of Business Planning

We all know what planning is—we plan a vacation or a great Saturday night party. Some of us even plan how we’re going to study and get our assignments completed without stressing out at the last minute. When businesses plan, the process is more complex. As

Table 2.1 | Statement of Ethics

**Ethical Norms and Values for Marketers****PREAMBLE**

The American Marketing Association commits itself to promoting the highest standard of professional ethical norms and values for its members (practitioners, academics, and students). Norms are established standards of conduct that are expected and maintained by society and/or professional organizations. Values represent the collective conception of what communities find desirable, important and morally proper. Values also serve as the criteria for evaluating our own personal actions and the actions of others. As marketers, we recognize that we not only serve our organizations but also act as stewards of society in creating, facilitating, and executing the transactions that are part of the greater economy. In this role, marketers are expected to embrace the highest professional ethical norms and the ethical values implied by our responsibility toward multiple stakeholders (e.g., customers, employees, investors, peers, channel members, regulators, and the host community).

**ETHICAL NORMS**

As Marketers, we must:

1. **Do no harm.** This means consciously avoiding harmful actions or omissions by embodying high ethical standards and adhering to all applicable laws and regulations in the choices we make.
2. **Foster trust in the marketing system.** This means striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process as well as avoiding deception in product design, pricing, communication, and delivery of distribution.
3. **Embrace ethical values.** This means building relationships and enhancing consumer confidence in the integrity of marketing by affirming these core values: honesty, responsibility, fairness, respect, transparency, and citizenship.

**ETHICAL VALUES**

**Honesty**—to be forthright in dealings with customers and stakeholders. To this end, we will:

- Strive to be truthful in all situations and at all times.
- Offer products of value that do what we claim in our communications.
- Stand behind our products if they fail to deliver their claimed benefits.
- Honor our explicit and implicit commitments and promises.

**Responsibility**—to accept the consequences of our marketing decisions and strategies. To this end, we will:

- Strive to serve the needs of customers.
- Avoid using coercion with all stakeholders.
- Acknowledge the social obligations to stakeholders that come with increased marketing and economic power.
- Recognize our special commitments to vulnerable market segments such as children, seniors, the economically impoverished, market illiterates, and others who may be substantially disadvantaged.
- Consider environmental stewardship in our decision making.

**Fairness**—to balance justly the needs of the buyer with the interests of the seller. To this end, we will:

- Represent products in a clear way in selling, advertising, and other forms of communication; this includes the avoidance of false, misleading, and deceptive promotion.
- Reject manipulations and sales tactics that harm customer trust.
- Refuse to engage in price fixing, predatory pricing, price gouging, or “bait-and-switch” tactics.
- Avoid knowing participation in conflicts of interest.
- Seek to protect the private information of customers, employees, and partners.

(continued)

Table 2.1 | Statement of Ethics (*continued*)**Ethical Norms and Values for Marketers**

**Respect**—to acknowledge the basic human dignity of all stakeholders. To this end, we will:

- Value individual differences and avoid stereotyping customers or depicting demographic groups (e.g., gender, race, sexual orientation) in a negative or dehumanizing way.
- Listen to the needs of customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.
- Make every effort to understand and respectfully treat buyers, suppliers, intermediaries, and distributors from all cultures.
- Acknowledge the contributions of others, such as consultants, employees, and coworkers, to marketing endeavors.
- Treat everyone, including our competitors, as we would wish to be treated.

**Transparency**—to create a spirit of openness in marketing operations. To this end, we will:

- Strive to communicate clearly with all constituencies.
- Accept constructive criticism from customers and other stakeholders.
- Explain and take appropriate action regarding significant product or service risks, component substitutions or other foreseeable eventualities that could affect customers or their perception of the purchase decision.
- Disclose list prices and terms of financing as well as available price deals and adjustments.

**Citizenship**—to fulfill the economic, legal, philanthropic, and societal responsibilities that serve stakeholders. To this end, we will:

- Strive to protect the ecological environment in the execution of marketing campaigns.
- Give back to the community through volunteerism and charitable donations.
- Contribute to the overall betterment of marketing and its reputation.
- Urge supply chain members to ensure that trade is fair for all participants, including producers in developing countries.

**IMPLEMENTATION**

We expect AMA members to be courageous and proactive in leading and/or aiding their organizations in the fulfillment of the explicit and implicit promises made to those stakeholders. We recognize that every industry sector and marketing sub-discipline (e.g., marketing research, e-commerce, Internet selling, direct marketing, and advertising) has its own specific ethical issues that require policies and commentary. An array of such codes can be accessed through links on the AMA Web site. Consistent with the principle of subsidiarity (solving issues at the level where the expertise resides), we encourage all such groups to develop and/or refine their industry and discipline-specific codes of ethics to supplement these guiding ethical norms and values.

The American Marketing Association helps its members adhere to ethical standards of business through its Code of Ethics.

**Source:** Copyright © American Marketing Association.

 Figure 2.1 shows, planning occurs at three levels: strategic, functional, and operational. The top level is “big picture” stuff, while the bottom level specifies the “nuts-and-bolts” actions the firm will need to take to achieve these lofty goals.

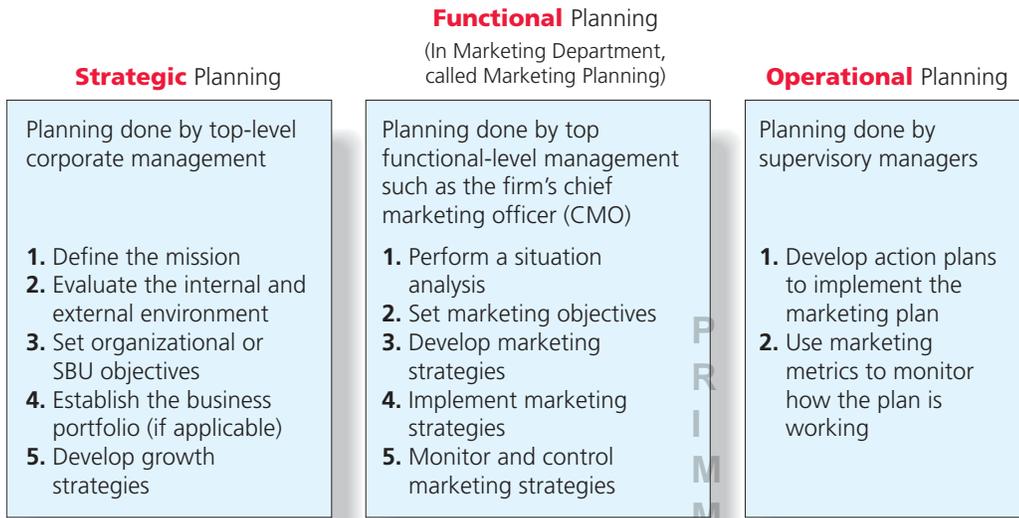
**strategic planning**

A managerial decision process that matches an organization’s resources and capabilities to its market opportunities for long-term growth and survival.

- **Strategic planning** is the managerial decision process that matches the firm’s resources (such as its financial assets and workforce) and capabilities (the things it is able to do well because of its expertise and experience) to its market opportunities for long-term growth. In a strategic plan, top management—usually the chief executive officer (CEO), president, and other top executives—define the firm’s purpose and specify what the firm hopes to achieve over the next five years or so. For example, a firm’s strategic plan may set an objective to increase total revenues by 20 percent in the next five years.

**Figure 2.1**  **Snapshot** | Levels of Planning

During planning, an organization determines its objectives and then develops courses of action to accomplish them. In larger firms, planning takes place at the strategic, functional, and operational levels.



Source: Copyright © American Marketing Association

Large firms, such as the Walt Disney Company, have a number of self-contained divisions we call **strategic business units (SBUs)**—individual units that represent different areas of business within a firm that are unique enough to each have their own mission, business objectives, resources, managers, and competitors. Disney's SBUs include its theme park, television network, and cruise line divisions, and strategic planning occurs both at the overall corporate level (Disney headquarters planning for the whole corporation) and at the individual business unit level (at the theme park, television network, and cruise line level). We'll discuss these two levels later in the chapter.

- The next level of planning is **functional planning**. This level gets its name because the various functional areas of the firm, such as marketing, finance, and human resources, are involved. Vice presidents or functional directors usually do this. We refer to what the functional planning marketers do as *marketing planning*. The person in charge of such planning may have the title of Director of Marketing, Vice President of Marketing, or Chief Marketing Officer. Marketers like Jay Minkoff at First Flavor might set an objective to gain 40 percent of a particular market by successfully introducing three new products during the coming year. This objective would be part of a marketing plan. Marketing planning typically includes both a broad 3–5-year plan to support the firm's strategic plan and a detailed annual plan for the coming year.
- Still farther down the planning ladder are the managers who are responsible for planning at a third level we call **operational planning**. In marketing, these include people such as sales managers, marketing communications managers, brand managers, and marketing research managers. This level of planning focuses on the day-to-day execution of the functional plans and includes detailed annual, semiannual, or quarterly plans. Operational plans might show exactly how many units of a product a salesperson needs to sell per month, or how many television commercials the firm will place on certain networks during a season. At the operational planning level, First Flavor, for example, may develop plans for a marketing campaign to promote the product by creating buzz via social networking outlets.

Of course, marketing managers don't just sit in their offices dreaming up plans without any concern for the rest of the organization. Even though we've described each layer separately,

**strategic business units (SBUs)**

Individual units within the firm that operate like separate businesses, with each having its own mission, business objectives, resources, managers, and competitors.

**functional planning**

A decision process that concentrates on developing detailed plans for strategies and tactics for the short term, supporting an organization's long-term strategic plan.

**operational planning**

A decision process that focuses on developing detailed plans for day-to-day activities that carry out an organization's functional plans.

*all business planning is an integrated activity.* This means that the organization’s strategic, functional, and operational plans must work together for the benefit of the whole, always within the context of the organization’s mission and objectives. So planners at all levels must consider good principles of accounting, the value of the company to its stockholders, and the requirements for staffing and human resource management—that is, they must keep the “big picture” in mind even as they plan for their corner of the organization’s world.

In the next sections, we’ll further explore planning at each of the three levels that we’ve just introduced.

# 2

## Strategic Planning: Frame the Picture

### OBJECTIVE

Describe the steps in strategic planning. (pp. 46–53)

Many large firms realize it’s risky to put all their eggs in one basket and rely on only one product, so they have become multiproduct companies with self-contained divisions organized around products or brands. You know that firms such as Disney operate several distinctly different businesses (Disney’s theme parks, television networks, and cruise line, for example).

In firms with multiple SBUs, the first step in strategic planning is for top management to establish a mission for the entire corporation. Top managers then evaluate the internal and external environments of the business and set corporate-level objectives that guide decision making within each individual SBU. In small firms that are not large enough to have separate SBUs, strategic planning simply takes place at the overall firm level. Whether or not a firm has SBUs, the process of strategic planning is basically the same. Let’s look at the planning steps in a bit more detail, guided by  Figure 2.2.

### JAY MINKOFF



#### APPLYING The Mission Statement

First Flavor’s mission statement is “to facilitate the success of its clients through the innovative technology of its Peel ‘n Taste® Marketing System, creating opportunities for firms to build brands by effectively sampling and promoting their products to consumers.” →

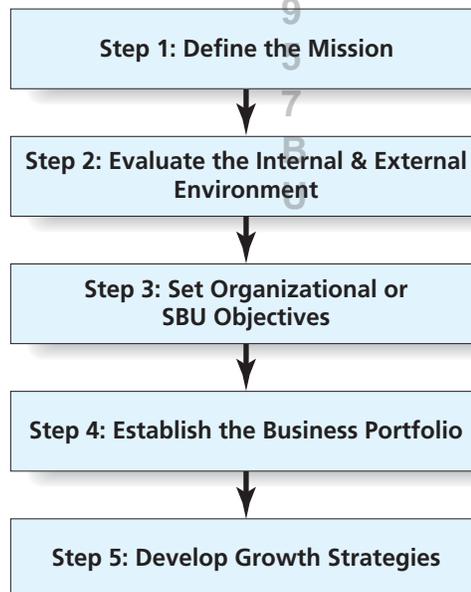
### Step 1: Define the Mission

Theoretically, top management’s first step in the strategic planning stage is to answer questions such as:

- What business are we in?
- What customers should we serve?
- How should we develop the firm’s capabilities and focus its efforts?

Figure 2.2  Process | Steps in Strategic Planning

The strategic planning process includes a series of steps that result in the development of growth strategies.



In many firms, the answers to questions such as these become the lead items in the organization's strategic plan. The answers become part of a **mission statement**—a formal document that describes the organization's overall purpose and what it hopes to achieve in terms of its customers, products, and resources. For example, the mission of Mothers Against Drunk Driving (MADD) is “to stop drunk driving, support the victims of this violent crime, and prevent underage drinking.”<sup>3</sup> The ideal mission statement is not too broad, too narrow, or too shortsighted. A mission that is too broad will not provide adequate focus for the organization. It doesn't do much good to claim, “We are in the business of making high-quality products” or “Our business is keeping customers happy” as it is hard to find a firm that doesn't make these claims. It's also important to remember that the need for a clear mission statement applies to virtually any type of organization, even those like Mothers Against Drunk Driving, whose objective is to serve society rather than to sell goods or services.

## Step 2: Evaluate the Internal and External Environment

The second step in strategic planning is to assess the firm's internal and external environments. We refer to this process as a **situation analysis**, *environmental analysis*, or sometimes a *business review*. The analysis includes a discussion of the firm's internal environment, which can identify a firm's strengths and weaknesses, as well as the external environment in which the firm does business so the firm can identify opportunities and threats.

By **internal environment** we mean all the controllable elements inside a firm that influence how well the firm operates. Internal strengths may lie in the firm's technologies. What is the firm able to do well that other firms would find difficult to duplicate? What patents does it hold? A firm's physical facilities can be an important strength or weakness, as can its level of financial stability, its relationships with suppliers, its corporate reputation, its ability to produce consistently high-quality products, and its ownership of strong brands in the marketplace.

Internal strengths and weaknesses often reside in the firm's employees—the firm's *human and intellectual capital*. What skills do the employees have? What kind of training have they had? Are they loyal to the firm? Do they feel a sense of ownership? Has the firm been able to attract top researchers and good decision makers?

The **external environment** consists of elements outside the firm that may affect it either positively or negatively. The external environment for today's businesses is global, so managers/marketers must consider elements such as the economy, competition, technology, law, ethics, and sociocultural trends. Unlike elements of the internal environment that management can control to a large degree, the firm can't directly control these external factors, so management must respond to them through its planning process.

Chapter 3 develops in depth the various elements of the external environment in which marketing takes place, within the context of today's global enterprise. For now, it is important for you to be aware that opportunities and threats can come from any part of the external environment. On the one hand, trends or currently unserved customer needs may provide opportunities for growth. On the other hand, if changing customer needs or buying patterns mean customers are turning away from a firm's products, it's a signal of possible danger or threats down the road. Even very successful firms have to change to keep up with



Rainy days really are brighter when you save.

With a little help from Xerox, you can reduce your company's document-related expenses by up to 30%. For 40 years, we've helped businesses manage documents and information more cost efficiently. Whether it's with software and services designed to reduce expensive paper-driven processes, or a full line of MFP's and printers starting at \$179, there are lots of ways your office can save enough to weather the occasional storm.

1-800-ASK-XEROX  
xerox.com

Ready For Real Business **xerox**

A mission statement that is *too narrow* may inhibit managers' ability to visualize possible growth opportunities. If, for example, a firm sees itself in terms of its product only, consumer trends or technology can make that product obsolete—and the firm is left with no future. Years ago, Xerox was the undisputed king of the photocopier—to the point where many people used the verb “xeroxing” to refer to many forms of print duplication (just as today in online search we all “google”). But in the digital age, if Xerox had continued to define its mission in terms of just producing copy machines instead of providing a broad array of “document solutions,” the shift to electronic documents would have left them in the dust the way the Model T Ford replaced the horse and buggy. Take a look at how today's Xerox defines itself:

Xerox is the world's leading document management technology and services enterprise. A nearly \$18 billion company, with steadily increasing revenue and strong profits even throughout the recent recession, Xerox provides the document industry's broadest portfolio of offerings. Digital systems include color and black-and-white printing and publishing systems, digital presses and “book factories,” multifunction devices, laser and solid ink network printers, copiers and fax machines. Xerox's services expertise is unmatched and includes helping businesses develop online document archives, analyzing how employees can most efficiently share documents and knowledge in the office, operating in-house print shops or mailrooms, and building Web-based processes for personalizing direct mail, invoices, brochures, and more. Xerox also offers associated software, support, and supplies such as toner, paper, and ink.<sup>4</sup>

### mission statement

A formal statement in an organization's strategic plan that describes the overall purpose of the organization and what it intends to achieve in terms of its customers, products, and resources.

### situation analysis

An assessment of a firm's internal and external environments.

## JAY MINKOFF



### APPLYING The Internal Environment

Jay needs to have a realistic sense of the goals his employees can achieve. This will help to determine First Flavor's strategic direction as it takes its flavor strips to market. →

#### internal environment

The controllable elements inside an organization, including its people, its facilities, and how it does things that influence the operations of the organization.

#### external environment

The uncontrollable elements outside an organization that may affect its performance either positively or negatively.

#### SWOT analysis

An analysis of an organization's strengths and weaknesses and the opportunities and threats in its external environment.

external environmental pressures. First Flavor's business, like that of most marketing-related suppliers, is greatly impacted by the marketing budgets of its clients, which in turn are driven by economic conditions and ultimately consumer demand.

What is the outcome of an analysis of a firm's internal and external environments? Managers often synthesize their findings from a situation analysis into a format we call a **SWOT analysis**. This document summarizes the ideas from the situation analysis. It allows managers to focus clearly on the meaningful strengths (S) and weaknesses (W) in the firm's internal environment and opportunities (O) and threats (T) coming from outside the firm (the external environment). A SWOT analysis enables a firm to develop strategies that make use of what the firm does best in seizing opportunities for growth, while at the same time avoiding external threats that might hurt the firm's sales and profits. Table 2.2 shows an example of a partial SWOT analysis for McDonald's.

### Step 3: Set Organizational or SBU Objectives

After they construct a mission statement, top management translates it into *organizational* or *SBU objectives*. These goals are a direct outgrowth of the mission statement and broadly identify what the firm hopes to accomplish within the general time frame of the firm's long-range business plan. If the firm is big enough to have separate SBUs, each unit will have its own objectives relevant to its operations.

To be effective, objectives need to be *specific*, *measurable* (so firms can tell whether they've met them or not), *attainable*, and *sustainable*. Attainability is especially important—firms that establish “pie in the sky” objectives they can't realistically obtain can create frustration for their employees (who work hard but get no satisfaction of accomplishment) and other stakeholders in the firm, such as vendors and shareholders who are affected when the firm doesn't meet its objectives. That a firm's objectives are sustainable is also critical—what's the point of investing in attaining an objective for only a very short term? This often happens when a firm underestimates the likelihood a competitor will come to market with a better offering. Without some assurance that an objective is sustainable, the financial return on an investment likely will not be positive.

Objectives may relate to revenue and sales, profitability, the firm's standing in the market, return on investment, productivity, product development, customer satisfaction, social responsibility, and many other attributes. To ensure measurability, marketers increasingly try to state objectives in numerical terms. For example, a firm might have as an objective a 10 percent increase in profitability. It could reach this objective by increasing productivity, by reducing costs, or by selling off an unprofitable division. Or it might meet this 10 percent objective by developing new products, investing in new technologies, or entering a new market.

For many years, one of Procter & Gamble (P&G)'s objectives was to have a number-one brand in every product category in which it competed. This objective was specific and clearly it was attainable, since P&G could boast of market leaders such as Crest in the toothpaste category, Folgers in coffee, Pampers in diapers, and Head & Shoulders in shampoo. It also was measurable in terms of the share of market of P&G's products versus those competitors sold. However, in the long run this objective is very difficult to sustain because of competitive activity and ever-changing consumer tastes. Sure enough, over time some P&G brands continued to hold a respectable market share,



Southwest Airlines has always been very focused on hiring and developing employees who reflect the “Southwest Spirit” to customers. Anyone who has flown on Southwest can attest to the fact that the atmosphere is lively and fun, and flight attendants are likely to do most any crazy stunt—bowling in the aisle, or serenading the captain and first officer (and passengers) with a favorite tune. One of our favorites is a guy who does galloping horse hooves and neighing sounds during takeoff and landing to promote a fun atmosphere. For Southwest, a real strength—one that's hard for the competition to crack—lies in this employee spirit.

Table 2.2 | Example of a Partial SWOT Analysis for McDonald’s

<b>Strengths</b>	<p>World-class research and product development.</p> <p>Global franchise system that is second to none.</p> <p>Strong cash position.</p> <p>Consistency of product and service quality across the globe.</p> <p>Growing presence in the coffee/bistro market.</p>
<b>Weaknesses</b>	<p>Until recently, slow to react to changing consumer trends and preferences (organics, low-fat options).</p>
<b>Opportunities</b>	<p>Changing consumer tastes and dining preferences signals opportunity to continue to remake locations into more upscale bistro formats to compete directly with Starbucks in coffee.</p> <p>Reconnecting with Baby Boomers and Gen X while cultivating Gen Y and Millennials provides opportunity for product innovation and more flexibility by market area.</p> <p>High cost of gasoline means more people are seeking dining experiences closer to home.</p> <p>Greatly increased sales and profits during the recession due to high perceived value—opportunity to keep those customers postrecession.</p>
<b>Threats</b>	<p>The image of McDonald’s is inextricably linked to the image of America globally.</p> <p>Strongly negative media coverage surrounding obesity and unhealthy eating, especially among children and teens, has tarnished the brand.</p> <p>Burger King has emerged as an innovator, and they are currently aggressively reimagining their stores. The rival chain has been hugely successful with offbeat advertising strategies both off-line and online that appeal to younger consumers.</p>

but they dropped from the number-one position. Should P&G withdraw from a product category simply because its brand is not number one? Management realized the answer to this question was clearly “no,” and the objective morphed from category leadership into one focused on profitability for each brand.<sup>5</sup>

### Step 4: Establish the Business Portfolio

For companies with several different SBUs, strategic planning includes making decisions about how to best allocate resources across these businesses to ensure growth for the total organization. Each SBU has its own focus within the firm’s overall strategic plan, and each has its own target market and strategies for reaching its objectives. Just like an independent business, each SBU is a separate *profit center* within the larger corporation—that is, each SBU within the firm is responsible for its own costs, revenues, and profits. These items can be accounted for separately for each SBU.

Just as we call the collection of different stocks an investor owns a portfolio, the range of different businesses that a large firm operates is its **business portfolio**. These different businesses usually represent very different product lines, each of which operates with its own budget and management. Having a diversified business portfolio reduces the firm’s dependence on one product line or one group of customers. For example, if consumers don’t travel as much and Disney has a bad year in theme park attendance and cruises, its managers hope that the sales will be made up by stay-at-homers who watch Disney’s television networks and DVDs.

**Portfolio analysis** is a tool management uses to assess the potential of a firm’s business portfolio. It helps management decide which of its current SBUs should receive more—or less—of the firm’s resources, and which of its SBUs are most consistent with the firm’s

#### business portfolio

The group of different products or brands owned by an organization and characterized by different income-generating and growth capabilities.

#### portfolio analysis

A management tool for evaluating a firm’s business mix and assessing the potential of an organization’s strategic business units.



Jeep’s product development strategy offers vehicles for different needs.

**JAY MINKOFF**



**APPLYING** Portfolio Analysis

First Flavor needs to evaluate the potential of new markets in addition to its initial focus on selling flavor strips to manufacturers for use in in-store product sampling to determine whether it should expand its portfolio to other applications. →

**BCG growth–market share matrix**

A portfolio analysis model developed by the Boston Consulting Group that assesses the potential of successful products to generate cash that a firm can then use to invest in new products.

**stars**

SBUs with products that have a dominant market share in high-growth markets.

**cash cows**

SBUs with a dominant market share in a low-growth-potential market.

overall mission. There are a host of portfolio models available for use. To illustrate how one works, let’s examine the especially popular model the Boston Consulting Group (BCG) developed: the **BCG growth–market share matrix**.

The BCG model focuses on determining the potential of a firm’s existing successful SBUs to generate cash that the firm can then use to invest in other businesses. The BCG matrix in Figure 2.3 shows that the vertical axis represents the attractiveness of the market: the *market growth rate*. Even though the figure shows “high” and “low” as measurements, marketers might ask whether the total market for the SBU’s products is growing at a rate of 10, 50, 100, or 200 percent annually.

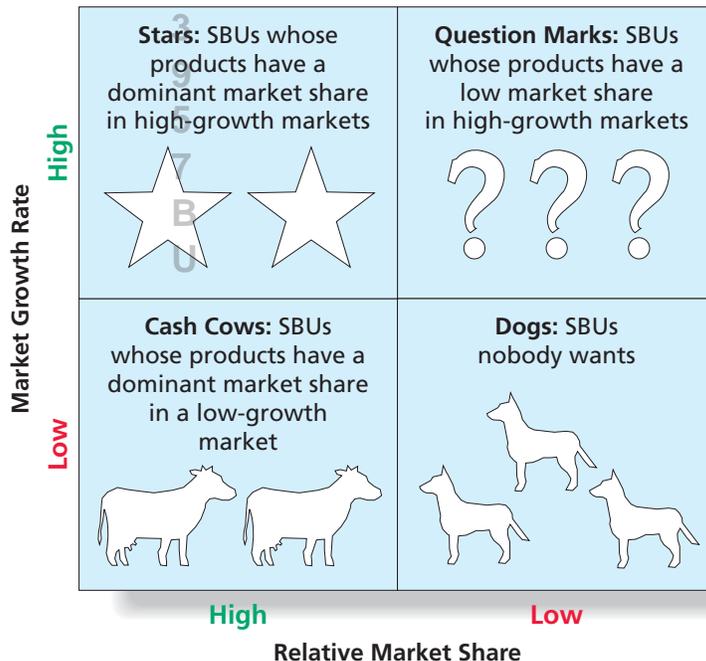
The horizontal axis in Figure 2.3 shows the SBU’s current strength in the market through its relative market share. Here, marketers might ask whether the SBU’s share is 5, 25, or perhaps 75 percent of the current market. Combining the two axes creates four quadrants representing four different types of SBUs. Each quadrant of the BCG grid uses a symbol to designate business units that fall within a certain range for market growth rate and market share. Let’s take a closer look at each cell in the grid:

- **Stars** are SBUs with products that have a dominant market share in high-growth markets. Because the SBU has a dominant share of the market, stars generate large revenues, but they also require large amounts of funding to keep up with production and promotion demands. Because the market has a large growth potential, managers design strategies to maximize market share in the face of increasing competition. The firm aims at getting the largest share of loyal customers so that the SBU will generate profits that it can reallocate to other parts of the company. For example, in recent years, Disney has viewed its television operations as a star, so it invested heavily in such franchise players as *Hannah Montana* and *Narnia*. Likewise, at Disney/Pixar *Toy Story 3* and the re-release of *Toy Story 1* and 2 in 3D continued the sensational success of that business unit as a contributor to overall Disney profits.
- **Cash cows** have a dominant market share in a low-growth- potential market. Because there’s not much opportunity for new companies, competitors don’t often enter the market. At the same time, the SBU is well established and enjoys a high market share that the firm can sustain with minimal funding. Firms usually milk cash cows of their profits to fund the growth of other SBUs. Of course, if the firm’s objective is to increase

**Figure 2.3** **Snapshot** | BCG Matrix

The Boston Consulting Group’s (BCG) growth–market share matrix is one way a firm can examine its portfolio of different products or SBUs. By categorizing SBUs as stars, cash cows, question marks, or dogs, the matrix helps managers make good decisions about how the firm should grow.

Source: Product Portfolio Matrix, © 1970, The Boston Consulting Group



revenues, having too many cash cows with little or no growth potential can become a liability. For Disney, its theme parks unit fits into the cash cow category in that sales have been basically steady or only slightly increasing/decreasing for an extended period of time.

- **Question marks**—sometimes called “problem children”— are SBUs with low market shares in fast-growth markets. When a business unit is a question mark, it suggests that the firm has failed to compete successfully. Perhaps the SBU’s products offer fewer benefits than competing products. Or maybe its prices are too high, its distributors are ineffective, or its advertising is too weak. The firm could pump more money into marketing the product and hope that market share will improve. But the firm may find itself “throwing good money after bad” if it gains nothing but a negative cash flow and disappointment. For Disney, its brick and mortar Disney Stores are in the question-mark category, as their performance compared to the overall specialty retail market has lagged in recent years. The online version of the Disney Store, in contrast, performs much better.
- **Dogs** have a small share of a slow-growth market. They are businesses that offer specialized products in limited markets that are not likely to grow quickly. When possible, large firms may sell off their dogs to smaller firms that may be able to nurture them—or they may take the SBU’s products off the market. Disney, being a savvy strategic planner, apparently identified its Miramax film studio as a long-term dog (to Pluto and Goofy: no pun intended), as they announced in 2009 that they plan to shut it down.

Like Disney, Jay Minkoff at First Flavor could use the BCG matrix to evaluate his product lines in order to make important decisions about where to invest for future growth. He would look across First Flavor’s various offerings to assess the market growth rate and relative market share, determine the degree to which each is a cash generator or a cash user, and decide whether to invest further in these or other business opportunities.

### Step 5: Develop Growth Strategies

Although the BCG matrix can help managers decide which SBUs they should invest in for growth, it doesn’t tell them much about *how* to make that growth happen. Should the growth of an SBU come from finding new customers, from developing new variations of the product, or from some other growth strategy? Part of the strategic planning at the SBU level entails evaluating growth strategies.

Marketers use the product-market growth matrix that  Figure 2.4 shows to analyze different growth strategies. The vertical axis in  Figure 2.4 represents opportunities for growth, either in existing markets or in new markets. The horizontal axis considers whether the firm would be better off putting its resources into existing products or if it should acquire new products. The matrix provides four fundamental marketing strategies: market penetration, market development, product development, and diversification:

- **Market penetration strategies** seek to increase sales of existing products to existing markets such as current users, nonusers, and users of competing brands within a market. For example, both Quaker Oatmeal and General Mills’ Cheerios (also an oats product) have been aggressively advertising a new use for their products as products that can help lower total cholesterol and LDL (“bad”) cholesterol, and that can help keep



The recent acquisition of Marvel Comics by Disney most likely will add to the entertainment company’s stable of stars.

#### question marks

SBUs with low market shares in fast-growth markets.

#### dogs

SBUs with a small share of a slow-growth market. They are businesses that offer specialized products in limited markets that are not likely to grow quickly.

#### market penetration strategies

Growth strategies designed to increase sales of existing products to current customers, nonusers, and users of competitive brands in served markets.

**Figure 2.4**  **Snapshot** | Product-Market Growth Matrix

Marketers use the product-market growth matrix to analyze different growth strategies.

		Product Emphasis	
		Existing Products	New Products
Market Emphasis	Existing Markets	<p><b>Market penetration strategy</b></p> <ul style="list-style-type: none"> <li>• Seek to increase sales of existing products to existing markets</li> </ul>	<p><b>Product development strategy</b></p> <ul style="list-style-type: none"> <li>• Create growth by selling new products in existing markets</li> </ul>
	New Markets	<p><b>Market development strategy</b></p> <ul style="list-style-type: none"> <li>• Introduce existing products to new markets</li> </ul>	<p><b>Diversification strategy</b></p> <ul style="list-style-type: none"> <li>• Emphasize both new products and new markets to achieve growth</li> </ul>

**market development strategies**

Growth strategies that introduce existing products to new markets.

**product development strategies**

Growth strategies that focus on selling new products in existing markets.

**diversification strategies**

Growth strategies that emphasize both new products and new markets.

arteries clean and healthy. General Mills advertises that a clinical study showed that eating two half-cup servings daily of Cheerios cereal for six weeks reduced bad cholesterol about 4 percent (when eaten as part of a diet low in saturated fat and cholesterol). Quaker’s Web site reads as much like a health provider’s as it does a food manufacturer’s—main tabs include “Oats Do More,” which provides an impressive bank of information extolling the virtues of the product on health, fitness, and even environmental issues, and “For Healthcare Professionals,” which offers that industry a portal to the “science of oats.” Both Cheerios’ and Quaker Oats’ approaches aim to increase usage based on important new product claims.<sup>6</sup>

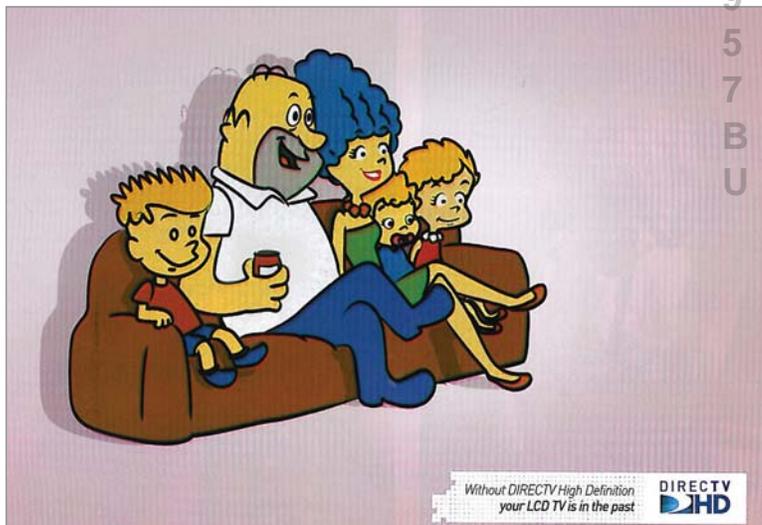
- **Market development strategies** introduce existing products to new markets. This strategy can mean expanding into a new geographic area, or it may mean reaching new customer segments within an existing geographic market. For example, the wildly popular Wii home gaming system by Nintendo has also become popular with older consumers because its active functionality during the game provides an opportunity for a light and fun physical workout. Wii exercise sessions have become especially popular in retirement homes where the activity takes on a

strong social and community-building flavor. And because the technology part of Wii is so straightforward and user-friendly, even the most technophobic of seniors are not reluctant to join in the Wii events.<sup>7</sup>

- **Product development strategies** create growth by selling new products in existing markets. *Product development* may mean extending the firm’s product line by developing new variations of the item, or it may mean altering or improving the product to provide enhanced performance.
- **Diversification strategies** emphasize both new products and new markets to achieve growth. After a long period of sluggish performance in the fast-food market, McDonald’s has reenergized itself over the past several years through successful strategic planning. For example, planners at McDonald’s in the late 1990s decided that the company was starting to max out in the hamburger business. The company tried to attract different customers when it offered new lines of business to diversify its portfolio of food offerings.

Among those are Donatos Pizza, Boston Market, and a controlling interest in Chipotle Mexican Grills. Interestingly, now that their core hamburger and fries business has been back on track for several years, McDonald’s has divested these other brands and is shifting from a diversification strategy back to more of a product development strategy around the core McDonald’s brand.<sup>8</sup>

For Jay Minkoff at First Flavor, the product-market growth matrix can be a very important way to analyze where his future opportunities lie. Consider these options for future growth: Is he primarily focused on growing totally new customers for the First Flavor Peel ‘n Taste® Marketing System (market development)? Or will he eventually also be moving current users into new product lines as the company creates them (product development)? And to what degree does the First Flavor Peel ‘n Taste® Marketing System afford him the chance to grow current customers in usage of existing product lines (market penetration)? Jay has



DIRECTV® hopes to penetrate new markets. This ad is from Ecuador.

to weigh these options for future product-market investment against the potential returns of each over both the short and long term.

To review what we’ve learned so far, strategic planning includes developing the mission statement, assessing the internal and external environment (resulting in a SWOT analysis), setting objectives, establishing the business portfolio, and developing growth strategies. In the next section, we’ll look at marketers’ functional plans as we examine the process of marketing planning.

# 3

## Marketing Planning: Select the Camera Setting

### OBJECTIVE

Describe the steps in marketing planning. (pp. 53–61)

Until now, we have focused on fairly broad strategic plans. This big-picture perspective, however, does not provide details about how to reach the objectives we set.

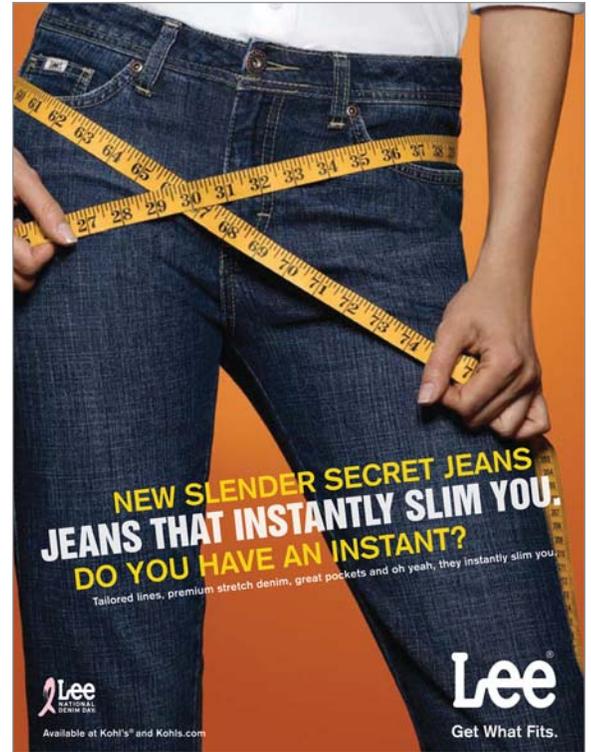
Strategic plans “talk the talk” but put the pressure on lower-level functional-area managers, such as the marketing manager, production manager, and finance manager, to “walk the walk” by developing the functional plans—the nuts and bolts—to achieve organizational and SBU objectives. Since this is a marketing course and marketing book, our focus at the functional planning level is naturally on developing marketing plans, which is the next step in planning as we showed back in  Figure 2.1.

The Four Ps of the marketing mix we discussed in Chapter 1 remind us that successful firms must have viable *products* at *prices* consumers are willing to pay, a way to *promote* the products to the right consumers, and the means to get the products to the *place* where consumers want to buy them.

Making this happen requires a tremendous amount of planning by the marketer. The steps in this marketing planning process are quite similar to the steps at the strategic planning level. An important distinction between strategic planning and marketing planning, however, is that marketing professionals focus much of their planning efforts on issues related to the *marketing mix*—the firm’s product, its price, promotional approach, and distribution (place) methods. In the end, as you learned in Chapter 1, marketing focuses on creating, communicating, delivering, and exchanging offerings that have value, and marketing planning plays a central role in making these critical components of marketing successful. Let’s use  Figure 2.5 as a guide to look at the steps involved in the marketing planning process in a bit more detail.

### Step 1: Perform a Situation Analysis

The first step to develop a marketing plan is to conduct an analysis of the *marketing* environment. To do this, managers build on the company’s SWOT analysis; they search out information about the environment that specifically affects the marketing plan. For example, for Jay Minkoff at First Flavor to develop an effective marketing communication program, it’s not enough for him to have a general understanding of the target market. He needs to know *specifically* what media potential customers like to connect with, what messages about the product are most likely to make them buy, and how they prefer to communicate with his firm about new services and customer care issues. Jay also must know how his competitors are marketing to customers so that he can plan effectively.



Lee jeans diversifies its product portfolio.

Figure 2.5  **Process** | Steps in Marketing Planning

The steps in marketing planning are quite similar to those in strategic planning, with the important distinction that marketing professionals focus much of their planning efforts on issues related to the marketing mix—the firm’s product, price, promotional approach, and distribution (place) methods. Marketing planning facilitates creating, communicating, delivering, and exchanging offerings that have value.



## Step 2: Set Marketing Objectives

Once marketing managers have a thorough understanding of the marketing environment, the next step is to develop specific marketing objectives. How do marketing objectives differ from corporate objectives? Generally, marketing objectives are more specific to the firm's brands, sizes, product features, and other marketing mix-related elements. Think of the connection between business objectives and marketing objectives this way: Business objectives guide the entire firm's operations, while marketing objectives state what the marketing function must accomplish if the firm is ultimately to achieve these overall business objectives. So for Jay Minkoff at First Flavor, setting marketing objectives means deciding what he wants to accomplish in terms of First Flavor's marketing mix-related elements: product development, pricing strategies, or specific marketing communication approaches.

## Step 3: Develop Marketing Strategies

In the next stage of the marketing planning process, marketing managers develop their actual marketing strategies—that is, they make decisions about what activities they must accomplish to achieve the marketing objectives. Usually this means they decide which markets to target and actually develop the marketing mix strategies (product, price, promotion, and place [supply chain]) to support how they want to position the product in the market. At this stage, marketers must figure out how they want consumers to think of their product compared to competing products.

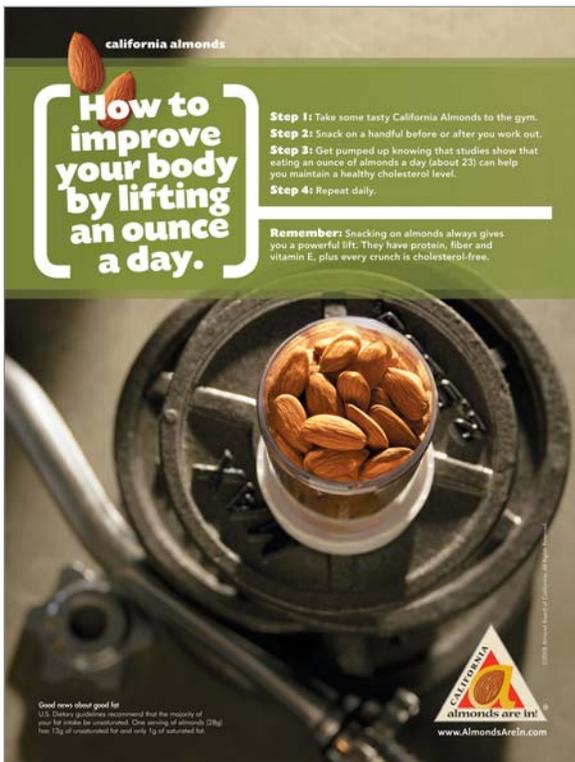
### Select a Target Market

As we mentioned in Chapter 1, the target market is the market segment(s) a firm selects because it believes its offerings are most likely to win those customers. The firm assesses the potential demand—the number of consumers it believes are willing and able to pay for its products—and decides if it is able to create a sustainable competitive advantage in the marketplace among target consumers.

### Develop Marketing Mix Strategies

Marketing mix decisions identify how marketing will accomplish its objectives in the firm's target markets by using product, price, promotion, and place. To make the point, we'll compare several different airlines' approaches.

- Because the product is the most fundamental part of the marketing mix—firms simply can't make a profit without something to sell—carefully developed *product strategies* are essential to achieving marketing objectives. Product strategies include decisions such as product design, packaging, branding, support services (e.g., maintenance), if there will be variations of the product, and what product features will provide the unique benefits targeted customers want. For example, product planners for JetBlue Airways decided to include in-seat video games and television as a key product feature during the flight. Their planes get you from point A to point B just as fast (or slow) as the other airlines—that is, the basic product is the same—but the flight seems shorter because there is more to do while you're in the air.
- The *pricing strategy* determines how much a firm charges for a product. Of course, that price has to be one that customers are willing to pay. If not, all the other marketing efforts are futile. In addition to setting prices for the final consumer, pricing strategies usually establish prices the company will charge to wholesalers and retailers. A firm may base its pricing strategies on costs, demand, or the prices of competing prod-



California's almond growers have a marketing strategy to increase consumption by promoting the nut's health benefits.

ucts. Southwest Airlines uses a pricing strategy to successfully target customers who could not previously afford air travel. Southwest does not compete solely on price; however, consumers do perceive Southwest as a low-priced airline compared with others, and the airline reinforces this theme regularly in its ads targeting travelers on a tight budget.

- A *promotional strategy* is how marketers communicate a product's value proposition to the target market. Marketers use promotion strategies to develop the product's message and the mix of advertising, sales promotion, public relations and publicity, direct marketing, and personal selling that will deliver the message. Many firms use all these elements to communicate their message to consumers. American Airlines strives to portray an image of quality and luxury for the serious business traveler. To do so, it combines television ads focused on that target with sales promotion in the form of the AAdvantage™ loyalty program, personal selling to companies and conventions to promote usage of American as the "official carrier" for the group events, direct marketing via mail and e-mail providing information to loyal users, and (its managers hope) positive publicity through word-of-mouth about the airline's good service and dependability. A panel of wine judges *Global Traveler Magazine* created recently named American as the airline with the "Best Wine Selections." An official wine consultant, a "sommelier" who is a classically trained winemaker and viticulturist, personally selects the wines American offers. Cheers!<sup>9</sup>
- *Distribution strategies* outline how, when, and where the firm will make the product available to targeted customers (the *place* component). When they develop a distribution strategy, marketers must decide whether to sell the product directly to the final customer or to sell through retailers and wholesalers. And the choice of which retailers should be involved depends on the product, pricing, and promotion decisions. For example, if the firm produces a luxury good, it may wish to avoid being seen on the shelves of discount stores for fear that it will cheapen the brand image. Recently the airline industry has made major changes in its distribution strategy. For many years, most customers bought their airline tickets through travel agencies or at the ticket counters of the major airlines. Today, most airlines actually penalize customers who don't opt for online purchase of "ticketless" flight reservations by charging them a "ticketing fee" of \$5 or \$10. This strategy has molded the behavior of many consumers to go online 24/7 to save money as well as experience the convenience of personally scheduling the flight they want.

## Step 4: Implement and Control the Marketing Plan

Once the plan is developed, it's time to get to work and make it succeed. In practice, marketers spend much of their time managing the various elements involved in implementing the marketing plan. Once Jay Minkoff and his team at First Flavor understand the marketing environment, determine the most appropriate objectives and strategies, and get their ideas organized and on paper in the formal plan, the rubber really hits the road. Like all firms, how First Flavor implements its plan is what will make or break it in the marketplace.

During the implementation phase, marketers must have some means to determine to what degree they actually meet their stated marketing objectives. Often called **control**, this formal process of monitoring progress entails three steps:

1. Measure actual performance.
2. Compare this performance to the established marketing objectives or strategies.
3. Make adjustments to the objectives or strategies on the basis of this analysis. This issue of making adjustments brings up one of the most important aspects of successful marketing planning: Marketing plans aren't written in stone, and marketers must be flexible enough to make such changes when changes are warranted.



Nature Valley's target market includes people who look for other benefits in addition to taste when they choose a snack.

### control

A process that entails measuring actual performance, comparing this performance to the established marketing objectives, and then making adjustments to the strategies or objectives on the basis of this analysis.

For effective control, Jay Minkoff at First Flavor has to establish appropriate *metrics* related to his marketing objectives and then track those metrics to know how successful his marketing strategy is, as well as whether he needs to make changes in the strategy along the way. For example, what happens if First Flavor sets an objective for the first quarter of a year to increase the number of manufacturers that use its Peel 'n Taste® flavor sampling platform to promote their products by 20 percent, but after the first quarter sales are only even with those of last year? The *control process* means that Jay would have to look carefully at why the company isn't meeting its objectives. Is it due to internal factors, external factors, or a combination of both? Depending on the cause, Jay would then have to either adjust the marketing plan's strategies (such as to implement product alterations, modify the price, or increase or change advertising). Alternatively, he could decide to adjust the marketing objective so that it is more realistic and attainable. This scenario illustrates the important point we made earlier in our discussion of strategic planning: Objectives must be specific and measurable, but also *attainable* (and *sustainable*) in the sense that if an objective is not realistic, it can become very demotivating for everyone involved in the marketing plan.

For First Flavor and all firms, effective control requires appropriate *marketing metrics*, which, as we discussed in Chapter 1, are concrete measures of various aspects of marketing performance. You will note throughout the book a strong emphasis on metrics. But marketing control and the measurement of marketing performance must be tempered with an eye toward sustainability. Recall from Chapter 1 that sustainability has to do with firms doing well by doing good—that is, paying attention to important issues such as ethics, the environment, and social responsibility as well as the bottom line. In marketing planning, we certainly don't want to drive firms toward strategies that compromise sustainability by focusing only on controlling relatively short-term aspects of performance.

Today's CEOs are keen to quantify just how an investment in marketing has an impact on the firm's success, financially and otherwise, over the long haul. You've heard of the term *return on investment (ROI)*—think of this overall notion as **return on marketing investment (ROMI)**. *In fact it's critical to consider marketing as an investment rather than an expense*—this distinction drives firms to use marketing more strategically to enhance the business. For many firms nowadays, ROMI is the metric *du jour* to analyze how the marketing function contributes to the bottom line.

#### return on marketing investment (ROMI)

Quantifying just how an investment in marketing has an impact on the firm's success, financially and otherwise.

So, what exactly is ROMI? It is the revenue or profit margin (both are widely used) generated by investment in a specific marketing campaign or program divided by the cost of that program (expenditure) at a given risk level (the risk level is determined by management's analysis of the particular program). Again, the key word is *investment*—that is, in the planning process, thinking of marketing as an investment rather than an expense keeps managers focused on using marketing dollars to achieve specific goals.<sup>10</sup>

But is ROMI always appropriate or sufficient to judge marketing's effectiveness and efficiency? Here are six common objections to relying exclusively on ROMI for measuring marketing success:

1. In a company's accounting statements, marketing expenditures tend to appear as a cost, not an investment. This perpetuates the "marketing is an expense" mentality in the firm.
2. ROMI requires the profit to be divided by expenditure, yet all other bottom-line performance measures (like the ones you learned in your finance course) consider profit or cash flow after deducting expenditures.
3. Calculating ROMI requires knowing what would have happened if the marketing expenditure in question had never taken place. Few marketers have those figures.
4. ROMI has become a fashionable term for marketing productivity in general, yet much evidence exists that firms interpret how to calculate ROMI quite differently. When executives discuss ROMI with different calculations of it in mind, only confusion can result.

5. ROMI, by nature, ignores the effect of marketing assets of the firm (for example, its brands) and tends to lead managers toward a more short-term decision perspective. That is, it typically considers only short-term incremental profits and expenditures without looking at longer-term effects or any change in brand equity.
6. And speaking of short-term versus long-term decisions, ROMI (like a number of other metrics focused on snapshot information—in this case, a particular marketing campaign) often can lead to actions by management to shore up short-term performance to the detriment of a firm’s sustainability commitment. Ethics in marketing should not be an oxymoron—but often unethical behavior is driven by the demand for quick, short-term marketing results.

For an organization to use ROMI properly it must: (a) identify the most appropriate and consistent measure to apply; (b) combine review of ROMI with other critical marketing metrics (one example is marketing payback—how quickly marketing costs are recovered); and (c) fully consider the potential long-term impact of the actions ROMI drives (that is, their sustainability).<sup>11</sup>

Fortunately for the marketer, there are many other potential marketing metrics beyond ROMI that measure specific aspects of marketing performance. Just to give you a sense of a few of them, Table 2.3 provides some examples of metrics that managers apply across an array of marketing planning situations, including all the marketing mix variables.

**Table 2.3** | Examples of Marketing Metrics

<ul style="list-style-type: none"> <li>• Cost of a prospect</li> <li>• Value of a prospect</li> <li>• ROI of a campaign</li> <li>• Value of telesales</li> <li>• Conversion rates of users of competitor products</li> <li>• Long-term value of a customer</li> <li>• Customer commitment to relationship/partnership</li> <li>• Referral rate</li> <li>• Response rates to direct marketing</li> <li>• Perceived product quality</li> <li>• Perceived service quality</li> <li>• Customer loyalty/retention</li> <li>• Customer turnover</li> <li>• Customer/segment profitability</li> <li>• Customer mind set/customer orientation</li> <li>• Customer satisfaction</li> <li>• Company/product reputation</li> <li>• Customer word-of-mouth (buzz) activity</li> <li>• Salesperson’s self-ratings of effectiveness</li> <li>• Timeliness and accuracy of competitive intelligence</li> <li>• Usage rates of technology in customer initiatives</li> <li>• Reach and frequency of advertising</li> <li>• Recognition and recall of message</li> <li>• Sales calls per day/week/month</li> <li>• Order fulfillment efficiency/stock-outs</li> <li>• Timeliness of sales promotion support</li> </ul>	S H A R O N D A  3 9 5 7 B U
---	--

ISBN 1-256-36591-2

**action plans**

Individual support plans included in a marketing plan that provide the guidance for implementation and control of the various marketing strategies within the plan. Action plans are sometimes referred to as “marketing programs.”

**Action Plans**

How does the implementation and control step actually manifest itself within a marketing plan? One very convenient way is through the inclusion of a series of **action plans** that support the various marketing objectives and strategies within the plan. We sometimes refer to action plans as “marketing programs.” The best way to use action plans is to include a separate action plan for each important element involved in implementing the marketing plan. Table 2.4 provides a template for an action plan.

For example, let’s consider the use of action plans in the context of supporting Jay’s objective at First Flavor to increase the number of manufacturers that use its Peel ‘n Taste® flavor sampling platform to promote their products by 20 percent in the first quarter of the year. To accomplish this, the marketing plan would likely include a variety of strategies related to how he will use the marketing mix elements to reach this objective. Important questions will include:

- What are the important needs and wants of this target market?
- How will the product be positioned in relation to this market?
- What will be his product and branding strategies?
- What will be his pricing strategy for this group?
- How will the product be promoted to them?
- What is the best distribution strategy to access the market?

Any one of these important strategic issues may require several action plans to implement.

Action plans also help managers when they need to assign responsibilities, time lines, budgets, and measurement and control processes for marketing planning. Notice in Table 2.4 that these four elements are the final items an action plan documents. Sometimes when we view a marketing plan in total, it can seem daunting and nearly impossible to actually implement. Like most big projects, implementation of a marketing plan is best done one step at a time, paying attention to maximizing the quality of executing that step. In practice, what happens is that marketers combine the input from these last four elements of each action plan to form the overall implementation and control portion of the marketing plan. Let’s examine each element a bit further.

**Table 2.4** | Template for an Action Plan

<b>Title of Action Plan</b>	Give the action plan a relevant name.
<b>Purpose of Action Plan</b>	What do you hope to accomplish by the action plan—that is, what specific marketing objective and strategy within the marketing plan does it support?
<b>Description of Action Plan</b>	Be succinct, but still thorough, in explaining the action plan. What are the steps involved? This is the core of the action plan. It describes what must be done in order to accomplish the intended purpose of the action plan.
<b>Responsibility for the Action Plan</b>	What person(s) or organizational unit(s) are responsible for carrying out the action plan? What external parties are needed to make it happen? Most importantly, who specifically has final “ownership” of the action plan—that is, who is accountable for it?
<b>Time Line for the Action Plan</b>	Provide a specific timetable of events leading to the completion of the plan. If different people are responsible for different elements of the time line, provide that information.
<b>Budget for the Action Plan</b>	How much will implementation of the action plan cost? This may be direct costs only, or may also include indirect costs, depending on the situation. The sum of all the individual action plan budget items will ultimately be aggregated by category to create the overall budget for the marketing plan.
<b>Measurement and Control of the Action Plan</b>	Indicate the appropriate metrics, how and when they will be measured, and who will measure them.

## The Cutting Edge

### Social Networks and Marketing Planning

Many companies have begun to incorporate social networks into their larger marketing plans and strategies—typically either to promote brands or to be on the lookout for complaints about services and products. But there are other ways marketers can mine the wealth of data that are available on social media platforms like Facebook or Yelp! Let's say, for example, that a marketing manager of a hotel wants to send a targeted e-mail to people looking for "hotels in Dublin." A search pulls up all the people on Twitter talking about and looking for hotels in Dublin. Twitter very nicely gives you an RSS feed of these

results in the top right-hand corner. Copy the URL of this link. Then you can add a subscription button in Google Reader (you can easily sign up if you don't have an account). Paste in the URL of the Twitter RSS feed, then click "Show Details" in the top right corner, where you will see a blank graph. After a few days this will show some fantastic data on what day of the week, month, and time people were talking about "hotels in Dublin." From this information you can determine when will be the very best time to send the e-mail.<sup>12</sup> Faith and Begorrah! That's how you lure visitors to your little piece of Ireland.

### Assign Responsibility

A marketing plan can't be implemented without people. And not everybody who will be involved in implementing a marketing plan is a marketer. The truth is, marketing plans touch most areas of an organization. Upper management and the human resources department will need to deploy the necessary employees to accomplish the plan's objectives. You learned in Chapter 1 that marketing isn't the responsibility only of a marketing department. Nowhere is that idea more apparent than in marketing plan implementation. Sales, production, quality control, shipping, customer service, finance, information technology—the list goes on—all will likely have a part in making the plan successful.

### Create a Time Line

Notice that each action plan requires a time line to accomplish the various tasks it requires. This is essential to include in the overall marketing plan. Most marketing plans portray the timing of tasks in flowchart form so that it is easy to visualize when the pieces of the plan will come together. Marketers often use *Gantt charts* or *PERT charts*, popular in operations management, to portray a plan's time line. These are the same types of tools that a general contractor might use to map out the different elements of building a house from the ground up. Ultimately, managers develop budgets and the financial management of the marketing plan around the time line so they know when cash outlays are required.

### Set a Budget

Each action plan carries a *budget item*, assuming there are costs involved in carrying out the plan. Forecasting the needed expenditures related to a marketing plan is difficult, but one way to improve accuracy in the budgeting process overall is to ensure estimates for expenditures for the individual action plans that are as accurate as possible. At the overall marketing plan level, managers create a master budget and track it throughout the market planning process. They report variances from the budget to the parties responsible for each budget item. For example, a firm's vice president of sales might receive a weekly or monthly report that shows each sales area's performance against its budget allocation. The VP would note patterns of budget overage and contact affected sales managers to determine what, if any, action they need to take to get the budget back on track. The same approach would be repeated across all the different functional areas of the firm on which the budget has an impact. In such a manner, the budget itself becomes a critical element of control.

### Decide on Measurements and Controls

Earlier we described the concept of control as a formal process of monitoring progress to measure actual performance, compare the performance to the established marketing objectives or strategies, and make adjustments to the objectives or strategies on the basis of this analysis. The metric(s) a marketer uses to monitor and control individual action plans ultimately forms the overall control process for the marketing plan. It is an unfortunate fact that many marketers

P  
R  
I  
M  
M  
S  
H  
A  
B  
C  
N  
I  
R

3  
3  
B  
U

do not consistently do a good job of measurement and control, which, of course, compromises their marketing planning. And remember that selection of good metrics needs to take into account short-term objectives balanced against the firm's focus on long-term sustainability.

## Make Your Life Easier! Use the Marketing Planning Template

Ultimately, the planning process we've described in this section is documented in a formal, written marketing plan. You'll find a tear-out template for a marketing plan in the foldout located in this chapter. The template will come in handy as you make your way through the book, as each chapter will give you information you can use to "fill in the blanks" of a marketing plan. You will note that the template is cross-referenced with the questions you must answer in each section of the plan and that it also provides you with a general road map of the topics covered in each chapter that need to flow into building the marketing plan. By the time you're done, we hope that all these pieces will come together and you'll understand how real marketers make real choices.

As we noted earlier, a marketing plan should provide the best possible guide for the firm to successfully market its products. In large firms, top management often requires such a written plan because putting the ideas on paper encourages marketing managers to formulate concrete objectives and strategies. In small entrepreneurial firms, a well-thought-out marketing plan is often the key to attracting investors who will help turn the firm's dreams into reality.

## Operational Planning: Day-to-Day Execution of Marketing Plans

Recall that planning happens at three levels: strategic, functional (such as marketing planning), and operational. In the previous section, we discussed marketing planning—the process by which marketers perform a situation analysis; set marketing objectives; and develop, implement, and control marketing strategies. But talk is cheap: The best plan ever written is useless if it's not properly carried out. That's what **operational plans** are for. They put the pedal to the metal by focusing on the day-to-day execution of the marketing plan.

The task of operational planning falls to the first-line managers we discussed earlier, such as sales managers, marketing communications managers, brand managers, and marketing research managers. Operational plans generally cover a shorter period of time than either strategic plans or marketing plans—perhaps only one or two months—and they include detailed directions for the specific activities to be carried out, who will be responsible for them, and time lines for accomplishing the tasks. In reality, the action plan template we provide in Table 2.4 is most likely applied at the operational level.

Significantly, many of the important marketing metrics managers use to gauge the success of plans actually get used at the operational planning level. For example, sales managers in many firms are charged with the responsibility of tracking a wide range of metrics related to the firm–customer relationship, such as number of new customers, sales calls per month, customer turnover, and customer loyalty. The data are collected at the operational level and then sent to upper management for use in planning at the functional level and above.

To summarize what we've discussed in this chapter, business planning—a key element of a firm's success—occurs in several different stages. Strategic planning takes place at both the corporate and the SBU level in large firms and in a single stage in smaller businesses. Marketing planning, one of the functional planning areas, comes next. Operational planning ensures proper implementation and control of the marketing plan. It is critical that firms approach the marketing planning process in a highly ethical manner, mindful of the importance of establishing an organizational code of ethics to eliminate ambiguity about which

### operational plans

Plans that focus on the day-to-day execution of the marketing plan. Operational plans include detailed directions for the specific activities to be carried out, who will be responsible for them, and time lines for accomplishing the tasks.

behaviors by organization members are acceptable and which are not. And it is also important that the application of metrics to provide effective control of marketing performance take into account not just short-term results but also impact on long-term sustainability issues. In the next chapter, we'll continue the dialogue by focusing on how marketing can best help firms thrive in today's global business environment.

Now that you've learned the basics of strategic market planning, go to [www.mypersonmarketinglab.com](http://www.mypersonmarketinglab.com) to see which strategy Jay selected to develop a market for First Flavor.



## Here's my choice. . .

Real People, Real Choices

Why do you think Jay chose option 3?

1  
Option

2  
Option

3  
Option

### How It Worked Out at First Flavor

Jay and his partners decided to defer the flavoring strip concept, as they felt that it required a more capital-intensive consumer product launch rather than working through a corporate partner with an existing supply chain. Focusing on their core marketing services product, Peel 'n Taste®, First Flavor was able to achieve profitability for the first time in Q1 2010 as a result of new orders.

To learn the whole story, visit [www.mypersonmarketinglab.com](http://www.mypersonmarketinglab.com).

## Brand YOU!

Do you cringe when someone asks you, "What do you want to do when you graduate?"

Learn about yourself and what professions might be best for you in Chapter 2 of *Brand You*. You'll create a mission statement, complete a skills inventory, and identify your career objectives. In today's competitive world, it's never too early to plan your career.



## Objective Summary → Key Terms → Apply

## CHAPTER 2

## Study Map

## 1. Objective Summary (pp. 40–46)

### Explain business planning and its three levels.

Strategic planning is the managerial decision process in which top management defines the firm's purpose and specifies what the firm hopes to achieve over the next five or so years. For large firms that have a number of self-contained business units, the first step in strategic planning is for top management to establish a mission for the entire corporation. Top managers then evaluate the internal and external environment of the business and set corporate-level objectives that guide decision making within each individual SBU. In small firms that are not large enough to have separate SBUs, strategic planning simply takes place at the overall firm level. For companies with several different SBUs, strategic planning also includes (1) making decisions about how to best allocate resources across these businesses to ensure growth for the total organization, and (2) developing growth strategies.

Planning takes place at three key levels. Strategic planning is the managerial decision process that matches the firm's resources and capabilities to its market opportunities for long-term growth. Functional planning gets its name because the various functional areas of the firm such as marketing, finance, and human resources get involved. And operational planning focuses on the day-to-day execution of the functional plans and includes detailed annual, semiannual, or quarterly plans.

### Key Terms

- business planning, p. 41
- business plan, p. 41
- marketing plan, p. 41
- business ethics, p. 42
- code of ethics, p. 42
- strategic planning, p. 44
- strategic business units (SBUs), p. 45
- functional planning, p. 45
- operational planning, p. 45

## 2. Objective Summary (pp. 46–53)

### Describe the steps in strategic planning.

Marketing planning is one type of functional planning. Marketing planning begins with an evaluation of the internal and external environments. Marketing managers then set marketing objectives usually related to the firm's brands, sizes, product features, and other marketing mix-related elements. Next, marketing managers select the target market(s) for the organization and decide what marketing mix strategies they will use.

Product strategies include decisions about products and product characteristics that will appeal to the target market. Pricing strategies state the specific prices to be charged to channel members and final consumers. Promotion strategies include plans for advertising, sales promotion, public relations, publicity, personal selling, and direct marketing used to reach the target market. Distribution (place) strategies outline how the product will be made available to targeted customers when and where they want it. Once the marketing strategies are developed, they must be implemented. Control is the measurement of actual performance and comparison with planned performance. Maintaining control implies the need for concrete measures of marketing performance called "marketing metrics."

### Key Terms

- mission statement, p. 47
- situation analysis, p. 47
- internal environment, p. 47
- external environment, p. 47
- SWOT analysis, p. 48
- business portfolio, p. 49
- portfolio analysis, p. 49
- BCG growth–market share matrix, p. 50
- stars, p. 50
- cash cows, p. 50
- question marks, p. 51
- dogs, p. 51
- market penetration strategies, p. 51
- market development strategies, p. 52
- product development strategies, p. 52
- diversification strategies, p. 52

## 3. Objective Summary (pp. 53–61)

### Describe the steps in marketing planning.

Operational planning is done by first-line supervisors such as sales managers, marketing communication managers, and marketing research managers, and focuses on the day-to-day execution of the marketing plan. Operational plans generally cover a shorter period of time and include detailed directions for the specific activities to be carried out, who will be responsible for them, and time lines for accomplishing the tasks. To ensure effective implementation, a marketing plan must include individual action plans, or programs, that support the plan at the operational level. Each action plan necessitates pro-

viding a budget estimate, schedule, or time line for its implementation, and appropriate metrics so that the marketer can monitor progress and control for discrepancies or variation from the plan. Sometimes variance from a plan requires shifting or increasing resources to make the plan work; other times, it requires changing the objectives of the plan to recognize changing conditions.

## Key Terms

**control**, p. 55

**return on marketing investment (ROMI)**, p. 56

**action plans**, p. 58

**operational plans**, p. 60

## Chapter Questions and Activities

### Concepts: Test Your Knowledge

1. What is strategic, functional, and operational planning? How does strategic planning differ at the corporate and the SBU levels?
2. What is a mission statement? What is a SWOT analysis? What role do these play in the planning process?
3. What is a strategic business unit (SBU)? How do firms use the Boston Consulting Group model for portfolio analysis in planning for their SBUs?
4. Describe the four business growth strategies: market penetration, product development, market development, and diversification.
5. Explain the steps in the marketing planning process.
6. How does operational planning support the marketing plan?
7. What are the elements of a formal marketing plan?
8. What is an action plan? Why are action plans such an important part of marketing planning? Why is it so important for marketers to break the implementation of a marketing plan down into individual elements through action plans?
9. What is return on marketing investment (ROMI)? How does considering marketing as an investment instead of an expense affect a firm?
10. Give several examples of marketing metrics. How might a marketer use each metric to track progress of some important element of a marketing plan?
11. What is corporate culture? What are some ways that the corporate culture of one organization might differ from that of another? How does corporate culture affect marketing decision making?
12. Why is it essential, even in firms with a strong corporate culture, to have a written Code of Ethics? What are some important potential negative consequences of not formalizing a Code of Ethics in written form?

### Activities: Practice What You've Learned

1. Assume that you are the marketing director for a small firm that manufactures educational toys for children. Your boss, the company president, has decided to develop a mission statement. He's admitted that he doesn't know much about developing a mission statement and has asked you to help guide him in this process. Write a memo

outlining exactly what a mission statement is, why firms develop such statements, how firms use mission statements, and your thoughts on what the firm's mission statement might be.

2. As a marketing student, you know that large firms often organize their operations into a number of strategic business units (SBUs). A university might develop a similar structure in which different academic schools or departments are seen as separate businesses. Consider how your university might divide its total academic units into separate SBUs. What would be the problems with implementing such a plan? What would be the advantages and disadvantages for students and for faculty? Be prepared to share your analysis of university SBUs to your class.
3. An important part of planning is a SWOT analysis, understanding an organization's strengths, weaknesses, opportunities, and threats. Choose a business in your community with which you are familiar. Develop a brief SWOT analysis for that business.
4. As an employee of a business consulting firm that specializes in helping people who want to start small businesses, you have been assigned a client who is interested in introducing a new concept in health clubs—one that offers its customers both the usual exercise and weight-training opportunities and certain related types of medical assistance such as physical therapy, a weight-loss physician, and diagnostic testing. As you begin thinking about the potential for success for this client, you realize that developing a marketing plan is going to be essential. Take a role-playing approach to present your argument to the client as to why she needs to invest in formal marketing planning.
5. Review the Code of Ethics for any three business organizations of your choosing. What elements do you find in common across the three examples? Which Code of Ethics do you think is the most effective overall, and why?

### Marketing Metrics Exercise

Most marketers today feel pressure to measure (quantify) their level of success in marketing planning. In your opinion, is it easy to measure marketing's success (compared to, say, measuring the success of a firm's financial management or production quality)? Explain your viewpoint.

## Choices: What Do You Think?

1. The Boston Consulting Group matrix identifies products as stars, cash cows, question marks, and dogs. Do you think this is a useful way for organizations to examine their businesses? What are some examples of product lines that fit in each category?
2. In this chapter we talked about how firms do strategic, functional, and operational planning. Yet some firms are successful without formal planning. Do you think planning is essential to a firm's success? Can planning ever hurt an organization?
3. Most planning involves strategies for growth. But is growth always the right direction to pursue? Can you think of some organizations that should have contraction rather than expansion as their objective? Do you know of any organizations that have planned to get smaller rather than larger in order to be successful?
4. When most people think of successful marketing, internal firm culture doesn't immediately come to mind as a contributing factor. What is a corporate culture? What are some reasons a firm's corporate culture is important to the capability of doing good marketing? Give some examples of what you consider to be a good corporate culture for marketing.
5. Review the *AMA Code of Ethical Norms and Values for Marketers*, provided in the chapter. Which of the areas represented within the document do you anticipate are the

most challenging for marketers to consistently follow? What makes these issues particularly troublesome? Do you think marketing in general does a good job adhering to the AMA Code? Provide specific evidence from your knowledge and experience to support your position.

## Miniproject: Learn by Doing

The purpose of this miniproject is to gain an understanding of marketing planning through actual experience.

1. Select one of the following for your marketing planning project:
  - Yourself (in your search for a career)
  - Your university
  - A specific department in your university
2. Next, develop the following elements of the marketing planning process:
  - A mission statement
  - A SWOT analysis
  - Objectives
  - A description of the target market(s)
  - A positioning strategy
  - A brief outline of the marketing mix strategies—the product, pricing, distribution, and promotion strategies—that satisfy the objectives and address the target market
3. Prepare a brief outline of a marketing plan using the basic template provided in this chapter as a guide.

## Marketing in Action Case

*Time* magazine named it the Invention of the Year. Experts and consumers alike called it “revolutionary.” Introduced in June 2007, the iPhone is Apple's Internet-enabled multimedia mobile phone. In the first six months after Steve Jobs announced the planned launch of the iPhone at the Macworld Expo in January 2007, the invention was the subject of 11,000 print articles and 69 million hits on Google.

So why is the iPhone revolutionary? For starters, the iPhone is a quad-band mobile phone that uses GSM standard, thus having international calling capability. It is a portable media player or iPod and an Internet browser, thus accessing owners' e-mail. It does text messaging, visual voice-mail, and has local Wi-Fi connectivity. It's sleek, slim, and is outfitted with a multi-touch screen with virtual keyboard. The multitouch screen technique means the owner can expand or shrink the screen image by sliding her finger and thumb apart or together. The iPhone offers owners three types of radio: cellular, Wi-Fi, and Bluetooth. As an added benefit, one iPhone battery charge provides 8 hours of calls, 7 hours of video, or 24 hours of music.

Indeed, the iPhone was the year's most desired gadget. Customers stood in line to be the first to own one. In fact, some more entrepreneurially-minded customers bought more than one, convinced they could sell one at a profit and make enough to pay for the second!

## Real Choices for the Apple iPhone

Apple made the iPhone available to U.S. consumers through an alliance that made AT&T the exclusive carrier and under which AT&T subsidized the cost of the iPhone. To use an iPhone, customers had to sign a two-year contract with AT&T for cellular and Internet service. The price of the phone itself was \$499 for the four-gigabyte model or \$599 for the eight-gigabyte version.

But consumers' love affair with the iPhone soon faced trouble. Just two months after the iPhone introduction, Apple dropped the price from \$600 to \$399, angering customers who had paid top dollar only two months before. And those customers immediately let Apple know of their dissatisfaction by phone, by e-mail, and on blogs. In response, Steve Jobs admitted that the company had abused its core customers and offered a \$100 store credit to early iPhone buyers.

Furthermore, consumers were not happy that they were restricted to AT&T with their iPhones. Soon after the phone's introduction, hackers posted directions on the Internet for consumers to unlock the cellular service feature of their phone, allowing them to use the iPhone with any cellular service provider. Even though Apple was quick to warn consumers that unlocking the phone might damage the iPhone software, eventually making downloading with upgraded software impossible, unlocked phones continued to be available.

To make matters worse, various European countries have laws to protect consumers from being forced to buy something as a condition of buying a product, thus creating barriers for the global iPhone business. The courts in both France and Germany have refused to allow Apple to sell the iPhone locked to a long-term contract with a single cellular service supplier.

For Apple, the iPhone is the product of the future with plans for introducing software upgrades and newer versions to stimulate increased world sales. Steve Jobs is betting that the iPhone will enjoy the same success he has had with the iPod and with Apple computers. But for that success to materialize, Apple must carefully consider what long-term strategies are necessary to make the iPhone both popular and profitable.

## You Make the Call

1. What is the decision facing Apple?
2. What factors are important in understanding this decision situation?
3. What are the alternatives?
4. What decision(s) do you recommend?
5. What are some ways to implement your recommendation?

**Based on:** Katie Hafner and Brad Stone, "iPhone Owners Crying Foul over Price Cut," *New York Times*, September 7, 2007, <http://www.nytimes.com/2007/09/07/technology/07apple.html>; Times Topics, iPhone, <http://topics.nytimes.com/top/reference/timestopics/subjects/i/iphone/index.html?8qa&scp=1-spot&sq=iphone&st=nyt>; The Associated Press, "Altered iPhones at Risk of Failure," *New York Times*, September 25, 2007, <http://www.nytimes.com/2007/09/25/technology/25iphone.html?sq=iphone%20unlocked&st=nyt&scp=6&pagewanted=print>; Victoria Shannon, "iPhone Must Be Offered Without Contract Restrictions, German Court Rules," *New York Times*, November 21, 2007, <http://www.nytimes.com/2007/11/21/technology/21iphone.html?scp=3&sq=iphone+unlocked&st=nyt>; David Pogue, "The iPhone Matches Most of Its Hype," *New York Times*, June 27, 2007, <http://www.nytimes.com/2007/06/27/technology/circuits/27pogue.html>.

P  
R  
I  
M  
M  
,  
S  
H  
A  
R  
O  
N  
D  
A  
  
3  
9  
5  
7  
B  
U

# Consumer Behavior:

## How and Why We Buy

### Real People Profile



## Julie Cordua

### Profile

#### ▼ A Decision Maker at (RED)

Julie Cordua is the vice president of marketing at (RED), a new brand created by U2 lead singer Bono and Bobby Shriver to engage business in the fight against

AIDS in Africa. (RED) partners with the world's best brands to make uniquely branded products from which up to 50 percent of the profits are directed to the Global Fund to finance African HIV/AIDS programs with a focus on women and children. In her role at (RED), she is responsible for building the (RED) brand through innovative marketing programs including public relations, advertising, events, and co-branding.

Prior to joining (RED), Julie spent the bulk of her career in marketing in the wireless industry. Most recently, she was the senior director of buzz marketing and part of the start-up team at HELIO, a new mobile brand for young, connected consumers. Before HELIO, Julie spent five years at Motorola in the Mobile Devices division in Chicago. At Motorola, she led the global category marketing group and was part of the team that orchestrated the RAZR launch in 2002.

Julie started her career in public relations at Hill & Knowlton in Los Angeles. She holds a BA in communications with an emphasis in business administration from UCLA and an MBA from the Kellogg School at Northwestern University. She currently lives in Manhattan Beach, California, with her husband.

### Info

#### Julie's Info

##### What do I do when I'm not working?

**A)** Read, travel, and spend time with friends and family.

##### First job out of school?

**A)** Account coordinator at Hill & Knowlton Public Relations.

##### Career high?

**A)** Two: introducing the MOTO RAZR and introducing (RED).

##### Business book I'm reading now?

**A)** *The End of Poverty* by Jeff Sachs.

##### My management style?

**A)** Give your team the tools it needs to do its best job and trust it.

##### Don't do this when interviewing with me?

**A)** Ask about the salary in the first part of the interview.



# Here's my **problem.** . . .

## Real People, Real Choices

(RED) works with the world's best brands to make unique (PRODUCT) RED-branded products and directs up to 50 percent of its gross profits to the Global Fund to invest in African AIDS programs with a focus on the health of women and children. (RED) is not a charity or "campaign." It is an economic initiative that aims to deliver a sustainable flow of private sector money to the Global Fund.

### Things to remember

A sizeable portion of consumers have strong negative attitudes toward big corporations. They don't necessarily want to deal with companies now aligned with (RED) as part of their charitable activities.

Launch product partners included Converse, Gap, Motorola, Emporio Armani, Apple, and American Express (U.K. only). In its first year, (RED) added Hallmark, Dell, and Microsoft as partners. These companies were chosen because they were strong international consumer brands that could drive significant awareness and sell large volumes of products. And, more importantly, they were the few brave companies that were willing to take a risk on the idea of (RED) before it was a proven concept.

By fall 2007, with a successful first year behind it, (RED) was evaluating how to ensure sustained success for the brand. One of the main inputs Julie needed was more consumer insights about how shoppers related to the (RED) concept and to cause marketing where purchases are linked to donations to a non-profit organization in general. The company had not done this research before launch, so Julie decided it was time to do an extensive consumer research study in the United States.

Specifically, Julie wanted to know what consumers thought about the following (and how their beliefs affected their purchasing/participation actions):

- A corporation's role in solving social issues
- Churches/community organizations' roles in solving social issues
- An individual's role in solving social issues (via donation or volunteering)
- Government's role in solving social issues
- Celebrity involvement in solving social issues
- The idea of combining charity with capitalism (buying and contributing at the same time)

The research project included three stages: (1) interviews with a variety of consumers to qualitatively understand major issues on people's minds, how consumers relate to shopping and charity, and what people know about (RED); (2) a nationwide quantitative survey to identify major attitudinal and behavioral trends across the population; and (3) ethnographies where researchers actually spent time with people as they went about their daily lives and that helped bring some of the key insights from the survey to life.

The research showed that teens were most open to the idea of cause marketing. This finding made sense to Julie; this is a group that has grown up with the idea of "creative capitalism" and doesn't understand why doing good and having what you want should be separated. Also, this group looked up to celebrities more than any other age segment; they cited famous people across music, film, TV, and sports as major influences on their opinions and behaviors. However, when describing how they relate to (RED), they often commented that the brands that were current partners were not relevant to them.

A surprisingly large portion of the population rejected the idea of combining charity and capitalism. These "traditionalists" believed that social issues were best taken care of by the government or churches and community organizations. They were highly skeptical of corporations that promoted an

ability to do good by buying a product. These consumers wanted a more traditional way to get involved—through donations, volunteering, or simply through paying taxes and allowing their government to address the issues.

With these insights in hand, Julie and her colleagues, including the head of business development, several outside advisors, and the CEO, had to decide if the (RED) model—partnering with mass market international brands for long-term deals—was the optimal way to generate the most money for the Global Fund.

## Julie considered her Options 1·2·3

**1 Option** **Expand the (RED) model based on what the research revealed about the teen market.** Complement the bigger deals involving mainstream brands with the introduction of smaller "special edition" deals with younger, more relevant brands. Engage celebrities that specifically appeal to the younger demographic. If young people buy into the concept now, this would build loyalty and they would remain long-term fans of the brand. On the down side, this additional investment in smaller brands would require additional resources and divert (RED)'s small staff from its primary task of working with larger companies.

**2 Option** **Stick with the existing (RED) model.** Continue to partner only with large, international brands that make significant marketing and contribution commitments. Use celebrity engagement to draw attention to the brand. This option would let (RED) tap into the growing sentiment toward combining charity and capitalism. It would provide opportunities for significant exposure for (RED) through large-scale marketing programs.

On the other hand, this approach might alienate those who prefer more traditional avenues of giving to charity; these people might not give to the Global Fund under these circumstances. And, with such a mass-market approach, (RED) might not maximize engagement with the high-potential teen segment, which might be valuable long-term.

**3 Option** **Expand the (RED) model to include more traditional non-profit aspects, such as donation and volunteering, in order to appeal to all consumer groups and increase engagement.** This would allow (RED) to expand its reach to a much broader audience and potentially drive more revenue for the Global Fund through donations. But such an expansion might create brand confusion since (RED) is all about shopping and doing good at the same time. Julie feared that the company might not be able to be "all things to all people" by appealing to those who endorse the idea of "creative capitalism" and to those who want to contribute via more traditional avenues.

Now, put yourself in Julie's shoes: Which option would you choose, and why?

### You Choose

Which **Option** would you choose, and **why**?

1.  Yes  No    2.  Yes  No    3.  Yes  No

See what **option** Julie chose on **page 150** ➔

## Chapter 5

## Objective Outline

1. Define *consumer behavior* and explain the purchase decision-making process. (pp. 130–138)  
THE CONSUMER DECISION-MAKING PROCESS (p. 130)
2. Explain how internal factors influence consumers' decision-making processes. (pp. 138–145)  
INTERNAL INFLUENCES ON CONSUMERS' DECISIONS (p. 138)
3. Show how situational factors and consumers' relationships with other people influence consumer behavior. (pp. 145–150)  
SITUATIONAL AND SOCIAL INFLUENCES ON CONSUMERS' DECISIONS (p. 145)

**consumer behavior**

The process involved when individuals or groups select, purchase, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and desires.

## Decisions, Decisions

Nothing is more important than understanding consumers and how they make decisions when you need to plan marketing strategy. In this chapter we'll look at the consumer decision-making process and the multitude of factors that influence those choices. And we'll show how understanding consumers boosts ROI as these insights help marketers to figure out the best way to win customers by meeting their needs.

We include consumer insights in many parts of the marketing plan—from what type of product to offer to where to advertise. This knowledge is key when we select a target market. For example, Julie's understanding of (RED)'s consumer base showed her that teens were the most receptive to social marketing and thus an ideal target for the organization's message.

## 1

## OBJECTIVE

Define *consumer behavior* and explain the purchase decision-making process. (pp. 130–138)

## The Consumer Decision-Making Process

Compelling new products, clever packaging, and creative advertising surround us, clamoring for our attention—and our money. But consumers don't all respond in the same way. Each of us is unique, with our own reasons to choose one product over another. Remember: The focus of the marketing concept is to satisfy consumers' wants and needs. To accomplish that crucial goal, first we need to appreciate what those wants and needs are. What causes one consumer to step into Denny's for a huge cholesterol-laden breakfast, while another opts for a quick Starbucks latte and Danish, and a third will only eat a healthy serving of "natural" Kashi cereal and fruit? And what, other than income, will cause one consumer to buy that box of Kashi cereal only when it's "on deal" while her neighbor never even looks at the price?

**Consumer behavior** is the process individuals or groups go through to select, purchase, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and desires. Marketers recognize that consumer decision making is an ongoing process—it's much more than what happens at the moment a consumer forks over the cash and in turn receives a good or service.

Let's go back to the shoppers who want to buy a box of dry cereal. Although this may seem like a simple purchase, in reality there are quite a few steps in the process that cereal marketers need to understand. The first decision in the process is where to buy your cereal. If you eat a lot of it, you may choose to make a special trip to a warehouse-type retailer that sells super-duper-sized boxes rather than just picking up a box while you're at the local supermarket. Of course, if you get a craving for cereal in the middle of the night, you may dash to the local convenience store. Then there is the decision of the type of cereal. Do you eat only low-fat, high-fiber bran cereals, or do you go for the sugar-coated varieties with marshmallows? Of course, you may also like to have a variety of cereals available so you can "mix and match."

Marketers also need to know how and when you consume their products. Do you eat cereal only for breakfast, or do you snack on it while you sit

Check out chapter 5 **Study Map** on page 151

in front of the TV at night? Do you eat certain kinds of cereal only at certain times (like sugary “kids’ cereals” that serve as comfort food when you’re pulling an all-nighter)? What about storing the product (if it lasts that long)? Do you have a kitchen pantry where you can store the supersized box, or is space an issue?

And there’s more. Marketers also need to understand the many factors that influence each of these steps in the consumer behavior process—internal factors unique to each of us, situational factors at the time of purchase, and the social influences of people around us. In this chapter, we’ll talk about how all these factors influence how and why consumers do what they do. But first we’ll look at the types of decisions consumers make and the steps in the decision-making process.

### Not All Decisions Are the Same

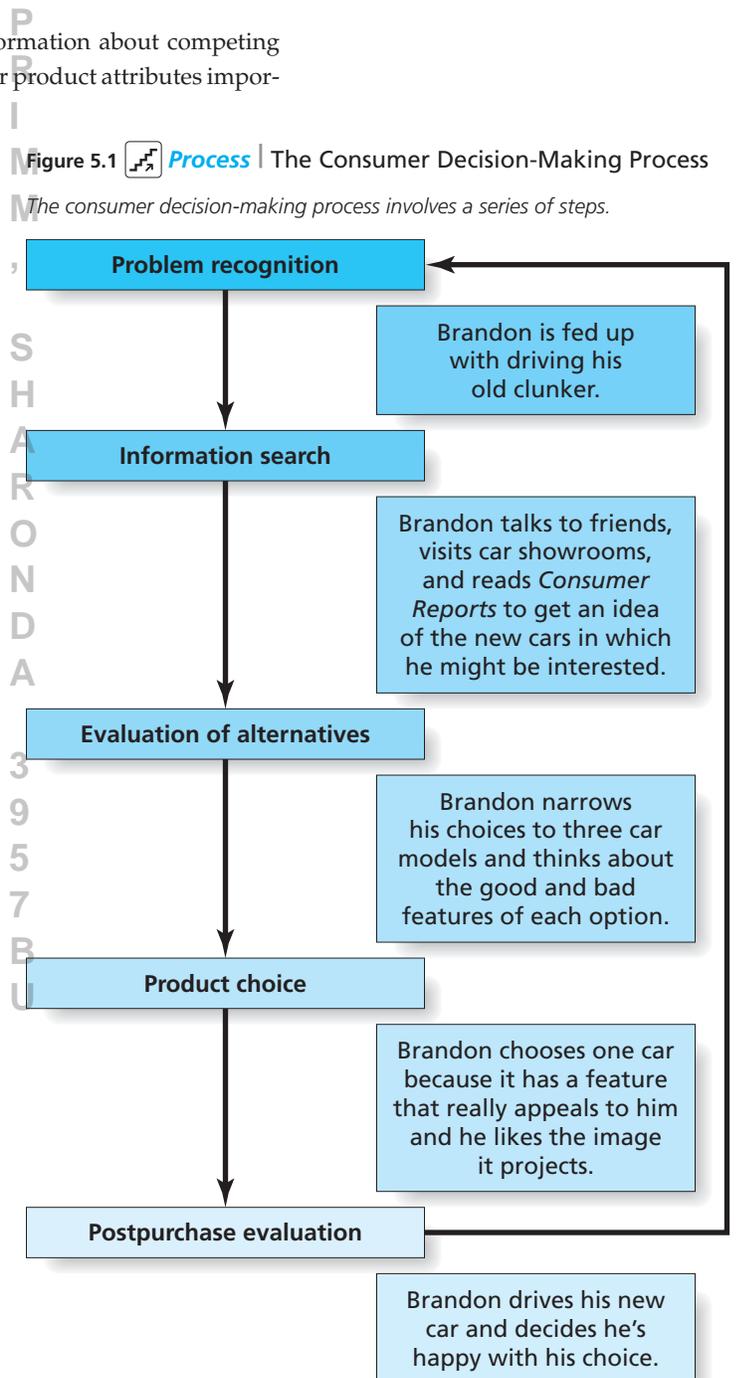
Traditionally, researchers assumed that we carefully collect information about competing products, determine which products possess the characteristics or product attributes important to our needs, weigh the pluses and minuses of each alternative, and arrive at a satisfactory decision. But how accurate is this picture of the decision-making process? Is this the way you buy cereal?

Although it does seem that people take these steps when they make an important purchase such as a new car, is it realistic to assume that they do this for everything they buy, like that box of cereal? Today we realize that decision makers actually employ a set of approaches that range from painstaking analysis to pure whim, depending on the importance of what they are buying and how much effort they choose to put into the decision.<sup>1</sup> Researchers find it convenient to think in terms of an “effort” continuum that is anchored on one end by *habitual decision making*, such as deciding to purchase a box of cereal, and at the other end by *extended problem solving*, such as deciding to purchase a new car.

When consumers engage in extended problem solving, indeed we do carefully go through the steps  Figure 5.1 outlines: problem recognition, information search, evaluation of alternatives, product choice, and postpurchase evaluation.

When we make habitual decisions, however, we make little or no conscious effort. We may not search much if at all for more information, and we may not bother to compare alternatives. Rather, we make purchases automatically. You may, for example, simply throw the same brand of cereal in your shopping cart week after week without thinking about it.  Figure 5.2 provides a summary of the differences between extended problem solving and habitual decision making.

Many decisions fall somewhere in the middle and are characterized by *limited problem solving*, which means that we do some work to make a decision but not a great deal. This is probably how you decide on a new pair of running shoes or a new calculator for math class. We often rely on simple “rules of thumb” instead of painstakingly learning all the ins-and-outs of every product alternative. So, rather than devoting a week of your life to learning all there is to know about calculators, you may use a simple rule like: “Buy a well-known electronics brand.”



ISBN 1-256-36591-2

Figure 5.2  **Process** | Extended Problem Solving versus Habitual Decision Making

Decisions characterized as extended problem solving versus habitual decision making differ in a number of ways.

	<i>Extended Problem Solving</i>	<i>Habitual Decision Making</i>
<i>Product</i>	New car	Box of cereal
<i>Level of involvement</i>	High (important decision)	Low (unimportant decision)
<i>Perceived risk</i>	High (expensive, complex product)	Low (simple, low-cost product)
<i>Information processing</i>	Careful processing of information (search advertising, magazines, car dealers, Web sites)	Respond to environmental cues (store signage or displays)
<i>Learning model</i>	Cognitive learning (use insight and creativity to use information found in environment)	Behavioral learning (ad shows product in beautiful setting, creating positive attitude)
<i>Needed marketing actions</i>	Provide information via advertising, salespeople, brochures, Web sites. Educate consumers to product benefits, risks of wrong decisions, etc.	Provide environmental cues at point-of-purchase, such as product display



Zuma Press/Newscom

Marketers at the beginning of the walking shoe craze assumed that all recreational walkers were just burned-out joggers. Subsequent psychographic research that examined the AIOs of these walkers showed that there were actually several psychographic segments within the larger group who engaged in the activity for very different reasons. These different motivations included walking for fun, walking to save money, and walking for exercise. This research resulted in walking shoes for different segments, from Footjoy Walkers to Nike Healthwalkers.

**involvement**

The relative importance of perceived consequences of the purchase to a consumer.

**perceived risk**

The belief that choice of a product has potentially negative consequences, whether financial, physical, and/or social.

Just how much effort do we put into our buying decisions? The answer depends on our level of **involvement**—how important we perceive the consequences of the purchase to be. As a rule, we are more involved in the decision-making process for products that we think are risky in some way. **Perceived risk** may be present if the product is expensive or complex and hard to understand, such as a new computer or a sports car. Perceived risk also can play a role when we think that making a bad choice will result in embarrassment or social rejection. For example, a person who wears a pair of Skechers on a job interview may jeopardize the job if the interviewer doesn't approve of his footwear.

When perceived risk is low—such as when we buy a box of cereal—we experience a small amount of involvement in the decision-making process. In these cases we're not overly concerned about which option we choose because it is not especially important or risky. The worst-case scenario is that you don't like the taste and pawn off the box on your unsuspecting roommate! In *low-involvement* situations, the consumer's decision is often a response to envi-

ronmental cues, such as when you decide to try a new type of cereal because the grocery store prominently displays it at the end of the aisle. Under these circumstances, managers must concentrate on how a store displays products at the time of purchase to influence the decision maker. For example, a cereal marketer may decide to spend extra money to be sure its brand stands out in a store display or feature a cool athlete like Olympic speed skater Apolo Ohno on the box so consumers notice it.

For *high-involvement* purchases, such as when we buy a house or a car, we are more likely to carefully process all the available information and to have thought about the decision well before we buy the item. The consequences of the purchase are important and risky, especially because a bad decision may result in significant financial losses, aggravation, or

embarrassment. Most of us would not just saunter into a real estate agent’s office at lunchtime and casually plunk down a deposit on a new house. For high-involvement products, managers must start to reduce perceived risk by educating the consumer about why their product is the best choice well in advance of the time that the person is ready to make a decision.

To understand each of the steps in the decision-making process, we’ll follow the fortunes of a consumer named Brandon, who, as  Figure 5.1 shows, is in the market for a new ride—a highly involving purchase decision, to say the least.

## Step 1: Problem Recognition

**Problem recognition** occurs whenever a consumer sees a significant difference between his or her current state of affairs and some desired or ideal state. A woman whose 10-year-old Hyundai lives at the mechanic’s shop has a problem, as does the man who thinks he’d have better luck getting dates if he traded his Hyundai for a new sports car. Brandon falls into the latter category—his old clunker runs okay, but he wants to sport some wheels that will get him admiring stares instead of laughs.

Do marketing decisions have a role in consumers’ problem recognition? Although most problem recognition occurs spontaneously or when a true need arises, marketers often develop creative advertising messages that stimulate consumers to recognize that their current state (that old car) just doesn’t equal their desired state (a shiny, new convertible).  Figure 5.3 provides examples of marketers’ responses to consumers’ problem recognition and the other steps in the consumer decision-making process.

### problem recognition

The process that occurs whenever the consumer sees a significant difference between his current state of affairs and some desired or ideal state; this recognition initiates the decision-making process.



Campbell's asks, "What shape are your kids in?" This question kick-starts problem recognition for parents who may need to reconsider what they feed their children.

Figure 5.3  **Process** | Responses to Decision Process Stages

Understanding the consumer decision process means marketers can develop strategies to help move the consumer from recognizing a need to being a satisfied customer.

Stage in the Decision Process	Marketing Strategy	Example
Problem recognition	Encourage consumers to see that existing state does not equal desired state	<ul style="list-style-type: none"> <li>• Create TV commercials showing the excitement of owning a new car</li> </ul>
Information search	Provide information when and where consumers are likely to search	<ul style="list-style-type: none"> <li>• Target advertising on TV programs with high target-market viewership</li> <li>• Provide sales training that ensures knowledgeable salespeople</li> <li>• Make new-car brochures available in dealer showrooms</li> <li>• Design exciting, easy-to-navigate, and informative Web sites</li> <li>• Provide information on blogs and social networks to encourage word-of-mouth strategies</li> <li>• Use search marketing to ensure that your Web site has preferential search engine positioning</li> <li>• Participate in consumer review/advisory Web sites such as tripadvisor.com</li> </ul>
Evaluation of alternatives	Understand the criteria consumers use in comparing brands and communicate own brand superiority	<ul style="list-style-type: none"> <li>• Conduct research to identify most important evaluative criteria</li> <li>• Create advertising that includes reliable data on superiority of a brand (e.g., miles per gallon, safety, comfort)</li> </ul>
Product choice	Understand choice heuristics used by consumers and provide communication that encourages brand decision	<ul style="list-style-type: none"> <li>• Advertise “Made in America” (country of origin)</li> <li>• Stress long history of the brand (brand loyalty)</li> </ul>
Postpurchase evaluation	Encourage accurate consumer expectations	<ul style="list-style-type: none"> <li>• Provide honest advertising and sales presentations</li> </ul>

## Step 2: Information Search

Once Brandon recognizes his problem—he wants a newer car!—he needs adequate information to resolve it. **Information search** is the step of the decision-making process in which the consumer checks his memory and surveys the environment to identify what options are out there that might solve his problem. Advertisements in newspapers, on TV or the radio, information we “Google” on the Internet, or a video on YouTube often provide valuable

### information search

The process whereby a consumer searches for appropriate information to make a reasonable decision.

guidance during this step. Brandon might rely on recommendations from his friends, Facebook drivers' clubs, information he finds at [www.caranddriver.com](http://www.caranddriver.com), in brochures from car dealerships, or on the manufacturers' Web sites.

### The Internet as a Search Tool

Increasingly, consumers use the Internet to search for information about products. Search engines, sites such as Google ([www.google.com](http://www.google.com)) and Bing ([www.bing.com](http://www.bing.com)), help us locate useful information as they search millions of Web pages for key words and return a list of sites that contain those key words.

Of course, the problem for marketers is that consumers seldom follow up on more than a page or two of results they get from these searches—we're all bombarded by way too much information these days to ever look at all of it. This has led marketers to develop sophisticated **search marketing** techniques. With **search engine optimization (SEO)** marketers first find what key words consumers use most in their searches. Then they edit their site's content or HTML to increase its relevance to those keywords so they can try to place their site high up in the millions of sites the search might generate. With **search engine marketing (SEM)** the search engine company charges marketers to display **sponsored search ads** that appear at the top or beside the search results.

**Comparison shopping agents** (or **shopbots**) such as [Shopzilla.com](http://Shopzilla.com) and [NexTag.com](http://NexTag.com) are Web applications that can help online shoppers to find what they are looking for at the lowest price. In addition to listing where a product is available and the price, these sites often provide customer reviews and ratings of the product and the sellers. They enable consumers to view both positive and negative feedback about the product and the online retailer from other consumers. Increasingly consumers also search out other consumers' opinions and experience through networking Web sites such as YouTube and Facebook. We'll talk more about these sites and others similar to them later in the chapter.

### Behavioral Targeting

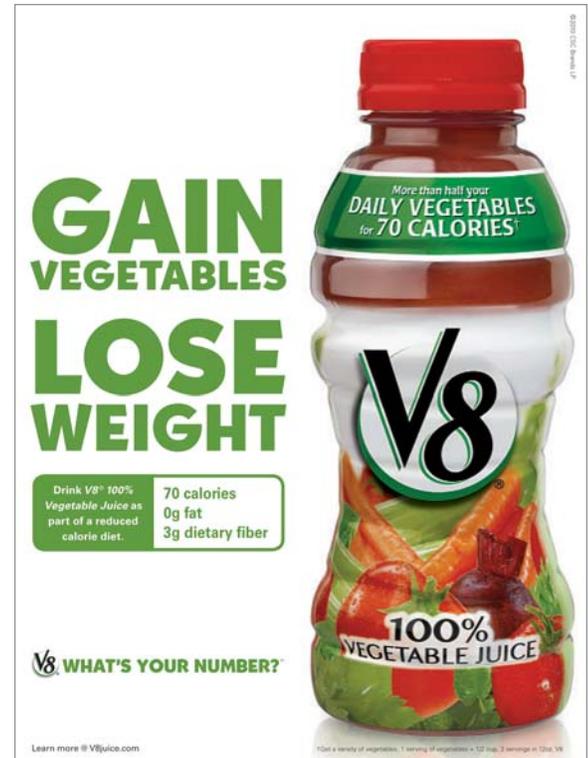
During information search, the marketer's goal is to make the information consumers want and need about their product easily accessible. The challenge today is how to get the right message to the right consumer. One answer to this challenge is **behavioral targeting**, a strategy that presents individuals with advertisements based on their Internet use. In other words, with today's technology it has become fairly easy for marketers to tailor the ads you see to Web sites you've visited.

Cable TV stations offer the newest behavioral targeting strategy.<sup>2</sup> Using existing systems in digital set-top boxes, cable companies can deliver ads to specific households based on such demographic data as income, ethnicity, gender, and household size. For example, an ad for diapers would only go to households with infants, while one for the Lexus SC convertible (beginning price of over \$68,000) would target high-income households. In addition, a viewer will be able to press a button on her remote to get more information about a product, see a movie trailer, view a demonstration video of a new product, or order a sample or a coupon.

Some critics feel this is a mixed blessing because of privacy issues. While most agree using demographic information is acceptable, many fear that viewing habits will be tracked and also used in behavioral targeting. What do you think?

### Step 3: Evaluation of Alternatives

Once Brandon has identified his options, it's time to decide on a few true contenders. There are two components to this stage of the decision-making process. First, a consumer armed with information identifies a small number of products in which he is interested. Then he



When a consumer recognizes a problem such as the need to shed a few pounds, he or she will be more receptive to products that offer to help.

#### search marketing

Marketing strategies that involve the use of Internet search engines.

#### search engine optimization (SEO)

A systematic process of ensuring that your firm comes up at or near the top of lists of typical search phrases related to your business.

#### search engine marketing (SEM)

Search marketing strategy in which marketers pay for ads or better positioning.

#### sponsored search ads

Paid ads that appear at the top or beside the Internet search engine results.

#### comparison shopping agents or shopbots

Web applications that help online shoppers find what they are looking for at the lowest price and provide customer reviews and ratings of products and sellers.

#### behavioral targeting

The marketing practice by which marketers deliver advertisements for products a consumer is looking for by watching what the consumer does online.

## Ripped from the Headlines

### Ethical/Sustainable Decisions in the Real World

Considering a new TV? What brand is best? Will you be happy with the new state-of-the-art 50-inch Samsung 3D or should you go with the lower-priced Sylvania? Many consumers turn to Internet review sites to help them make important purchase decisions. Internet sites such as Epinions, Google, ZDNet, and Yelp that provide customer reviews of products and retailers are sprouting up all over. The reason: Research has shown that review sites do influence consumers' purchases. Retailers such as BestBuy and Walmart even

#### ETHICS CHECK:

Find out what other students taking this course **would do** and **why** on **www.mypearsonmarketinglab.com**



What policies should review sites have toward companies that do and that do not advertise on their sites?

If your business was reviewed on a Web site, would you buy advertising in order to get preferential treatment?

YES  NO

#### evaluative criteria

The dimensions consumers use to compare competing product alternatives.

#### heuristics

A mental rule of thumb that leads to a speedy decision by simplifying the process.

advertise the availability of customer reviews on their Web sites. But buyer beware: Review sites are not without their critics.

Consumers who use the review Web sites assume the reviews are written by ordinary consumers who are "just like me." In reality, some reviews may be written by the companies that produce the products. And there are other issues as well. At least one review site has been accused of allowing businesses that advertise on their site to give better placement to positive reviews, placing negative reviews at the bottom where consumers are less likely to see them. Other companies say they have been pressured to buy advertising on the site, and some have claimed that their ratings actually fell when they refused to be a paid advertiser. As a marketer, what would you do?

narrows down his choices as he decides which of the possibilities are feasible and by comparing the pros and cons of each remaining option.

Brandon has always wanted a red Ferrari. But, after he allows himself to daydream for a few minutes, he returns to reality and reluctantly admits that an Italian sports car is probably not in the cards for him right now. He decides that the cars he likes—and can actually afford—are the Scion, the Ford Focus, and the Honda Element. He has narrowed down his options by considering only affordable cars that come to mind or that his buddies suggest.

Now it's decision time! Brandon has to look more systematically at each of the three possibilities and identify the important characteristics, or **evaluative criteria**, that he will use to decide among them. The criteria may be power, comfort, price, the style of the car, and even safety. Keep in mind that marketers often play a role in educating consumers about which product characteristics they should use as evaluative criteria—usually they will "conveniently" emphasize the dimensions in which their product excels. To make sure customers like Brandon come to the "right" conclusions in their evaluation of the alternatives, marketers must understand which criteria consumers use, and which are more or less important. With this information, sales and advertising professionals can point out a brand's superiority on the most important criteria as *they* have defined them.

### Step 4: Product Choice

When Brandon examines his alternatives and takes a few test drives, it's time to "put the pedal to the metal." Deciding on one product and acting on this choice is the next step in the decision-making process. After agonizing over his choice for a few weeks, Brandon decides that even though the Element and the Scion have attractive qualities, the Focus has the affordability he needs and its carefree image is the way he wants others to think about him. All this thinking about cars is "driving" him crazy, and he's relieved to make a decision to buy the Focus and get on with his life.

So, just how do consumers like Brandon choose among the alternatives they consider? These decisions often are complicated because it's hard to juggle all the product characteristics in your head. One car may offer better gas mileage, another is \$2,000 cheaper, while another boasts a better safety record. How do we make sense of all these qualities and arrive at a decision?

We saw earlier that consumers often rely on decision guidelines when they weigh the merits of competing brands claims that companies make. These **heuristics**, or mental rules-of-thumb, provide consumers with shortcuts that simplify the decision-making process. One such heuristic is "price = quality;" many people willingly buy the more expensive

brand because they assume that if it costs more, it must be better (even though this isn't always true).

Perhaps the most common heuristic is **brand loyalty**; this occurs when we buy the same brand over and over, and as you can guess it's the Holy Grail for marketers. Consumers who have strong brand loyalty feel that it's not worth the effort to consider competing options. People form preferences for a favorite brand and then may never change their minds in the course of a lifetime. Needless to say, this makes it extremely difficult for rivals to persuade them to switch.

Still another heuristic is based on *country-of-origin*. We assume that a product has certain characteristics if it comes from a certain country. In the car category, many people associate German cars with fine engineering and Swedish cars with safety. Brandon assumed that the Japanese-made Honda would be a bit more reliable than the Ford or Saturn, so he factored that into his decision.

Sometimes a marketer wants to encourage a country association even when none exists. For example, U.S. firm General Mills offers consumers Swiss-sounding Yoplait yogurt while Stonyfield Farms has introduced its Greek-sounding Oikos Organic Greek Yogurt. Häagen-Dazs ice cream comes from that exotic Scandinavian area we call . . . New Jersey.

## Step 5: Postpurchase Evaluation

In the last step of the decision-making process, the consumer evaluates just how good a choice he made. Everyone has experienced regret after making a purchase ("What was I *thinking?*"), and (hopefully) we have all been pleased with something we've bought. The evaluation of the product results in a level of **consumer satisfaction/dissatisfaction**. This refers to the overall feelings, or attitude, a person has about a product after she purchases it.

Just how do we decide if we're satisfied with what we bought? The obvious answer would be, "That's easy. The product is either wonderful or it isn't." However, it's a little more complicated than that. When we buy a product, we have some *expectations* of product quality. How well a product or service meets or exceeds these expectations determines customer satisfaction. In other words, we tend to assess product quality by comparing what we have bought to a preexisting performance standard. We form this standard via a mixture of information from marketing communications, informal information sources such as friends and family, and our own prior experience with the product category. That's why it's very important that marketers create accurate expectations of their product in advertising and other communications.

Even when a product performs to expectations, consumers may suffer anxiety or regret, or **cognitive dissonance**, after making a purchase. When we reject product alternatives with attractive features, we may second-guess our decision. Brandon, for example, might begin to think, "Maybe I should have chosen the Honda Element—everyone says Hondas are great cars." To generate satisfied customers and remove dissonance, marketers often seek to reinforce purchases through direct mail or other personalized contacts after the sale.

So, even though Brandon's new Focus is not exactly as powerful as a Ferrari, he's still happy with the car, because he never really expected a fun little car to eat up the highway like a high-performance sports car that costs ten times as much. Brandon has "survived" the consumer decision-making process: He recognized a problem, conducted an informational search to resolve it, identified the (feasible) alternatives available, made a product choice, and then evaluated the quality of his decision.

Apart from understanding the mechanics of the consumer decision-making process, marketers also try to ascertain what influences in consumers' lives affect this process. There are three main categories: internal, situational, and social influences. In Brandon's case, for



When you're dieting and you'll only consider low-calorie options, taste becomes an evaluative criterion.

### brand loyalty

A pattern of repeat product purchases, accompanied by an underlying positive attitude toward the brand, based on the belief that the brand makes products superior to those of its competition.

### consumer satisfaction/dissatisfaction

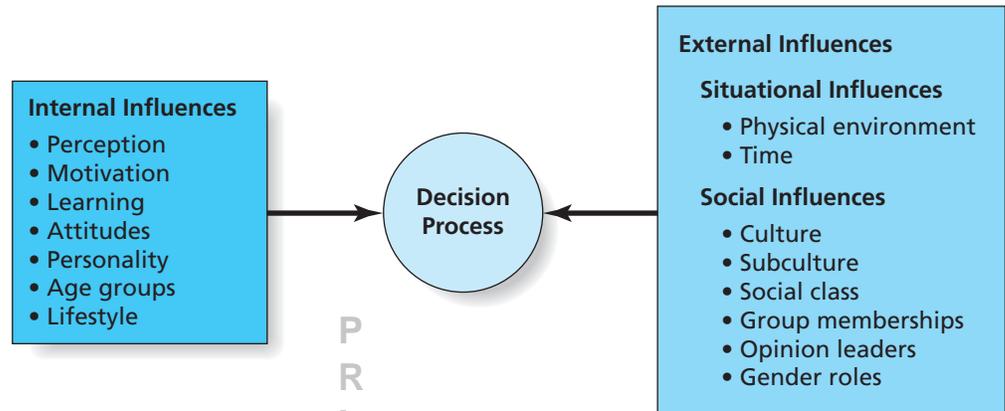
The overall feelings or attitude a person has about a product after purchasing it.

### cognitive dissonance

The anxiety or regret a consumer may feel after choosing from among several similar attractive choices.

Figure 5.4  **Process** | Influences on Consumer Decision-Making

A number of different factors in consumers' lives influence the consumer decision-making process. Marketers need to understand these influences and which ones are important in the purchase process.



example, the evaluative criteria he used to compare cars and his feelings about each were influenced by:

1. Internal factors such as the connection he learned to make between a name like Ford Focus and an image of “slightly hip, yet safe and solid”
2. Situational factors such as the way the Ford salesperson treated him
3. Social influences such as his prediction that his friends would be impressed when they saw him cruising down the road in his new wheels.

 Figure 5.4 shows the influences in the decision-making process and emphasizes that all these factors work together to affect the ultimate choice each person makes. Now, let's consider how each of these three types of influences work, starting with internal factors.

## 2 Internal Influences on Consumers' Decisions

### OBJECTIVE

Explain how internal factors influence consumers' decision-making processes. (pp. 138–145)

Like Brandon, your dream ride may be a sporty Ferrari. However, your roommate dreams of a pimped-out Escalade and your dad is set on owning a big Mercedes. As the saying goes, “That’s why they make chocolate and vanilla.” We can attribute much of these differences to internal influences on consumer behavior—those things that cause each of us to interpret information about the outside world, including which car is the best, differently from one another. Let’s see how internal factors relating to the way people absorb and interpret information influence the decision-making process.

### Perception

**Perception** is the process by which people select, organize, and interpret information from the outside world. We receive information in the form of sensations, the immediate response of our sensory receptors—eyes, ears, nose, mouth, and skin—to basic stimuli such as light, color, odors, touch, and sound. We try to make sense of the sensations we receive as we interpret them in light of our past experiences. For example, when we encounter a new product, we look at and perhaps touch the product or its package. Then we interpret that product based on our past experiences—or lack of experiences—with similar products.

#### perception

The process by which people select, organize, and interpret information from the outside world.

Take the computer keyboard, for example. When typewriters were introduced in the 1870s the keys got stuck if you typed too fast. Then in 1874 an inventor named Christopher Latham Sholes developed the QWERTY keyboard (named for the first six letters on the top row); this layout arranged the letters of the alphabet so that it decreased how fast a person could type. We don't have physical keys in computers and cell phones, so why do we still use QWERTY keyboards? Because we're used to them and it would be a hassle to learn a different configuration.

We are bombarded with information about products—thousands of ads, in-store displays, special offers, our friends' opinions, and on and on. The perception process has important implications for marketers: As we absorb and make sense of the vast quantities of information that compete for our attention, the odds are that any single message will get lost in the clutter. And, if we do notice the message, there's no guarantee that the meaning we give it will be the same one the marketer intended. The issues that marketers need to understand during this process include *exposure*, *attention*, and *interpretation*.

## Exposure

The stimulus must be within range of people's sensory receptors to be noticed; in other words, people must be physically able to see, hear, taste, smell, or feel the stimulus. For example, the lettering on a highway billboard must be big enough for a passing motorist to read easily, or the message will be lost. **Exposure** is the extent to which a person's sensory receptors are capable of registering a stimulus.

Marketers work hard to achieve exposure for their products, but sometimes it's just a matter of making sure that cool people use your product—and that others observe them doing this. After finding out that a close friend was flying to Los Angeles to audition for the film *Any Given Sunday*, the president of the high-performance sportswear company Under Armour sent along with him a bunch of free samples of its athletic wear to give to the film's casting director as a gift. The director liked the quality of the clothes so much he gave them to the wardrobe company the filmmakers hired and they also really liked the clothes. The next thing you know, the movie (starring Al Pacino and Jamie Foxx) featured both the actors wearing Under Armour clothes on screen—and there was even a scene in the film when Jamie Foxx undressed in the locker room with a clear shot of the Under Armour logo on his jock strap. After the movie's release, hits on Under Armour's Web site spiked, and, as they say, the rest is history.<sup>3</sup>

Many people believe that even messages they can't see will persuade them to buy advertised products. Claims about **subliminal advertising** of messages hidden in ice cubes (among other places) have been surfacing since the 1950s. A survey of American consumers found that almost two-thirds believe in the existence of subliminal advertising, and over one-half are convinced that this technique can get them to buy things they don't really want.<sup>4</sup>

There is very little evidence to support the argument that this technique actually has any effect at all on our perceptions of products. But still, concerns persist. In 2006 ABC rejected a commercial for KFC that invites viewers to slowly replay the ad to find a secret message, citing the network's long-standing policy against subliminal advertising. The ad (which other networks aired) is a seemingly ordinary pitch for KFC's \$.99 Buffalo Snacker chicken sandwich. But if you replay it slowly on a digital video recorder or VCR, it tells you that viewers can visit KFC's Web site to receive a coupon for a free sandwich. Ironically, this technique is really the *opposite* of subliminal advertising because instead of secretly placing words or images in the ad, KFC blatantly publicized its campaign by informing viewers that it contains a message and how to find it.<sup>5</sup> The short story: Hidden messages are intriguing and fun to think about (if a little scary), but they don't work. Sorry for the letdown.

## Attention

As you drive down the highway, you pass hundreds of other cars. But to how many do you pay attention? Probably only one or two—the bright pink and purple VW Bug and the Honda with the broken taillight that cut you off at the exit ramp. **Attention** is the extent to

### exposure

The extent to which a stimulus is capable of being registered by a person's sensory receptors.

### subliminal advertising

Supposedly hidden messages in marketers' communications.

### attention

The extent to which a person devotes mental processing to a particular stimulus.

which we devote mental-processing activity to a particular stimulus. Consumers are more likely to pay attention to messages that speak to their current needs. For example, you're far more likely to notice an ad for a fast-food restaurant when you're hungry, while smokers are more likely than nonsmokers to block out messages about the health hazards of smoking.

Grabbing consumers' attention is becoming harder than ever, because people's attention spans are shorter than ever. Now that we are accustomed to *multitasking*, flitting back and forth between our e-mails, TV, IMs, and so on, advertisers have to be more creative by mixing up the types of messages they send. That's why we see both long (60-second) commercials that almost feel like miniature movies and short (some as brief as five seconds) messages that are meant to have surprise value: They are usually over before commercial-haters can zap or zip past them. Indeed, brief blurbs that are long enough to tantalize viewers but short enough not to bore them are becoming commonplace. In contrast to the old days when most commercials on television networks were 30-second spots, today more than one-third run for only 15 seconds.<sup>6</sup>

### Interpretation

**Interpretation** is the process of assigning meaning to a stimulus based on prior associations we have with it and assumptions we make about it. Extra Strength Maalox Whip Antacid flopped, even though a spray can is a pretty effective way to deliver this kind of tummy ache relief. But to consumers, aerosol whips mean dessert toppings, not medication.<sup>7</sup> If we don't interpret the product the way it was intended because of our prior experiences, the best marketing ideas will be "waisted."

### Motivation

**Motivation** is an internal state that drives us to satisfy needs. Once we activate a need, a state of tension exists that drives the consumer toward some goal that will reduce this tension by eliminating the need.

Think again about Brandon and his old car. He began to experience a gap between his present state (he owns an old car) and a desired state (he craves a car that gets him noticed and is fun to drive). This activated the need for a new car, which in turn motivated Brandon to test different models, to talk with friends about different makes, and finally to buy a new car.

Psychologist Abraham Maslow developed an influential approach to motivation.<sup>8</sup> He formulated a **hierarchy of needs** that categorizes motives according to five levels of importance, the more basic needs being on the bottom of the hierarchy and the higher needs at the top. The hierarchy suggests that before a person can meet needs at a given level, he must first meet the lower level's needs—somehow those hot new Seven jeans don't seem as enticing when you don't have enough money to buy food.

As you can see from  Figure 5.5, people start at the lowest level with basic physiological needs for food and sleep. Then they progress to higher levels to satisfy more complex needs, such as the need to be accepted by others or to feel a sense of accomplishment. Ultimately, they can reach the highest-level needs, where they will be motivated to attain such goals as self-fulfillment. As the figure shows, if marketers understand the level of needs relevant to consumers in their target market, they can tailor their products and messages to them.

### Learning

**Learning** is a change in behavior caused by information or experience. Learning about products can occur deliberately, as when we set out to gather information about different MP3 players before we buy one brand. We also learn even when we don't try. Consumers recognize many brand names and can hum many product jingles, for example, even for products they themselves do not use. Psychologists who study learning have advanced several theories to explain the learning process, and these perspectives are important because a major goal for marketers is to "teach" consumers to prefer their products. Let's briefly review the most important perspectives on how people learn.

#### interpretation

The process of assigning meaning to a stimulus based on prior associations a person has with it and assumptions he or she makes about it.

#### motivation

An internal state that drives us to satisfy needs by activating goal-oriented behavior.

#### hierarchy of needs

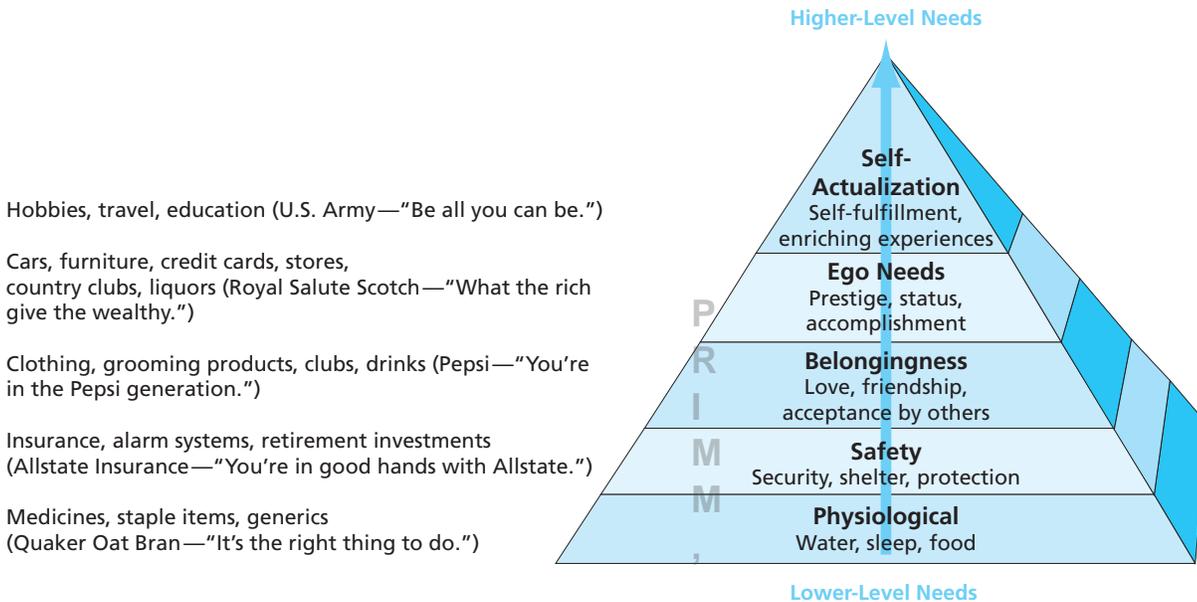
An approach that categorizes motives according to five levels of importance, the more basic needs being on the bottom of the hierarchy and the higher needs at the top.

#### learning

A relatively permanent change in behavior caused by acquired information or experience.

Figure 5.5 Snapshot | Maslow's Hierarchy of Needs and Related Products

Abraham Maslow proposed a hierarchy of needs that categorizes motives. Savvy marketers know they need to understand the level of needs that motivates a consumer to buy a particular product or brand.



Source: Maslow's Hierarchy of Needs and Related Products—Maslow's *Hierarchy of Needs: Motivation and Personality*, 3rd ed., by A.H. Maslow, 1987. Reprinted by permission of Prentice Hall, Inc., Upper Saddle River, NJ.

### Behavioral Learning

**Behavioral learning theories** assume that learning takes place as the result of connections we form between events. In one type of behavioral learning, **classical conditioning**, a person perceives two stimuli at about the same time. After a while, the person transfers his response from one stimulus to the other. For example, an ad shows a product and a breathtakingly beautiful scene so that (the marketer hopes) you will transfer the positive feelings you get when you look at the scene to the advertised product. Hint: Did you ever notice that car ads often show a new auto on a beautiful beach at sunset or speeding down a mountain road with brightly colored leaves blowing across the pavement?

Another common form of behavioral learning is **operant conditioning**, which occurs when people learn that their actions result in rewards or punishments. This feedback influences how they will respond in similar situations in the future. Just as a rat in a maze learns the route to a piece of cheese, consumers who receive a reward such as a prize in the bottom of a box of cereal will be more likely to buy that brand again. We don't like to think that marketers can train us like lab mice, but that kind of feedback does reward us for the behavior. Will that be American or Swiss for you?

### Cognitive Learning

In contrast to behavioral theories of learning, **cognitive learning theory** views people as problem-solvers who do more than passively react to associations between stimuli. Supporters of this viewpoint stress the role of creativity and insight during the learning process. *Cognitive learning* occurs when consumers make a connection between ideas or by observing things in their environment.

**Observational learning** occurs when people watch the actions of others and note what happens to them as a result. They store these observations in memory and at some later point use the information to guide their own behavior. Marketers often use this process to create advertising and other messages that allow consumers to observe the benefits of using

### behavioral learning theories

Theories of learning that focus on how consumer behavior is changed by external events or stimuli.

#### classical conditioning

The learning that occurs when a stimulus eliciting a response is paired with another stimulus that initially does not elicit a response on its own but will cause a similar response over time because of its association with the first stimulus.

#### operant conditioning

Learning that occurs as the result of rewards or punishments.

### cognitive learning theory

Theory of learning that stresses the importance of internal mental processes and that views people as problem solvers who actively use information from the world around them to master their environment.

#### observational learning

Learning that occurs when people watch the actions of others and note what happens to them as a result.



Photography by Staadlinger &amp; Franke/Marge Casey &amp; Associates

Cognitive learning theory views people as problem-solvers. Marketing messages facilitate this process when they provide factual information to help consumers make decisions.

### attitude

A learned predisposition to respond favorably or unfavorably to stimuli on the basis of relatively enduring evaluations of people, objects, and issues.

### affect

The feeling component of attitudes; refers to the overall emotional response a person has to a product.

Marketers often try to influence our attitudes via the affective component when they use images that arouse either negative or positive feelings. This ad for a gym in Bogotá, Colombia, focuses on consumers' emotional reactions to unattractive faces and attractive bodies.

Copywriter: Hugo Corredor, Art Director: Giovanni Martínez, Photography: Alfonso Torres



their products. Health clubs and manufacturers of exercise equipment feature well-muscled men and women pounding away on treadmills, while mouthwash makers show that fresh breath is the key to romance.

Now we've discussed how the three internal processes of perception, motivation, and learning influence how consumers absorb and interpret information. But the results of these processes—the interpretation the consumer gives to a marketing message—differ depending on unique consumer characteristics. Let's talk next about some of these characteristics: existing consumer attitudes, the personality of the consumer, and consumer age groups.

## Attitudes

An **attitude** is a lasting evaluation of a person, object, or issue.<sup>9</sup> Consumers have attitudes toward brands, such as whether McDonald's or Wendy's has the best hamburgers. They also evaluate more general consumption-related behaviors such as whether high-fat foods, including hamburgers, are a no-no in a healthy diet. A person's attitude has three components: affect, cognition, and behavior.

**Affect** is the *feeling* component of attitudes. This term refers to the overall emotional response a person has to a product. Affect is usually dominant for expressive products, such as perfume, where we choose a fragrance if it makes us feel happy.

Some marketing researchers are trying to understand how consumers' emotional reactions influence how they feel about products. A company called Sensory Logic, for example, studies videotapes of people's facial reactions—to products and commercials—in increments as fleeting as 1/30 of a second. Staffers look for the difference between, say, a true smile (which includes a relaxation of the upper eyelid) and a social smile (which occurs only around the mouth). Whirlpool hired the company to test consumers' emotional reactions to its Duet washers and dryers. Its (perhaps ambitious) goal was to design appliances that would actually make people happy. The research led Whirlpool to change some design options on the Duet products, including geometric patterns and certain color combinations. Smile, it's Laundry Day! More recently, Disney has built a lab where it will measure heart rate and skin conductivity and track the eye gaze of consumers while they view ads over the Internet, mobile devices, and their TVs.<sup>10</sup>

**Cognition**, the *knowing* component, refers to the beliefs or knowledge a person has about a product and its important characteristics. You may believe that a Mercedes is built better than most cars, or (like Brandon) that a Ford Focus is slightly hip, yet solid. Cognition is important for complex products, such as computers, for which we may develop beliefs on the basis of technical information.

**Behavior**, the *doing* component, involves a consumer's intention to do something, such as the intention to purchase or use a certain product. For products such as cereal, consumers act (purchase and try the product) on the basis of limited information and then form an evaluation of the product simply on the basis of how the product tastes or performs.

## Personality and the Self: Are You What You Buy?

**Personality** is the set of unique psychological characteristics that consistently influences the way a person responds to situations in the environment. One adventure-seeking consumer may always be on the lookout for new experiences and cutting-edge products, while another is happiest in familiar surroundings using the same brands over and over. Today, popular online matchmaking services like **match.com**, **Matchmaker.com**, and **Tickle.com** offer to create your "personality profile" and then hook you up with other members whose profiles are similar.

It makes sense to assume that consumers buy products that are extensions of their personalities. That's why marketers try to create brand personalities that will appeal to different types of people. For example, consider the different "personalities" fragrance marketers invent: A brand with a "wholesome, girl-next-door" image such as Clinique's Happy would be hard to confuse with the sophisticated image of Christian Dior's Dolce Vita. We'll talk more about this in Chapter 9.

A person's **self-concept** is his attitude toward himself. The self-concept is composed of a mixture of beliefs about one's abilities and observations of one's own behavior and feelings (both positive and negative) about one's personal attributes, such as body type or facial features. The extent to which a person's self-concept is positive or negative can influence the products he buys and even the extent to which he fantasizes about changing his life.

Self-esteem refers to how positive a person's self-concept is. Alberto Culver uses a self-esteem pitch to promote its Soft & Beautiful, Just for Me hair relaxer for children. The company's Web site "Mom's Blog" encourages mothers to provide affirmation of their daughters' beauty to encourage their self-esteem. The site also provides "conversation starters" to help parents talk to their daughters about self-image.<sup>11</sup>

## Age

A person's age is another internal influence on purchasing behavior. Many of us feel we have more in common with those of our own age because we share a common set of experiences and memories about cultural events, whether these involve Woodstock, Woodstock II, or even Woodstock III.

Goods and services often appeal to a specific age group. Although there are exceptions, it is safe to assume that most buyers of Lil' Kim's CDs are younger than those who buy Barbra Streisand disks. Thus, many marketing strategies appeal to the needs of different age groups such as children, teenagers, the middle-aged, and the elderly. These various needs result in different types of consumer behavior both offline

### cognition

The knowing component of attitudes; refers to the beliefs or knowledge a person has about a product and its important characteristics.

### behavior

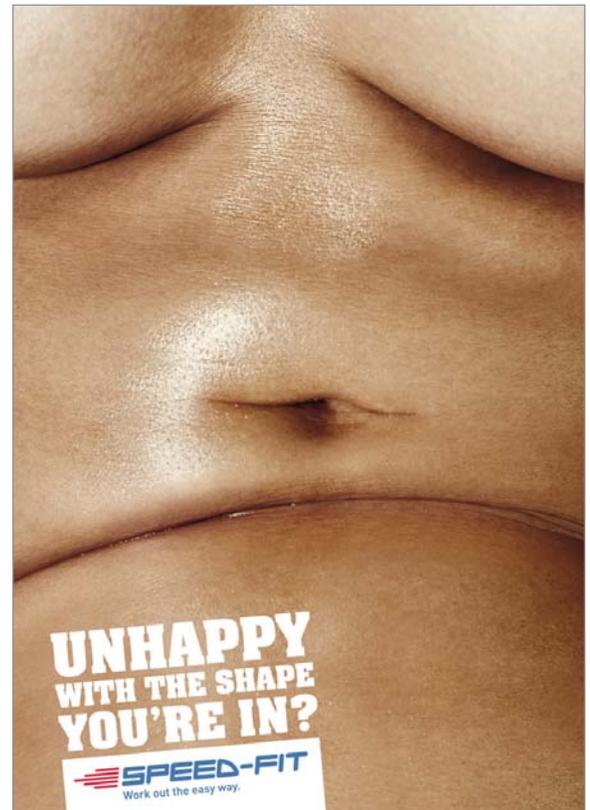
The doing component of attitudes; involves a consumer's intention to do something, such as the intention to purchase or use a certain product.

### personality

The set of unique psychological characteristics that consistently influences the way a person responds to situations in the environment.

### self-concept

An individual's self-image that is composed of a mixture of beliefs, observations, and feelings about personal attributes.



This German ad appeals directly to the self-concepts of potential customers who want to shed a few pounds.

Courtesy of Jung von Matt, Berlin



Jordan Strauss/MediaImage/Getty Images

Marketers recognize that it's often helpful to group people into market segments based on similarities in lifestyle preferences. For example, skateboarding has morphed from an activity we associate with the law-breaking daredevils from the movie *Dogtown and Z-Boys* depicted to become a full-fledged lifestyle, complete with a full complement of merchandise that boarders need to live the life. Shows on MTV feature professional skateboarders, and sales of a skateboarding video game, *Tony Hawk* by Activision, are over \$1 billion. Many kids happily fork over \$20 for T-shirts and more than \$60 for skate shoes in addition to the hundreds they may spend on the latest boards.<sup>12</sup>

### family life cycle

A means of characterizing consumers within a family structure on the basis of different stages through which people pass as they grow older.

and now online as many people incorporate the Web into their shopping patterns.

Age is important, but actually regardless of how old we are, what we buy often depends more on our current position in the **family life cycle**—the stages through which family members pass as they grow older. Singles (of any age) are more likely to spend money on expensive cars, entertainment, and recreation. Couples with small children purchase baby furniture, insurance, and a larger house, while older couples whose children have “left the nest” are more likely to buy a retirement home in Florida.

## Lifestyle

A **lifestyle** is a pattern of living that determines how people choose to spend their time, money, and energy and that reflects their values, tastes, and preferences. We express our lifestyles in our preferences for activities such as sports, interests such as music, and opinions on politics and religion. Consumers often choose goods, services, and activities that they associate with a certain lifestyle. Brandon may drive a Ford Focus, hang out in Internet cafes, and go extreme skiing during Spring Break because he views these choices as part of a cool college student lifestyle.

If lifestyles are so important, how do marketers identify them so that they can reach consumers who share preferences for products that they associate with a lifestyle that appeals to them? *Demographic* characteristics, such as age and income, tell marketers *what* products people buy, but they don't reveal *why*. Two consumers can share the same demographic characteristics, yet be totally different people—all 20-year-old male college students are hardly identical to one another. That's why it is often important to further profile consumers in terms of their passions and how they spend their leisure time.

To breathe life into demographic analyses, marketers turn to **psychographics**, which groups consumers according to psychological and behavioral similarities. One way to do this is to describe people in terms of their activities, interests, and opinions (**AIOs**). These dimensions are based

on preferences for vacation destinations, club memberships, hobbies, political and social attitudes, tastes in food and fashion, and so on. Using data from large samples, marketers create profiles of customers who resemble one another in terms of their activities and patterns of product use.<sup>14</sup>

## The Cutting Edge

### Social Networks

Has social media gone to the dogs? Mattel hopes so. The toy company is targeting pet owners, especially those who think their pets are totally—or at least pretty close to—human, with its first foray into the pet products market. Puppy Tweets is a high-tech toy that attaches to a dog's collar—and sends Tweets to the pet's Twitter page. No, Puppy Tweets doesn't know what a pet is thinking.

Instead, the toy responds to the dog's movement or barking to randomly send one of 500 Tweets. With tweets such as “I bark because I miss you. There, I said it. Now hurry home” and “I finally caught that tail I've been chasing, and . . . OOUUUCHH!” Mattel's toy may be only the beginning of new products that use social media to allow people to interact with their pets.<sup>13</sup>

## 3

## Situational and Social Influences on Consumers' Decisions

### OBJECTIVE

Show how situational factors and consumers' relationships with other people influence consumer behavior. (pp. 145–150)

We've seen that internal factors such as how people perceive marketing messages, their motivation to acquire products, and their unique personalities, age groups, family life cycle, and lifestyle influence the decisions they make. In addition, situational and social influences—factors external to the consumer—have a big impact on the choices consumers make and how they make them.

### Situational Influences

When, where, and how consumers shop—what we call *situational influences*—shape their purchase choices. Some important situational cues are our physical surroundings and time pressures.

Marketers know that dimensions of the physical environment, including factors such as decor, smells, lighting, music, and even temperature, can significantly influence consumption. If you don't believe this, consider that one study found that pumping certain odors into a Las Vegas casino actually increased the amount of money patrons fed into slot machines.<sup>15</sup> **Sensory marketing** is becoming big business. Westin Hotels spray a blend of green tea, geranium, and black cedar into hotel lobbies while Sheraton uses a combination of jasmine, clove, and fig. Sony scents its stores with orange, vanilla, and cedar, and Cadillac puts that "new car" smell into its autos artificially, all to influence the consumer's decision process.<sup>16</sup>

Let's see how some other situational factors influence the consumer decision-making process.

### The Physical Environment

It's no secret that physical surroundings strongly influence people's moods and behaviors. Despite all their efforts to presell consumers through advertising, marketers know that the store environment influences many purchases. For example, one classic study showed that consumers decide on about two out of every three of their supermarket product purchases in the aisles (so always eat before you go to the supermarket).<sup>17</sup> A more recent study in Germany showed that almost 70 percent of shoppers decide what to buy at the point of sale.<sup>18</sup> The messages consumers receive at the time and their feelings about being in the store strongly influence these decisions.

Two dimensions, *arousal* and *pleasure*, determine whether a shopper will react positively or negatively to a store environment. In other words, the person's surroundings can be either dull or exciting (arousing) and either pleasant or unpleasant. Just because the environment is arousing doesn't necessarily mean it will be pleasant—we've all been in crowded, loud, hot stores that are anything but. Maintaining an upbeat feeling in a pleasant context is one factor behind the success of theme parks such as Disney World, which tries to provide consistent doses of carefully calculated stimulation to visitors.<sup>19</sup>

The importance of these surroundings explains why many retailers focus on packing as much entertainment as possible into their stores. For example, Bass Pro Shops, a chain of outdoor sports equipment stores, features giant aquariums, waterfalls, trout ponds, archery

### lifestyle

The pattern of living that determines how people choose to spend their time, money, and energy and that reflects their values, tastes, and preferences.

### psychographics

The use of psychological, sociological, and anthropological factors to construct market segments.

### AIOs

Measures of consumer activities, interests and opinions used to place consumers into dimensions.

### sensory marketing

Marketing techniques that link distinct sensory experiences such as a unique fragrance with a product or service.

P  
R  
I  
M  
A  
R  
Y  
R  
E  
A  
D  
I  
N  
G

and rifle ranges, putting greens, and free classes in everything from ice fishing to conservation. A company called Privy Promotions and others like it even sell ad space on restroom walls in stadiums. According to the company's president, "It's a decided opportunity for an advertiser to reach a captive audience."<sup>20</sup> Guess so.

### Time

Time is one of consumers' most limited resources. We talk about "making time" or "spending time," and we remind one another that "time is money." Marketers know that the time of day, the season of the year, and how much time a person has to make a purchase affects decision making.

Indeed, many consumers believe that they are more pressed for time than ever before. This sense of **time poverty** makes consumers responsive to marketing innovations that allow them to save time, including services such as one-hour photo processing, drive-through lanes at fast-food restaurants, and ordering products on the Web. A number of Web sites, including Apple's iTunes and even Walmart, now offer consumers the speed and convenience of downloading music or movies. These sites allow consumers to browse through thousands of titles, preview selections, and order and pay for them—all without setting foot inside a store. This saves the customer time, plus the "store" is always open.

### time poverty

Consumers' belief that they are more pressed for time than ever before.

## Social Influences on Consumers' Decisions

Although we are all individuals, we are also members of many groups that influence our buying decisions. Families, friends, and classmates often sway us, as do larger groups with which we identify, such as ethnic groups and political parties. Now let's consider how social influences such as culture, social class, influential friends and acquaintances, and trends within the larger society affect the consumer decision-making process.

### culture

The values, beliefs, customs, and tastes a group of people values.

### Culture

As we saw in Chapter 3, we think of **culture** as a society's personality. It is the values, beliefs, customs, and tastes a group of people produce or practice. Although we often assume that what people in one culture (especially our own) think is desirable or appropriate will be appreciated in other cultures as well, that's far from the truth. Middle Eastern youth may not agree with U.S. politics, but they love Western music and find Arab TV music channels boring. Enter MTV Arabia, a 24-hour free satellite channel. Sure, many U.S. and European videos have to be cleaned up for the Arab audience and many are simply too edgy to air. To meet the values of the Middle Eastern audience, bad language and shots of kissing, revealing outfits, or people in bed are blurred or removed and sometimes replaced by more acceptable copy.<sup>21</sup> Culture matters.

### Rituals

Every culture associates specific activities and products with its *rituals*, such as weddings and funerals. Some companies are more than happy to help us link products to cultural events. Consider the popularity of the elaborate weddings Disney stages for couples who want to reenact their own version of a popular fairy tale. At Disney World, the princess bride wears a tiara and rides to the park's lakeside wedding pavilion in a horse-drawn coach, complete with two footmen in gray wigs and gold lamé pants. At the exchange of vows, trumpets blare as Major Domo (he helped the Duke in his quest for Cinderella) walks up the aisle with two wedding bands in a glass slipper on a velvet pillow. Disney stages about 2,000 of these extravaganzas each year.<sup>22</sup>

In most countries, rituals are involved in the celebration of holidays. Americans purchase and/or cook turkeys, cranberry sauce, and pumpkin



Dreyer's Grand Ice Cream

Our culture rewards skinny people.

pies to have the perfect Thanksgiving dinner. In Christian cultures, the Christmas ritual is so strongly tied to gifts, Christmas trees, lights, and decorations that it becomes the make-or-break sales season of the year for retailers. In many Muslim countries, the Ramadan season means fasting during the day but consuming gigantic amounts of food after sunset each day. And New Year's Eve parties all around the globe must include fancy party dresses and champagne. Is it any wonder that marketers of so many companies study consumer rituals?

### Values (Again)

As we also saw in Chapter 3, cultural values are deeply held beliefs about right and wrong ways to live.<sup>23</sup> Marketers who understand a culture's values can tailor their product offerings accordingly. Consider, for example, that the values for collectivist countries differ greatly from those of individualistic cultures where immediate gratification of one's own needs come before all other loyalties. In collectivist cultures, loyalty to a family or a tribe overrides personal goals. Collectivist cultures put value on self-discipline, accepting one's position in life, and honoring parents and elders. Individualist cultures, on the other hand, stress equality, freedom, and personal pleasure. Today, we see the economic growth of some collectivist countries such as India, Japan, and China, making many consumers more affluent—and individualistic. For marketers, this means growth opportunities for products such as travel, luxury goods, sports activities like tennis and golf, and entertainment.

### Subcultures

A **subculture** is a group that coexists with other groups in a larger culture but whose members share a distinctive set of beliefs or characteristics, such as members of a religious organization or an ethnic group. **Microcultures** are groups of consumers who identify with a specific activity or art form. These form around music groups such as the Dave Matthews Band, media creations such as *World of Warcraft*, or leisure activities such as extreme sports. Social media has been a real boon to subcultures and microcultures; it provides an opportunity for like-minded consumers to share their thoughts, photographs, videos, and so on. More on these important new sharing platforms later in the book.

For marketers, some of the most important subcultures are racial and ethnic groups because many consumers identify strongly with their heritage, and products that appeal to this aspect of their identities appeal to them. To grow its business, cereal maker General Mills targets Hispanic consumers. The company hopes to reach mothers who want better ways to nurture their children through its *Que Vida Rica* marketing program that tells mothers about the benefits of its products and offers nutrition tips and recipe suggestions. Advertising for General Mills' Nature Valley brand shows Hispanic couples "savoring nature instead of conquering it."<sup>24</sup>

### Emerging Lifestyle Trends: Consumerism and Environmentalism

Powerful new social movements within a society also contribute to how we decide what we want and what we don't. One such influence is **consumerism**, the social movement directed toward protecting consumers from harmful business practices. Many consumers are becoming very aware of the social and environmental consequences of their purchases—and making their decisions accordingly.

Organized activities that bring about social and political change are not new to the American scene. Women's right to vote, child labor laws, the minimum wage, equal employment opportunity, and the ban on nuclear weapons testing all have resulted from social movements in which citizens, public and private organizations, and businesses worked to change society. In today's connected world, criticisms from consumerists can be especially damaging. A company's best way to combat such attacks and maintain a good image is to be proactive by practicing good business.

Related to the consumerism movement is **environmentalism**; this is a social movement that grows out of the worldwide growing concern for the many ways in which our

#### subculture

A group within a society whose members share a distinctive set of beliefs, characteristics, or common experiences.

#### microcultures

Groups of consumers who identify with a specific activity or art form.

#### consumerism

A social movement that attempts to protect consumers from harmful business practices.

#### environmentalism

A broad philosophy and social movement that seeks conservation and improvement of the natural environment.

**Kyoto Protocol**

A global agreement among countries that aims at reducing greenhouse gases that create climate change.

**environmental stewardship**

A position taken by an organization to protect or enhance the natural environment as it conducts its business activities.

**green marketing**

A marketing strategy that supports environmental stewardship, thus creating a differential benefit in the minds of consumers.

**social class**

The overall rank or social standing of groups of people within a society according to the value assigned to factors such as family background, education, occupation, and income.

**status symbols**

Visible markers that provide a way for people to flaunt their membership in higher social classes (or at least to make others believe they are members).

**mass-class**

The hundreds of millions of global consumers who now enjoy a level of purchasing power that's sufficient to let them afford high-quality products—except for big-ticket items like college educations, housing, or luxury cars.

consumption behaviors impact the physical world in which we live. Environmentalists seek solutions that enable companies to manage resources responsibly.

The **Kyoto Protocol** is an agreement the United Nations Framework Convention on Climate Change (UNFCCC) crafted in 1997. The Kyoto Protocol covers 170 countries worldwide. It aims to reduce greenhouse gases that create climate change. The protocol has been ratified by 175 countries. The United States has not ratified the agreement because of objections that China, as a developing country, is exempt from the emissions requirements of the agreement even though it is the world's second largest emitter of carbon dioxide. It's unlikely that the United States will ratify the Kyoto Protocol before it expires in 2012. In November 2009, the United Nations Climate Change Conference (referred to as the Copenhagen Summit) was unable to reach consensus on a post-2012 agreement.

Still, global concerns are mounting and a lot of businesses are acting even in the absence of government regulations because they understand that consumers will reward companies who do. Many firms now assume a position of **environmental stewardship** when they make socially responsible business decisions that also protect the environment. A **green marketing** strategy describes efforts to choose packages, product designs, and other aspects of the marketing mix that are earth-friendly but still profitable.

Green marketing practices can indeed result in black ink for a firm's bottom line. As mainstream marketers recognize this change, they are starting to alter their practices to satisfy Americans' desires for healthy and earth-friendly products. Coca-Cola, for example, demonstrated its commitment to the environment during the 2010 Vancouver Olympics. The company sponsored a 100 percent environmentally sustainable, carbon-neutral café. It featured bottles, furniture, and other products made from recycled material. Going even further, Coke made every aspect of its involvement with the Olympics green—from staff uniforms to delivery trucks to compostable coffee cups.<sup>25</sup>

**Social Class**

**Social class** is the overall rank of people in a society. People who are within the same class tend to exhibit similarities in occupation, education, and income level, and they often have similar tastes in clothing, decorating styles, and leisure activities. Class members also share many political and religious beliefs as well as preferences for AIOs.

Many marketers design their products and stores to appeal to people in a specific social class. Working-class consumers tend to evaluate products in more utilitarian terms like sturdiness or comfort instead of trendiness or aesthetics. They are less likely to experiment with new products or styles, such as modern furniture or colored appliances, because they tend to prefer predictability to novelty.<sup>26</sup> Marketers need to understand these differences and develop product and communication strategies that appeal to different social classes.

Luxury goods often serve as **status symbols**; visible markers that provide a way for people to flaunt their membership in higher social classes (or at least to make others believe they are members). The bumper sticker, "He who dies with the most toys wins," illustrates the desire to accumulate these badges of achievement. However, it's important to note that over time, the importance of different status symbols rises and falls. For example, when James Dean starred in the movie *Giant*, the Cadillac convertible was the ultimate status symbol car in America. Today, wealthy consumers who want to let the world know of their success are far more likely to choose a Mercedes, a BMW, or an Escalade. The "in" car five years from now is anyone's guess—perhaps with today's emphasis on the environment the Prius and other hybrids will emerge as the new status symbols?

In addition, traditional status symbols today are available to a much wider range of consumers around the world with rising incomes. This change fuels demand for mass-consumed products that still offer some degree of panache or style. Think about the success of companies like Nokia, H&M, Zara, ING, Dell Computers, Gap, Nike, EasyJet, or L'Oréal. They cater to a consumer segment that analysts have labeled **mass-class**. This term refers to the hundreds of millions of global consumers who now enjoy a level of purchasing power

that's sufficient to let them afford high-quality products offered by well-known multinational companies.

### Group Membership

Anyone who's ever "gone along with the crowd" knows that people act differently in groups than they do on their own. When there are more people in a group, it becomes less likely that any one member will be singled out for attention, and normal restraints on behavior may evaporate (think about the last wild party you attended). In many cases, group members show a greater willingness to consider riskier alternatives than they would if each member made the decision alone.<sup>27</sup>

A **reference group** is a set of people a consumer wants to please or imitate. Consumers "refer to" these groups when they decide what to wear, where they hang out, and what brands they buy. This influence can take the form of family and friends, respected statesmen like Martin Luther King Jr., celebrities like Angelina Jolie, or even (dare we say it!) your professors.

### Opinion Leaders

If, like Brandon, you are in the market for a new car, is there a certain person to whom you'd turn for advice? An **opinion leader** is a person who influences others' attitudes or behaviors because they believe that he possesses expertise about the product.<sup>29</sup> Opinion leaders usually exhibit high levels of interest in the product category. They continuously update their knowledge as they read blogs, talk to salespeople, or subscribe to podcasts about the topic. Because of this involvement, opinion leaders are valuable information sources.

Unlike commercial endorsers, who are paid to represent the interests of just one company, opinion leaders have no ax to grind and can impart both positive and negative information about the product (unless they're being compensated to blog on behalf of a brand, which is not unheard of these days!). In addition, these knowledgeable consumers often are among the first to buy new products, so they absorb much of the risk and reduce uncertainty for others who are not as courageous.

### Gender Roles

Some of the strongest pressures to conform come from our **gender roles**, society's expectations regarding the appropriate attitudes, behaviors, and appearance for men and women.<sup>30</sup> Of course, marketers play a part in teaching us how society expects us to act as men and women. Marketing communications and products often portray women and men differently. These influences teach us what the "proper" gender roles of women or men should be and which products are appropriate for each gender. Some of these "sex-typed" products have come under fire from social groups. For example, feminists claim the Barbie doll reinforces unrealistic ideas about what women's bodies should look like—even though a newer version of the doll isn't quite as skinny and buxom.

Sex roles constantly evolve—in a complex society like ours we often encounter contradictory messages about "appropriate" behavior. We can clearly see this in the messages girls have been getting from the media for the last several years: It's cool to be overly provocative. Role models like Paris Hilton, Lindsay Lohan, Britney Spears, and even Bratz dolls convey standards about how far preteens and teens should go to broadcast their sexuality. Now we see signs of a backlash. At the Pure Fashion Web site, girls get style tips including skirts and dresses that fall no more than four fingers above the knee and no tank tops without a sweater or jacket over them. Several other sites such as **ModestApparelU.S.A.com** advocate a return to styles that leave almost everything to the imagination.<sup>31</sup> Is our culture moving from a celebration of "girls gone wild" to "girls gone mild"?



Scott Boehm/Getty Images

Since we consume many of the things we buy in the presence of others, group behaviors are very important to marketers. Sometimes group activities create new business opportunities. Consider, for example, the increasing popularity of tailgating during football games, long a tradition at some college campuses. Now many companies have figured out that there's as much, if not more, money to be made in the stadium parking lot as on the field. Coleman sells grills designed just for tailgating as part of its RoadTrip line. The *American Tailgater* catalog features tailgate flags, tailgate tents, and even a gas-powered margarita blender. Ragu offers tailgating training camps that John Madden hosts, and Jack Daniels sponsors parking-lot contests. The National Football League sells over \$100 million per year of tailgating merchandise, including keg-shaped grills.<sup>28</sup>

#### reference group

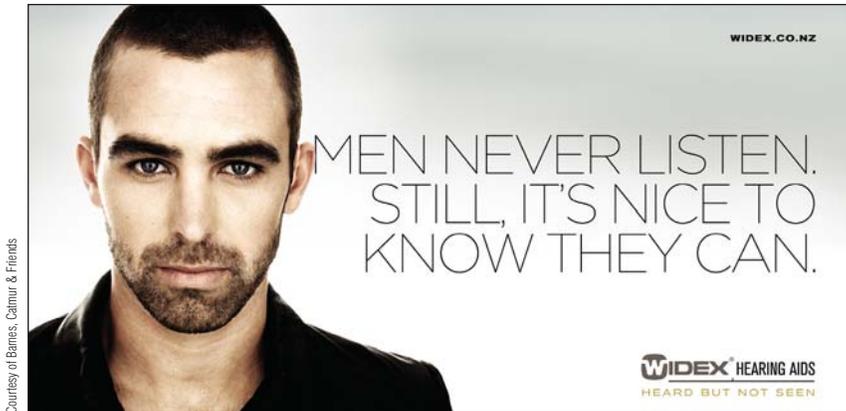
An actual or imaginary individual or group that has a significant effect on an individual's evaluations, aspirations, or behavior.

#### opinion leader

A person who is frequently able to influence others' attitudes or behaviors by virtue of his or her active interest and expertise in one or more product categories.

#### gender roles

Society's expectations regarding the appropriate attitudes, behaviors, and appearance for men and women.



Courtesy of Barnes, Camur & Friends

This ad from New Zealand reinforces a widely-held assumption about the male gender role.

**metrosexual**

A straight, urban male who is keenly interested in fashion, home design, gourmet cooking, and personal care.

extreme and effeminate behavior at the other. For example, a man may decide that it's okay to use a moisturizer but draw the line at an eye cream that he considers too feminine.<sup>33</sup> And, much like the "girls gone milder" trend we just discussed, some cultural observers report the emergence of "retrosexuals"—men who want to emphasize their old-school masculinity as they get plastic surgery to create a more rugged look that includes hairier chests and beards, squarer chins, and more angular jaw lines.<sup>34</sup>

Miller Genuine Draft conducted a survey of American men aged 21 to 34 to try to get a handle on these new definitions so that it could position its brand to appeal to them. The company found that, indeed, many "average Joes" are moving on from the days of drinking whatever beer is available and wearing baseball hats backward, but they also don't want to sacrifice their identities as regular guys. They care more about preparing a good meal, meeting friends for a beer, and owning a home than they do about amassing shoes, savoring fine wine, or dining at expensive restaurants. This new man is discerning when it comes to some important everyday and lifestyle decisions but isn't overly concerned about fitting into cultural molds or trends.<sup>35</sup>

Now that you've learned about consumer behavior, read "Real People, Real Choices: How It Worked Out" to see which strategy Julie selected to promote the (RED) brand.



**Here's my choice. . .**

Real People, Real Choices

Why do you think Julie chose option #1?



**How It Worked Out at (RED)**

(RED) continued to seek major international brands to partner with, but it is now complementing those partnerships with smaller special editions that appeal to a younger age group. One of the first examples of this strategy was the release of a (PRODUCT) RED skateboard. (RED) is also looking at adding other action sports products and teen-focused fashion brands to the collection.

To learn the whole story, visit [www.mypearsonmarketinglab.com](http://www.mypearsonmarketinglab.com).

# Brand YOU!

Why are you in college? To get a good job, of course. But how do you know what job is best for you? And how can you increase your chances of getting that perfect job? Think of yourself as the product and prospective employers as customers who might eventually “buy” you. Then you see that you need to understand each customer, how he makes the decision to hire someone, and what criteria he uses to evaluate future employees. So you have to ask yourself, which customer needs can you satisfy best—where will you find the best fit? Take a look into Chapter 5 of the *Brand You* supplement to learn how to identify what employers want and how to decide which is your top choice.



Objective Summary → Key Terms → Apply

CHAPTER 5  
Study Map

## 1. Objective Summary (pp. 130–138)

### Define *consumer behavior* and explain the purchase decision-making process.

Consumer behavior is the process individuals or groups go through to select, purchase, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and desires. Consumer decisions differ greatly, ranging from habitual, repeat (low-involvement) purchases to complex, extended problem-solving activities for important, risky (high-involvement) purchases. When consumers make important purchases, they go through a series of five steps. First, they recognize there is a problem to be solved. Then they search for information to make the best decision. Next they evaluate a set of alternatives and judge them on the basis of various evaluative criteria. At this point, they are ready to make their purchasing decision. Following the purchase, consumers decide whether the product matched their expectations.

### Key Terms

- consumer behavior, p. 130
- involvement, p. 132
- perceived risk, p. 132
- problem recognition, p. 133
- information search, p. 134
- search marketing, p. 135
- search engine optimization (SEO), p. 135
- search engine marketing (SEM), p. 135

- sponsored search ads, p. 135
- comparison shopping agents or shopbots, p. 135
- behavioral targeting, p. 135
- evaluative criteria, p. 136
- heuristics, p. 136
- brand loyalty, p. 137
- consumer satisfaction/dissatisfaction, p. 137
- cognitive dissonance, p. 137

## 2. Objective Summary (pp. 138–145)

### Explain how internal factors influence consumers' decision-making processes.

Several internal factors influence consumer decisions. Perception is how consumers select, organize, and interpret stimuli. Motivation is an internal state that drives consumers to satisfy needs. Learning is a change in behavior that results from information or experience. Behavioral learning results from external events, while cognitive learning refers to internal mental activity. An attitude is a lasting evaluation of a person, object, or issue and includes three components: affect, cognition, and behavior. Personality traits such as innovativeness, materialism, self-confidence, sociability, and the need for cognition may be used to develop market segments. Marketers seek to understand a consumer's self-concept in order to develop product attributes that match some aspect of the consumer's self-concept.

The age of consumers, family life cycle, and their lifestyle also are strongly related to consumption preferences. Marketers may use psychographics to group people according to

activities, interests, and opinions that may explain reasons for purchasing products.

## Key Terms

**perception**, p. 138  
**exposure**, p. 139  
**subliminal advertising**, p. 139  
**attention**, p. 139  
**interpretation**, p. 140  
**motivation**, p. 140  
**hierarchy of needs**, p. 140  
**learning**, p. 140  
**behavioral learning theories**, p. 141  
**classical conditioning**, p. 141  
**operant conditioning**, p. 141  
**cognitive learning theory**, p. 141  
**observational learning**, p. 141  
**attitude**, p. 142  
**affect**, p. 142  
**cognition**, p. 143  
**behavior**, p. 143  
**personality**, p. 143  
**self-concept**, p. 143  
**family life cycle**, p. 144  
**lifestyle**, p. 144  
**psychographics**, p. 144  
**AIOs**, p. 144

### 3. Objective Summary (pp. 145–150)

**Show how situational factors and consumers' relationships with other people influence consumer behavior.**

Situational influences include our physical surroundings and time pressures. Dimensions of the physical environment including decor, smells, lighting, music, and even temperature can influence consumption. The time of day, the season of the year,

and how much time one has to make a purchase also affect decision making.

Consumers' overall preferences for products are determined by the culture in which they live and their membership in different subcultures. Consumerism is a social movement directed toward protecting consumers from harmful business practices. Environmentalism, another social movement, seeks ways to protect the natural environment. Firms practice environmental stewardship when they make decisions that protect the environment. Green marketing strategies include earth-friendly packaging and product designs. Social class, group memberships, and opinion leaders are other types of social influences that affect consumer choices. A reference group is a set of people a consumer wants to please or imitate, and this affects the consumer's purchasing decisions. Purchases also often result from conformity to real or imagined group pressures. Another way social influence is felt is in the expectations of society regarding the proper roles for men and women. Such expectations have led to many gender-typed products.

## Key Terms

**sensory marketing**, p. 145  
**time poverty**, p. 146  
**culture**, p. 146  
**subculture**, p. 147  
**microcultures**, p. 147  
**consumerism**, p. 147  
**environmentalism**, p. 147  
**Kyoto Protocol**, p. 148  
**environmental stewardship**, p. 148  
**green marketing**, p. 148  
**social class**, p. 148  
**status symbols**, p. 148  
**mass-class**, p. 148  
**reference group**, p. 149  
**opinion leader**, p. 149  
**gender roles**, p. 149  
**metrosexual**, p. 150

## Chapter Questions and Activities

### Questions: Test Your Knowledge

1. What is consumer behavior? Why is it important for marketers to understand consumer behavior?
2. Explain habitual decision making, limited problem solving, and extended problem solving. What is the role of perceived risk in the decision process?
3. What are the steps in the consumer decision-making process?
4. What is search engine marketing and how is it related to the consumer decision process?
5. What is perception? Explain the three parts of the perception process: exposure, attention, and interpretation. For marketers, what are the implications of each of these components?
6. What is motivation? What is the role of motivation in consumer behavior?

7. What is behavioral learning? What is cognitive learning? How is an understanding of behavioral and cognitive learning useful to marketers?
  8. What are the three components of attitudes? What is personality?
  9. Explain what lifestyle means. What is the significance of family life cycle and lifestyle in understanding consumer behavior and purchasing decisions?
  10. What are cultures, subcultures, and microcultures? How do cultures, subcultures, and microcultures influence consumer behavior? What is the significance of social class to marketers?
  11. What are reference groups, and how do they influence consumers? What are opinion leaders?
  12. What are gender roles? How do metrosexuals differ from other male consumers?
  13. What is consumerism? What is environmentalism? How do firms respond to these social movements?
4. This chapter indicated that consumers go through a series of steps (from problem recognition to postpurchase evaluation) as they make purchases. Write a detailed report describing what you would do in each of these steps when deciding to purchase one of the following products:
    - a. An iPhone or similar device
    - b. A university
    - c. A fast-food lunch
 Then make suggestions for what marketers might do to make sure that consumers like you who are going through each step in the consumer decision process move toward the purchase of their brand. (*Hint:* Think about product, place, price, and promotion strategies.)
  5. In 1991, a survey of American consumers found that almost two-thirds believe in the existence of subliminal advertising, and over one-half are convinced that this technique can get them to buy things they don't really want. Conduct your own survey on perceptions of subliminal advertising with students in your school. You may wish to ask them what they know about subliminal advertising, how much subliminal advertising they believe exists today, and whether they feel subliminal advertising works, that is, whether it causes people to buy things they don't really want. Report the results of your research to your class.

### Activities: Apply What You've Learned

1. Assume that you are in the marketing department of a manufacturer of one of the products listed below. You know that internal factors including (1) perception, (2) motivation, (3) learning, (4) attitudes, and (5) personality influence consumers' decision making. With your classmates, develop your ideas about why each of these internal factors is important in the purchase of the product and how you might use these factors in developing marketing strategies for your firm. Report your ideas to your class.
  - a. Automobiles
  - b. Designer jeans
  - c. An iPad or other tablet book
  - d. Fragrances (for men or for women)
  - e. Furniture
2. Sometimes advertising or other marketing activities cause problem recognition by showing consumers how much better off they would be with a new product or by pointing out problems with products they already own. Discuss problem recognition for the following product categories. Make a list of some ways marketers might try to stimulate problem recognition for each product. Present your ideas to your class.
  - a. Life insurance
  - b. Mouthwash
  - c. A new automobile
  - d. A health club membership
3. Assume that you are a marketing manager for a major hotel chain with outlets in major tourism sites around the world. You are concerned about the effects of current consumer trends, including changing ethnic populations, changing roles of men and women, increased concern for time and for the environment, and decreased emphasis on status goods. Others in your firm do not understand or care about these changes. They believe that the firm should continue to do business just as it always has. Develop a role-playing exercise to discuss these two different points of view for your class. Be sure to include the importance of each of these trends to your firm and offer suggestions for marketing strategies to address these trends.
6. In this chapter we learned that some products are status symbols and serve as visible markers that provide a way for people to flaunt their membership in higher social classes. Using the Internet and magazines (your library probably has a collection of magazines), find ads and Web sites for status symbol products. Examine how the Web sites and the ads communicate that the product is a status symbol. How do they relate to a higher social class? Make a list of the products and the visuals and words that are used to promote the status symbol products.
7. In different cultures, perceptions about the proper roles for men and women, that is, gender roles, can vary greatly. Select one of the countries listed below or some other country of your choice. Conduct research to learn about the beliefs about gender roles held by people in that country. You should be able to find some information about the country on the Internet. If possible, find someone who is a native of the country or has visited the country. Prepare a report on the results of your research and the implications for global marketers.
  - a. France
  - b. China
  - c. Japan
  - d. Mexico
  - e. Egypt

### Marketing Metrics Exercise

Marketers use some or all of a variety of metrics to better understand how consumers make decisions involving a marketer's brand. Below are a list of some of these metrics. Which of these metrics would be useful to better understand each item listed below. Explain how the metrics suggested could be used.

- a. A firm's existing customers
- b. Potential new customers for a firm
- c. The market potential market for a new product

- *Awareness* is the percentage of all customers who recognize or know the name of a brand. Unaided brand recognition for toothpaste may be measured by asking consumers to name all the brands of toothpaste that come to mind. Aided recognition is measured by asking consumers questions such as, "Have you heard of Tom's of Maine toothpaste?"
- *Top of Mind Awareness (TOMA)* is the first brand that comes to mind when a consumer thinks of a product category. Marketers measure TOMA with questions such as, "What brand comes to mind when you think of toothpaste?"
- *Brand Knowledge* is measured by asking consumers if they have specific knowledge about a brand. To measure brand knowledge, marketers may ask consumers if they believe the brand possesses certain attributes or characteristics.
- *Measures of Attitudes* toward a brand may include survey questions about (1) beliefs that the brand possesses certain characteristics, (2) the relative importance of those characteristics to the product category, and (3) the overall measure of how much the consumer likes the brand.
- *Intentions* are consumers' stated willingness to buy or their likelihood of certain behavior. A consumer survey may ask, "If you are in the market for a new pair of shoes, what is the likelihood that you would purchase a pair of Nike shoes?"
- *Purchase Habits* measure consumers' self-reported behavior. Marketers ask consumers questions such as, "On average, how many times a month do you eat out? Which restaurant did you go to the last time you ate out? How much do you normally spend on a dinner out with your family?"
- *Loyalty* is a measure of consumers' commitment to a specific brand. Marketers measure loyalty by asking such questions as, "If on your next trip to the store you plan to purchase hand soap and your favorite brand of hand soap is not available, would you buy another brand or wait until you find your favorite brand to make the purchase?"
- *Customer satisfaction* is generally based on a survey in which consumers are asked if they are (1) very satisfied, (2) somewhat satisfied, (3) neither satisfied nor dissatisfied, (4) somewhat dissatisfied, or (5) very dissatisfied with a brand.

### Choices: What Do You Think?

1. Demographic or cultural trends are important to marketers. What are some current trends that may affect the marketing of the following products?
  - a. Housing
  - b. Food
  - c. Education
  - d. Clothing
  - e. Travel and tourism
  - f. Automobiles
2. What are the core values of your culture? How do these core values affect your behavior as a consumer? Are they collectivist or individualistic? What are the implications for marketers?
3. Consumers often buy products because they feel pressure from reference groups to conform. Does conformity exert

a positive or a negative influence on consumers? With what types of products is conformity more likely to occur?

4. Retailers often place impulse purchase items such as magazines and candy bars near the entrance to the store or near the checkout area. How would you describe the decision process for these products? Why are these locations effective? What are the problems with these decisions?
5. Behavioral targeting on the Internet involves tracking where people go online and then feeding them advertising information that's related to what they're looking for. Now, cable TV providers are also considering their own version of behavioral targeting. While proponents of this approach argue that it's a very efficient and convenient way for people to conduct information-search, others who are concerned about a potential invasion of privacy aren't so enthusiastic. What are some other arguments for and against behavioral targeting? What's your opinion? Do you mind having marketers know what sites you visit or what TV shows and movies you watch in return for receiving more relevant information on products?
6. Today, consumers are increasingly demanding "green" products. And marketers are responding with more and more products to meet that demand. Some companies, however, are "greenwashing" their products, that is, they are claiming they are more environmentally friendly than they really are. What are some examples of products that you suspect are being greenwashed? What should be done about this problem? Should there be laws about greenwashing or should marketers do more to patrol their own actions?

### Miniproject: Learn by Doing

The purpose of this miniproject is to increase your understanding of the roles of personal, social, and situational factors in consumer behavior.

1. Select one of the following product categories (or some other product of your choice):
  - Hairstyling
  - Large appliances, such as refrigerators or washing machines
  - A restaurant
  - Banking
  - Fine jewelry
2. Visit three stores or locations where the product may be purchased. (Try to select three that are very different from each other.) Observe and make notes on all the elements of each retail environment.
3. At each of the three locations, observe people purchasing the product. Make notes about their characteristics (e.g., age, race, gender, and so on), their social class, and their actions in the store in relation to the product.
4. Prepare a report for your class describing the situational variables and individual consumer differences among the three stores and how they relate to the purchase of the product. Present your findings to your class.

Source: Adapted from Paul W. Farris, Neil T. Bendle, Phillip E. Pfeifer, and David J. Reibstein, *Marketing Metrics: 50+ Metrics Every Executive Should Master*, Pearson Education, 2006.

## Marketing in Action Case Real Choices at Lexus

In 1983 at a top-secret meeting, Toyota chairman Eiji Toyoda suggested that the time was right for Toyota to introduce a true luxury automobile that would challenge the best luxury vehicles in the world. A six-year development process followed that involved 60 designers and 450 prototypes at a cost of over \$1 billion. In 1989 the Lexus was launched. In 1999, Lexus sold its millionth car in the United States and within a little over a decade, Lexus became America's best selling line of luxury vehicles. Following its success in the United States, Toyota introduced the Lexus in markets outside America, and today the luxury cars are available in over 40 different countries. Since its introduction, the Lexus has repeatedly won top awards and accolades for customer satisfaction, dependability, appeal, design, and engineering from the Motoring Press Association, J.D. Power and Associates studies, *The Robb Report*, *Popular Science*, *Car and Driver*, *Popular Mechanics*, *Automobile Magazine*, and *Motor Trend*.

Why has Lexus been such a success? According to North America President and CEO Atsushi Niimi, "Lexus is a success story because there is no compromise in its manufacture, as it always reflects the voice of the customer." Toyota President Ray Tanguay noted, "Manufacturing Lexus demands a deep understanding of what customers want, expect, and deserve in a luxury vehicle. We call it the relentless pursuit of perfection."

How did Toyota listen to the voices of its consumers? As early as 1985 while the Lexus was only a concept, Toyota sent a study team to the United States to conduct focus groups with potential customers. More recently, Lexus Great Britain introduced a unique program that helps Lexus consultants better understand customers by giving them a taste of luxury. Staff from Lexus centers are pampered at top-class hotels in order to experience for themselves the kind of quality and service their customers expect. In another program, Lexus GB gets feedback from actual customers. Thousands of U.K. Lexus owners are invited to spend the day at luxury spa hotels to share their opinions on where Lexus is succeeding and where it could be better, all while enjoying the spa facilities.

Such attention to providing the best for luxury car owners has led to Lexus's latest innovation: the Advanced Parking

Guidance System. Most consumers find parallel parking a real pain, or worse, they simply avoid parallel parking spaces altogether. Enter the 2007 Lexus LS 460 sedan. The car actually parks itself—or almost. In theory, a driver only need pull up ahead of the empty parking space, make a few minor adjustments on a computer screen, and lift his or her foot off the brake. As the car backs up, the steering wheel turns as needed, and, "voila," the car is in the space, just where you want it to be. Of course, the LS isn't perfect. It must have a parking space considerably (about six feet) longer than the car, so it isn't useful in those tight city spots. And the system won't work on downward inclines—only on level ground where it can move at a "creeping" speed. As you might expect, the price of the Lexus with the Advanced Parking Guidance System is over \$70,000—not a price tag to be taken lightly.

The question many observers ask is whether the parking capability of the Lexus is truly a benefit luxury car owners want and will use—or is it just a gimmick? And were customers really asking for this feature? Some argue that the Lexus automatic parking capability isn't really useful and that Lexus should have waited to introduce the feature until the company had worked out all the kinks in the system. Has Lexus stepped away from its focus on customer needs, and if so, what should the company do now?

### You Make the Call

1. What is the decision facing Lexus?
2. What factors are important in understanding this decision situation?
3. What are the alternatives?
4. What decision(s) do you recommend?
5. What are some ways to implement your recommendation?

Based on: "Lexus History," Conceptcarz.com, [http://www.conceptcarz.com/view/makehistory/94,0/Lexus\\_History.aspx](http://www.conceptcarz.com/view/makehistory/94,0/Lexus_History.aspx) (accessed March 15, 2008); "Lexus Luxury Lifestyle Training," Carpages, <http://www.carpages.co.uk/lexus/lexus-lifestyle-12-11-05.asp> (accessed March 10, 2008); Trevor Hoffman, "First Luxury Lexus Built outside Japan Rolls off the Line in Cambridge, Ontario," (October 1, 2003), Automobile.com, <http://car-reviews.automobile.com/news/worlds-first-lexus-built-outside-of-japan-rolls-off-canadian-line/456/> (accessed March 15, 2008); "Lexus," Wikipedia, <http://wikipedia.org/wiki/Lexus>.

P  
R  
I  
M  
M  
,  
S  
H  
A  
R  
A  
R  
O  
N  
D  
A  
3  
9  
5  
7  
B  
U