Chapter 11
Creating Products and Pricing Strategies to Meet Customers' Needs

Marketing plays a key role in the success of businesses. It is the task of marketing to generate sales for the firm. Sales revenue, in turn, pays workers' salaries, buys supplies, covers the costs of new buildings and equipment, and hopefully enables the company to earn a profit. This chapter looks at the nature of marketing and the creation of product and pricing strategies to meet customers' needs. In this chapter, you will learn about the marketing concept, marketing strategies, and consumer and business buying decisions. You will also see how the marketing mix is used to create sales opportunities. We discuss how new products are created and how they go through periods of sales growth and then decline. Next you will discover how managers set prices to reach organizational goals.

11.1 The Marketing Concept

1. What is the marketing concept and relationship-building?

Marketing is the process of getting the right goods or services or ideas to the right people at the right place, time, and price, using the right promotion techniques and utilizing the appropriate people to provide the customer service associated with those goods, services, or ideas. This concept is referred to as the *"right" principle* and is the basis of all marketing strategy. We can say that **marketing** is finding out the needs and wants of potential buyers (whether organizations or consumers) and then providing goods and services that meet or exceed the expectations of those buyers. Marketing is about creating exchanges. An **exchange** takes place when two parties give something of value to each other to satisfy their respective needs or wants. In a typical exchange, a consumer trades money for a good or service. In some exchanges, nonmonetary things are exchanged, such as when a person who volunteers for the company charity receives a T-shirt in exchange for time spent. One common misconception is that some people see no difference between marketing and sales. They are two different things that are both part of a company's strategy. Sales incorporates actually selling the company's products or service to its customers, while marketing is the process of communicating the value of a product or service to customers so that the product or service sells.

To encourage exchanges, marketers follow the "right" principle. If a local Avon representative doesn't have the right lipstick for a potential customer when the customer wants it, at the right price, the potential customer will not exchange money for a new lipstick from Avon. Think about the last exchange (purchase) you made: What if the price had been 30 percent higher? What if the store or other source had been less accessible? Would you have bought anything? The "right" principle tells us that marketers control many factors that determine marketing success.

Most successful organizations have adopted the **marketing concept**. The marketing concept is based on the "right" principle. The marketing concept is the use of marketing data to focus on the needs and wants of customers in order to develop marketing strategies that not only satisfy the needs of the customers but also the accomplish the goals of the organization. An organization uses the marketing concept when it identifies the buyer's needs and then produces the goods, services, or ideas that will satisfy them (using the "right" principle). The marketing concept is oriented toward pleasing customers (be those customers organizations or consumers) by offering value. Specifically, the marketing concept involves the following:

- Focusing on the needs and wants of the customers so the organization can distinguish its product(s) from competitors' offerings. Products can be goods, services, or ideas.
- Integrating all of the organization's activities, including production and promotion, to satisfy these wants and needs
- Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly

Today, companies of every size in all industries are applying the marketing concept. Enterprise Rent-A-Car found that its customers didn't want to have to drive to its offices. Therefore, Enterprise began delivering vehicles to customers' homes or places of work. Disney found that some of its patrons really disliked waiting in lines. In response, Disney began offering FastPass at a premium price, which allows patrons to avoid standing in long lines waiting for attractions. One important key to understanding the marketing concept is to know that using the marketing concept means the product is created *after* market research is used to identify the needs and wants of the customers. Products are not just created by production departments and then marketing departments are expected to identify ways to sell them based on the research. An organization that truly utilizes the marketing concept uses the data about potential customers from the very inception of the product to create the best good, service, or idea possible, as well as other marketing strategies to support it.

Customer Value

Customer value is the ratio of benefits for the customer (organization or consumer) to the sacrifice necessary to obtain those benefits. The customer determines the value of both the benefits and the sacrifices. Creating customer value is a core business strategy of many successful firms. Customer value is rooted in the belief that price is not the only thing that matters. A business that focuses on the cost of production and price to the customer will be managed as though it were providing a commodity differentiated only by price. In contrast, businesses that provide customer value believe that many customers will pay a premium for superior customer service or accept fewer services for a value price. It is important not to base value on price (instead of service or quality) because customers who only value price will buy from the competition as soon as a competitor can offer a lower price. It is much better to use marketing strategies based on customer relationships and service, which are harder for the competition to replicate. Southwest Airlines doesn't offer assigned seats, meals, or in-flight movies. Instead the budget carrier delivers what it promises: on-time departures. In "service value" surveys, Southwest routinely beats the full-service airlines such as American Airlines, which actually provide passengers with luxuries such as movies and food on selected long-haul flights.

Customer Satisfaction

Customer satisfaction is a theme stressed throughout this text. **Customer satisfaction** is the customer's feeling that a product has met or exceeded expectations. Expectations are often the result of communication, especially promotion. Utilizing marketing research to identify specific expectations and then crafting marketing strategy to meet or exceed those expectations is a major contributor to success for an organization. Lexus consistently wins awards for its outstanding customer satisfaction. JD Powers surveys car owners two years after they make their purchase. Its Customer Satisfaction Survey is made up of four measures that each describe an element of overall ownership satisfaction at two years: vehicle quality/ reliability, vehicle appeal, ownership costs, and service satisfaction from a dealer. Lexus continues to lead the industry and has been America's top-ranked vehicle for five years in a row.

Building Relationships

Relationship marketing is a strategy that focuses on forging long-term partnerships with customers. Companies build relationships with customers by offering value and providing customer satisfaction. Once relationships are built with customers, customers tend to continue to purchase from the same company, even if the prices of the competitors are less or if the competition offers sales promotions or incentives. Customers (both organizations and consumers) tend to buy products from suppliers whom they trust and feel a kinship with, regardless of offerings of unknown competitors. Companies benefit from repeat sales and referrals that lead to increases in sales, market share, and profits. Costs fall because it is less expensive to serve existing customers than to attract new ones. Focusing on customer retention can be a winning tactic; studies show that increasing customer retention rates by 5 percent increases profits by anywhere from 25 to 95 percent.

Customers also benefit from stable relationships with suppliers. Business buyers have found that partnerships with their suppliers are essential to producing high-quality products while cutting costs. Customers remain loyal to firms that provide them greater value and satisfaction than they expect from competing firms.

Frequent-buyer clubs are an excellent way to build long-term relationships. All major airlines have frequent-flyer programs. After you fly a certain number of miles, you become eligible for a free ticket. Now, cruise lines, hotels, car rental agencies, credit-card companies, and even mortgage companies give away "airline miles" with purchases. Consumers patronize the airline and its partners because they want the free tickets. Thus, the program helps to create a long-term relationship with (and ongoing benefits for) the customer. Southwest Airlines carries its loyalty program a bit further than most. Members get birthday cards, and some even get profiled in the airline's in-flight magazine!

11.2 Creating a Marketing Strategy

2. How do managers create a marketing strategy?

What Is Marketing Strategy?

Marketers use a number of different "tools" to develop the products or services that meet the needs and wants of their customers, provide excellent value for the customers, and satisfy those customers. Marketing strategy is really five different components of marketing. These components are traditionally called "the Four Ps" of marketing; however, this chapter includes an additional component "People" to create a new total of **Five Ps**. They are the methods, tools, and processes used by marketers to develop and market products. In Chapter 12, we will analyze an additional P, "Packaging" but will continue to refer to these components as "Five Ps." These five tools are also called "the marketing mix." These are the 5Ps:

- **Product:** Something offered in exchange and for which marketing actions are taken and marketing decisions made. Products can be goods (physical things such as smartphones) or services (such as the telecommunications that must be used for a smartphone to work) or ideas (such as the thought that being constantly connected through telecommunications is absolutely crucial in today's society). All products have both tangible and intangible aspects.
- **Price:** Something given in exchange for a product. Price may be monetary or nonmonetary (such as waiting in long lines for a restaurant or giving blood at the local blood bank). Price has many names, such as rent, fees, charges, and others.
- **Place:** Some method of getting the product from the creator of the product to the customer. Place includes a myriad of

important tasks: transportation, location, supply chain management (managing each entity that deals with the product in its route to the buyer), online presence, inventory, and atmospherics (how the office, store, or even the website looks).

- **Promotion:** Methods for informing and influencing customers to buy the product. Promotion includes several different components – traditional advertising, sales promotion, public relations, personal selling, social media, and e-commerce. Promotion is often mistaken for marketing because it is the most visible part of marketing; however, marketing encompasses much more than just promotion.
- **People:** Methods of utilizing organization employees to support the marketing strategies of the company. All products have both tangible and intangible aspects. People (as a marketing strategy) are crucial to the development of the product's intangible aspects.

Marketers utilize the tools of marketing strategy to develop new products and sell them in the marketplace. But marketers cannot create products in isolation. Marketers must understand and consider all aspects of the external environment in order to create marketing programs (plans) that will be successful in the current market and in future markets. Thus, many organizations assemble a team of specialists to continually collect and evaluate environmental information, a process called **environmental scanning**. The goal in gathering the environmental data is to identify current and future market opportunities and threats.

Computer manufacturers understand the importance of environmental scanning to monitor rapidly changing consumer interests. Since the invention of the personal computer (PC), computer technicians and other enthusiasts have taken two things for granted: processor speeds will grow exponentially, and PCs will become indistinguishable from televisions. The result of this will be "convergence," which means that the digital industry (manufacturers of computers, smartphones, and other mobile devices) will merge together with entertainment (such as television, radio, streaming video, and the internet). This convergence is already creating great opportunities for new products—watches that have both computers and cell phones in them, cell phones used to download videos not available except by independent entertainment producers (who are not affiliated with traditional media) such as Amazon and Google.

One clear winner in this new world so far is Apple, which has leveraged its computer platform to make it easy and fashionable for consumers to become experts in the digital age. Apple has capitalized on this through the development of iTunes, the iPhone and iPads, and the iWatch. Apple sells almost as many iPads per quarter as it does Macintosh computers, and it certainly sells a massive number of iPhones. Microsoft wants in on this business badly, but Hewlett-Packard decided to shift its loyalty to Apple, so Microsoft doesn't have much leverage just now. The other company to watch over the next few years is Samsung, which has doubled its efforts to make its consumer electronics offerings strong competition to Apple products. Finally, the device-free streaming services such as Amazon Music, Pandora, and Spotify have provided competition to Apple while restoring profitability to the music industry.

In general, six categories of environmental data shape most marketing decisions:

- *Cultural/social forces:* Includes such factors as the buying behaviors of specific cultures and subcultures, the values of potential customers, the changing roles of families, and other societal trends such as employees working from home and flexible work hours
- *Demographic forces:* Includes such factors as changes in the ages of potential customers (e.g., baby boomers, millennials), birth and death rates, and locations of various groups of people
- *Economic forces:* Includes such factors as changing incomes, unemployment levels, inflation, and recession
- *Technological forces:* Includes such factors as advances in telecommunications and computer technology
- *Political and legal forces:* Includes such factors as changes in laws, regulatory agency activities, and political movements
- *Competitive forces:* Includes such factors as new and shifting competition from domestic and foreign-based firms

Defining the Target Market

Marketers develop the information about the environment to get a clear picture of the total market for the product, including environmental factors. Once the marketers understand the various environmental factors, specific target markets must then be chosen from the total market. Marketers focus on providing value for a well-defined target market or target markets. The **target market** is the specific group of customers (which could be organizations or individual consumers) toward which a firm directs its marketing efforts. Quaker Oats targets its grits to blue-collar consumers in the South. Williams Sonoma has several different types of stores, each geared toward a distinct target market: Pottery Barn for upscale home furnishings; its specialty stores, West Elm, Mark and Graham, and Rejuvenation, that specialize in jewelry and other accessories; and home improvement and furnishings that are affordable and sustainable. These target markets are all part of the overall retail market for housewares and lifestyle. Identifying a target market helps a company focus its marketing efforts on those who are most likely to buy its products or services. Concentrating on potential customers lets the firm use its resources efficiently. Examples of the target markets for Marriott Hotel Brands' lodging alternatives are shown in **Table 11.1**.

Examples of Target Markets for Marriott Hotel Brands		
	Price Range	**Target Market**
Fairfield Inn	$105–125	Economizing business and leisure travelers
Towne Place Suites	$110–140	Moderate-tier travelers who stay three to four weeks
SpringHill Suites	$120–165	Business and leisure travelers looking for more space and amenities
Courtyard	$120–170	Travelers seeking quality and affordable accommodations designed for the road warrior
Residence Inn	$126–175	Travelers seeking a residential-style hotel
Marriott Hotels, Resorts, and Suites	$135–410	Grounded achievers who desire consistent quality
Renaissance Hotels and Resorts	$135–415	Discerning business and leisure travelers who seek creative attention to detail
Ritz-Carlton	$295–1,500	Senior executives and entrepreneurs looking for a unique, luxury, personalized experience

Table 11.1

Creating a Competitive Advantage

A **competitive advantage**, also called a *differential advantage*, is a set of unique features of a company and its products that are perceived by the target market(s) as significant and superior to those of the competition. Competitive advantage is the factor that causes customers to patronize a specific firm and not the competition. There are four types of competitive advantage: cost, product differentiation, service differentiation, and niche.

Cost Competitive Advantage

A firm that has a **cost competitive advantage** can produce a product or service at a lower cost than all its competitors while maintaining satisfactory profit margins. Firms become cost leaders by obtaining inexpensive raw materials, making plant operations more efficient, designing products for ease of manufacture, controlling overhead costs, and avoiding marginal customers.

Over time, the cost competitive advantage may fail. Typically, if one firm is using an innovative technology to reduce its costs, then other firms in the industry will adopt this technology and reduce their costs as well. For example, Bell Labs invented fiber-optic cables that reduced the cost of voice and data transmission by dramatically increasing the number of calls that could be transmitted simultaneously through a two-inch cable. Within five years, however, fiber-optic technology had spread through the industry, and Bell Labs lost its cost competitive advantage. Firms may also lose their cost competitive advantage if competing firms match their low costs by using the same lower-cost suppliers. Therefore, a cost competitive advantage may not offer a long-term competitive advantage.

Product Differentiation Competitive Advantage

Because cost competitive advantages are subject to continual erosion, other types of competitive advantage tend to provide a longer-lasting competitive advantage. The durability of a **differential competitive advantage** can be more successful for the long-term viability of the company. Common differential advantages are brand names (Tide detergent), a strong dealer network (Caterpillar for construction equipment), product reliability (Lexus vehicles), image (Neiman Marcus in retailing), and service (Federal Express). Brand names such as Chanel, BMW, and Cartier stand for quality the world over. Through continual product and marketing innovations and attention to quality and value, marketers at these organizations have created enduring competitive advantages.

Service Differentiation Competitive Advantage

In today's world of instant connection and social media, services are crucial for both tangible and nontangible products. Almost every day, the media report the consequences of poor service that went "viral" on social media because the service interaction was videotaped and uploaded to the internet. Customers now demand a higher level of service for all kinds of products, and if the service level does not meet customer expectations, it is likely that the customer will post negative comments on a review site or upload the interaction to various social media platforms. Some small companies have had to close their doors on the basis of one poor service interaction that went viral. Service levels that delight customers are even more important for intangible products such as engineering and accounting. More than 80 percent of the U.S. GDP is based on services. The ability to create the service product, continually refine the service process, and interact with customers (co-creators of the service) is crucial. Higher-level services require more planning, better execution, and constant evolution through the relationships with the customers. The use of service differentiation as a competitive advantage can be one of the most enduring and viable types of advantage.

Niche Competitive Advantage

A company with a **niche competitive advantage** targets and effectively serves a single segment of the market. For small companies with limited resources that potentially face giant competitors, utilizing a niche competitive advantage may be the only viable option. A market segment that has good growth potential but is not crucial to the success of major competitors is a good candidate for a niche strategy. Once a potential segment has been identified, the firm needs to make certain it can defend against challengers through its superior ability to serve buyers in the segment. For example, Regions Bank–Music Row Private Bank follows a niche strategy with its concentration on country music stars and entertainment industry professionals in Nashville. Its office is in the heart of Nashville's music district. Music Row Private Bank has decided to expand its niche strategy to Miami, the "epicenter" of Latin music, and to Atlanta. The latter is a longtime rhythm-and-blues capital and now is the center of contemporary "urban" music. Both new markets have the kinds of music professionals—entertainers, record executives, producers, agents, and others—that have made Regions Bank–Music Row Private Bank so successful in Nashville.

11.3 Developing a Marketing Mix

3. What is the marketing mix?

Once a firm has defined its target market and identified its competitive advantage, it can create the **marketing mix**, which is based on the 5Ps discussed earlier, that brings a specific group of consumers a product with superior value. Every target market requires a unique marketing mix to satisfy the needs of the target customers and meet the firm's goals. A strategy must be constructed for each of the 5Ps, and all strategies must be blended with the strategies of the other elements. Thus, the marketing mix is only as good as its weakest part. For example, an excellent product with a poor distribution system could be doomed to failure. An excellent product with an excellent distribution system but an inappropriate price is also doomed to failure. A successful marketing mix requires careful tailoring. For instance, at first glance you might think that McDonald's and Wendy's have roughly the same marketing mix. After all, they are both in the fast-food business. But McDonald's targets parents with young children through Ronald McDonald, heavily promoted children's Happy Meals, and in-store playgrounds. Wendy's is targeted to a more adult crowd. Wendy's has no playgrounds, but it does have flat-screen TVs, digital menu boards, and comfy leather seating by a fireplace in many stores (a more adult atmosphere), and it has expanded its menu to include more items for adult tastes.

Product Strategy

Marketing strategy typically starts with the product. Marketers can't plan a distribution system or set a price if they don't know exactly what product will be offered to the market. Marketers use the term *product* to refer to *goods, services*, or even *ideas.* Examples of goods would include tires, MP3 players, and clothing. Goods can be divided into business goods (commercial or industrial) or consumer goods*.* Examples of services would be hotels, hair salons, airlines, and engineering and accounting firms. Services can be divided into consumer services, such as lawn care and hair styling, or professional services, such as engineering, accounting, or consultancy. In addition, marketing is often used to "market" ideas that benefit companies or industries, such as the idea to "go green" or to "give blood." Businesses often use marketing to improve the long-term viability of their industries, such as the avocado industry or the milk industry, which run advertising spots and post social media messages to encourage consumers to view their industries favorably. Thus, the heart of the marketing mix is the good, service, or idea. Creating a **product strategy** involves choosing a brand name, packaging, colors, a warranty, accessories, and a service program.
Marketers view products in a much larger context than is often thought. They include not only the item itself but also the brand name and the company image. The names Ralph Lauren and Gucci, for instance, create extra value for everything from cosmetics to bath towels. That is, products with those names sell at higher prices than identical products without the names. Consumers buy things not only for what they do, but also for what they mean.

Pricing Strategy

Pricing strategy is based on demand for the product and the cost of producing that product. However, price can have a major impact on the success of a product if the price is not in balance with the other components of the 5Ps. For some products (especially service products), having a price that is too low may actually hurt sales. In services, a higher price is often equated with higher value. For some types of specialty products, a high price is expected, such as prices for designer clothes or luxury cars. Even costume jewelry is often marked up more than 1000 percent over the cost to produce it because of the image factor of a higher price. Special considerations can also influence the price. Sometimes an introductory price is used to get people to try a new product. Some firms enter the market with low prices and keep them low, such as Carnival Cruise Lines and Suzuki cars. Others enter a market with very high prices and then lower them over time, such as producers of high-definition televisions and personal computers.

Place (Distribution) Strategy

Place (distribution) strategy is creating the means (the channel) by which a product flows from the producer to the consumer. Place includes many parts of the marketing endeavor. It includes the physical location and physical attributes of the business, as well as inventory and control systems, transportation, supply chain management, and even presence on the web. One aspect of distribution strategy is deciding how many stores and which specific wholesalers and retailers will handle the product in a geographic area. Cosmetics, for instance, are distributed in many different ways. Avon has a sales force of several hundred thousand representatives who call directly on consumers. Clinique and Estée Lauder are distributed through selected department stores. Cover Girl and Coty use mostly chain drugstores and other mass merchandisers. Redken products sell through hair salons. Revlon uses several of these distribution channels. For services, place often becomes synonymous with both physical location (and attributes of that location such as atmospherics) and online presence. Place strategy for services also includes such items as supply chain management. An example would be that an engineering firm would develop offices with lush interiors (to denote success) and would also have to manage the supplies for ongoing operations such as the purchase of computers for computer-aided drafting.

Promotion Strategy

Many people feel that promotion is the most exciting part of the marketing mix. **Promotion strategy** covers personal selling, traditional advertising, public relations, sales promotion, social media, and e-commerce. These elements are called the promotional mix. Each element is coordinated with the others to create a promotional blend. An advertisement, for instance, helps a buyer get to know the company and paves the way for a sales call. A good promotional strategy can dramatically increase a firm's sales.
Public relations plays a special role in promotion. It is used to create a good image of the company and its products. Bad publicity costs nothing to send out, but it can cost a firm a great deal in lost business. Public relations uses many tools, such as publicity, crisis management strategy, and in-house communication to employees. Good publicity, such as a television or magazine story about a firm's new product, may be the result of much time, money, and effort spent by a public-relations department. Public-relations activities always cost money—in salaries and supplies. Public-relations efforts are the least "controllable" of all the tools of promotion, and a great deal of effort and relationship-building is required to develop the ongoing goodwill and networking that is needed to enhance the image of a company.

Sales promotion directly stimulates sales. It includes trade shows, catalogs, contests, games, premiums, coupons, and special offers. It is a direct incentive for the customer to purchase the product immediately. It takes many forms and must adhere to strict laws and regulations. For example, some types of contests and giveaways are not allowed in all the states within the United States. McDonald's discount coupons and contests offering money and food prizes are examples of sales promotions.
Social media is a major element of the promotion mix in today's world. Most businesses have a corporate website, as well as pages on different social media sites such as Facebook, Pinterest, and Twitter. Social media is more powerful as a channel for getting the company's message out to the target market (or general public) than traditional advertising, especially for some target markets. Companies (and even individuals) can use social media to create instant branding. E-commerce is the use of the company website to support and expand the marketing strategies of the 5Ps. It can include actual "order online" capabilities, create online communities, and be used to collect data from both existing and potential customers. Some e-commerce websites offer free games and other interactive options for their customers. All of this activity helps to build and strengthen the long-term relationships of customers with the company.

Not-for-Profit Marketing

Profit-oriented companies are not the only ones that analyze the marketing environment, find a competitive advantage, and create a marketing mix. The application of marketing principles and techniques is also vital to not-for-profit organizations. Marketing helps not-for-profit groups identify target markets and develop effective marketing mixes. In some cases, marketing has kept symphonies, museums, and other cultural groups from having to close their doors. In other organizations, such as the American Heart Association, marketing ideas and techniques have helped managers do their jobs better. In the private sector, the profit motive is both an objective for guiding decisions and a criterion for evaluating results. Not-for-profit organizations do not seek to make a profit for redistribution to owners or shareholders. Rather, their focus is often on generating enough funds to cover expenses or generating enough funds to expand their services to assist more people. For example, the Methodist Church does not gauge its success by the amount of money left in offering plates. The Museum of Science and Industry does not base its performance evaluations on the dollar value of tokens put into the turnstile. An organization such as the American Red Cross raises funds to provide basic services, but if enough funds are raised (beyond just the amount to cover expenses), those funds are used to expand services or improve current services.

11.4 Buyer Behavior

4. How do consumers and organizations make buying decisions?

An organization that wants to be successful must consider buyer behavior when developing the marketing mix. **Buyer behavior** is the actions people take with regard to buying and using products. Marketers must understand buyer behavior, such as how raising or lowering a price will affect the buyer's perception of the product and therefore create a fluctuation in sales, or how a specific review on social media can create an entirely new direction for the marketing mix based on the comments (buyer behavior/input) of the target market.

To understand buyer behavior, marketers must understand how customers make buying decisions. Consumers and businesses have processes for making decisions about purchases. These decision-making processes are affected by cultural, social, individual, and psychological factors. The consumer decision-making process has several steps, which are shown in **Exhibit 11.4**.

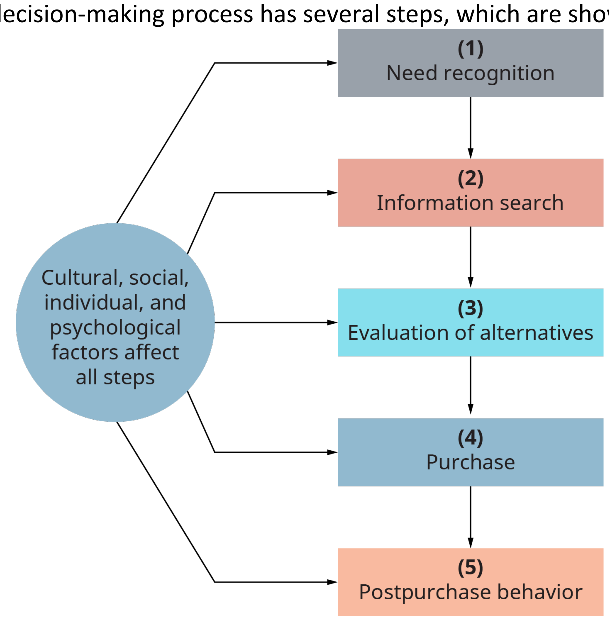

Exhibit 11.4 Consumer Purchase Decision-Making Process (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

The process starts with need recognition. Need recognition could be as simple as running out of coffee. Need recognition could also take place over several months, such as when repeated car repairs influence a consumer to make a decision to buy a new car. (Step 1 in **Exhibit 11.4**).

Next, the buyer gathers information. If the consumer is making a decision to purchase a house, they might research information about financing, available homes, styles, locations, and so forth (Step 2). Once the consumer has gathered the information, he or she must evaluate alternatives (Step 3). For example, a consumer might eliminate all homes that cost over $150,000 or are more than a 30-minute drive to work. After evaluating the alternatives, the consumer will make a decision based on those alternatives. Then the consumer makes the purchase decision, the decision to buy or not to buy (Step 4). Finally, the consumer assesses the decision itself and his or her satisfaction with the purchase, which would include not only the home, but the buying experience as well (Step 5).

Influences on Consumer Decision-Making

Cultural, social, individual, and psychological factors have an impact on consumer decision-making from the time a person recognizes a need through post-purchase behavior. We will examine each of these factors in more detail. It is important to understand the relevance of these influences on consumer decision-making.

Culture

Purchase roles within the family are influenced by culture. **Culture** is the set of values, ideas, attitudes, and symbols created to shape human behavior. Culture is the part of customs and traditions of a group of people that is transformed into its art, food, costumes/clothing, architecture, and language, as well as other unique manifestations of a specific group of related individuals.

Culture is environmentally oriented. For example, the nomads of Finland have developed a culture for Arctic survival. Similarly, the natives of the Brazilian jungle have created a culture suitable for jungle living.

Culture by definition is social in nature. It is human interaction that creates values and prescribes acceptable behavior. Culture gives order to society by creating common expectations. Sometimes these expectations are codified into law; for example, if you come to a red light, you stop the car. In some cultures, a young man undergoes a special rite of passage from youth into adulthood (such as a bar mitzvah in Jewish culture). In other cultures, young women have a rite of passage but young men do not (such as a quinceañera in Hispanic culture). As long as a value or belief meets the needs of society, it will remain part of the culture. If it is no longer functional, the value or belief fades away. For example, the value that very large families are “good” is no longer held by a majority of Americans. This is because most Americans live in an urban rather than a rural environment, and children are no longer needed to perform farm chores.

Social Factors

Most consumers are likely to seek out the opinions of others to reduce their search and evaluation effort or uncertainty, especially as the perceived risk of the decision increases. Consumers may also seek out others’ opinions for guidance on new products or services, products with image-related attributes, or products where attribute information is lacking or uninformative. Specifically, consumers interact socially with reference groups, opinion leaders, and family members to obtain product information and decision approval. All the formal and informal groups that influence the buying behavior of an individual are considered that person’s **reference groups**. Consumers may use products or brands to identify with or become a member of a group. They learn from observing how members of their reference groups consume, and they use the same criteria to make their own consumer decisions. A reference group might be a fraternity or sorority, a group you work with, or a club to which you belong.

Individual Influences

A person’s buying decisions are also influenced by personal characteristics unique to each individual, such as gender and personality. Individual characteristics are generally stable over the course of one’s life. For instance, most people do not change their gender, and the act of changing personality requires a complete reorientation of one’s life.

Physiological differences between men and women result in different needs, such as health and beauty products. Just as important are the distinct cultural, social, and economic roles played by men and women and the effects that these have on their decision-making processes. Men and women also shop differently. Studies show that men and women share similar motivations in terms of where to shop—that is, seeking reasonable prices, merchandise quality, and a friendly, low-pressure environment—but they don’t necessarily feel the same about shopping in general. Most women enjoy shopping; their male counterparts claim to dislike the experience and shop only out of necessity. Furthermore, men desire simple shopping experiences, stores with less variety, and convenience. When it comes to online shopping, gender differences continue. According to recent research, women tend to shop based on their future needs, while men tend to shop when their need is immediate. In addition, women tend to make impulse buys more frequently than men, who tend to think logically when making purchase decisions.

Each consumer has a unique personality. **Personality** is a broad concept that can be thought of as a way of organizing and grouping how an individual typically reacts to situations. Thus, personality combines psychological makeup and environmental forces. It includes people’s underlying dispositions, especially their most dominant characteristics. Although personality is one of the least useful concepts in the study of consumer behavior, some marketers believe that personality influences the types and brands of products purchased. For instance, the type of car, clothes, or jewelry a consumer buys may reflect one or more personality traits.

Psychological Influences

An individual’s buying decisions are further influenced by psychological factors such as perception, beliefs, and attitudes. These factors are what consumers use to interact with their world. They are the tools consumers use to recognize their feelings, gather and analyze information, formulate thoughts and opinions, and take action. Unlike the other three influences on consumer behavior, psychological influences can be affected by a person’s environment because they are applied on specific occasions. For example, individuals will perceive different stimuli and process these stimuli in different ways depending on whether the individual is sitting in class concentrating on an instructor’s lecture, sitting outside of class talking to friends, or sitting at home watching television.

B2B Purchase Decision-Making

Business-to-business (B2B) buyer behavior and business markets are different from consumer markets. Business markets include institutions such as hospitals and schools, manufacturers, wholesalers and retailers, and various branches of government. The key difference between a consumer product and a business product is the intended use. For example, if a consumer purchases a certain brand of computer for use at home, it is considered a consumer good. If a purchasing agent for Netflix buys exactly the same computer for Netflix scriptwriter, it is considered a business good. Why? The reason is that Netflix is a business, so the computer will be used in a business environment.

The Decision-Making Process

The purchases that organizations make often involve greater risk than purchases made by individual consumers. For this reason, businesses (and other organizations) tend to base purchase decisions on more data and make purchase decisions based on rational decision-making so purchases will optimize value for the organization and minimize risk. For this reason, the business purchase decision-making process differs from the consumer process. The steps are similar: need recognition, setting specifications, information search (including identification of suppliers), evaluation (including evaluation of suppliers), purchase ("go or no-go"), and post-purchase evaluation. The major difference between the two processes is that businesses decide beforehand what exactly is needed on the purchase (setting specifications) and then seek information regarding products that meet those specifications. In this way, the purchases are more likely to satisfy the needs of the overall organization, thus reducing the risk.

Characteristics of the B2B Market

The main differences between consumer markets and business markets include the following:

1. *Purchase volume:* Business customers buy in much larger quantities than consumers. Mars must purchase many truckloads of sugar to make one day's output of M&Ms. Home Depot buys thousands of batteries each day for resale to consumers. The federal government must use (and purchase) millions of pens each day.
2. *Number of customers:* Business marketers usually have far fewer customers than consumer marketers. As a result, it is much easier to identify prospective buyers and monitor current needs. For example, there are far fewer customers for airplanes or industrial crane companies than there are for consumer goods companies since there are more than 125 million consumer households in the United States.
3. *Location of buyers:* Business customers tend to be much more geographically concentrated than consumers. The computer industry is concentrated in Silicon Valley and a few other areas. Aircraft manufacturing is found in Seattle, Washington; St. Louis, Missouri; and Dallas/Fort Worth, Texas. Suppliers to these manufacturers often locate close to the manufacturers to lower distribution costs and facilitate communication.
4. *Direct distribution:* Business sales tend to be made directly to the buyer because such sales frequently involve large quantities or custom-made items such as heavy machinery. Consumer goods are more likely to be sold through intermediaries such as wholesalers and retailers.

11.6 What Is a Product?

6. What is a product, and how is it classified?

The goal of marketing research is to create products that are desired by the target market(s) chosen as strategic markets in line with the organization's goals. In marketing, a **product** (a good, service, or idea), along with its perceived attributes and benefits, creates value for the customer. Attributes can be tangible or intangible. Among the tangible attributes are packaging and warranties as illustrated in **Exhibit 11.5**. Intangible attributes are symbolic, such as brand image. Intangible attributes can include things like image as well as the depth of the relationship between a service provider and a customer. People make decisions about which products to buy after considering both tangible and intangible attributes of a product. For example, when a consumer buys a pair of jeans, they consider price, brand, store image, and style before making the purchase. These factors are all part of the marketing mix.

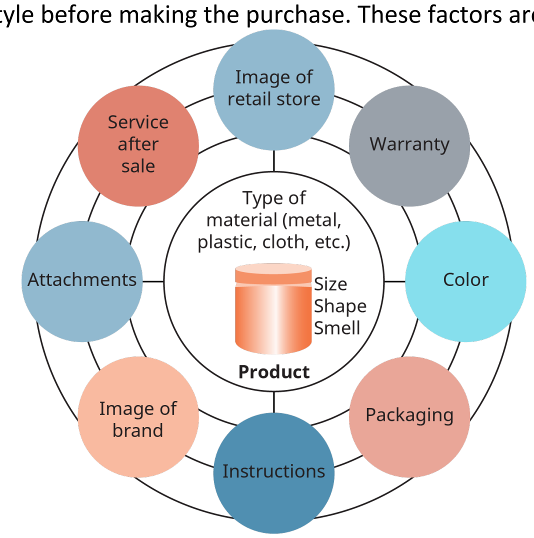

Exhibit 11.5 Tangible and Intangible Attributes of a Product Create Value (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Classifying Consumer Products
Consumers are really buying packages of benefits that deliver value, which always includes some tangible aspects and some intangible aspects. The person who buys a plane ride on United Airlines is looking for a quick way to get from one city to another (the benefit). Providing this benefit requires a tangible part of the product (a plane) and an intangible part of the product (ticketing, maintenance, and piloting services). A person who purchases accounting services buys the benefit of having taxes completed on the correct tax form (tangible part of the service) and having the taxes prepared correctly by a trusted person (intangible part of the service).

Marketers must know how consumers view the types of products their companies sell so that they can design the marketing mix to appeal to the selected target market. To help them define target markets, marketers have devised product categories. Products that are bought by the end user are called *consumer products*. They include electric razors, sandwiches, cars, stereos, magazines, and houses. Consumer products that get used up, such as Nexxus shampoo and Lay's potato chips, are called *consumer nondurables*. Those that last for a long time, such as Whirlpool washing machines and Apple computers, are *consumer durables.*
Another way to classify consumer products is by the amount of effort consumers are willing to make to acquire them. The four major categories of consumer products are unsought products, convenience products, shopping products, and specialty products, as summarized in **Table 11.4**. **Unsought products** are products unplanned by the potential buyer or known products that the buyer does not actively seek.

Convenience products are relatively inexpensive items that require little shopping effort. Soft drinks, candy bars, milk, bread, and small hardware items are examples. Consumers buy them routinely without much planning. This does not mean that such products are unimportant or obscure. Many, in fact, are well known by their brand names—such as Pepsi-Cola, Pepperidge Farm breads, Domino's pizza, Sure deodorant, and UPS shipping.

In contrast to convenience products, **shopping products** are bought only after a brand-to-brand and store-to-store comparison of price, suitability, and style. Examples are furniture, automobiles, a vacation in Europe, and some items of clothing. Convenience products are bought with little planning, but shopping products may be purchased after months or even years of search and evaluation.

Specialty products are products for which consumers search long and hard and for which they refuse to accept substitutes. Expensive jewelry, designer clothing, state-of-the-art stereo equipment, limited-production automobiles, and gourmet restaurants fall into this category. Because consumers are willing to spend much time and effort to find specialty products, distribution is often limited to one or two sellers in a given region, such as Neiman-Marcus, Gucci, or a Porsche dealer.

Classification of Consumer Products by the Effort Expended to Buy Them

Consumer	**Product Examples**	**Degree of Effort Expended by Consumer**
Unsought products	Life insurance	No effort
	Burial plots	Some to considerable effort
	Time-share condos	Some to considerable effort
Convenience products	Soft drinks	Very little or minimum effort
	Bread	Very little or minimum effort
	Milk	Very little or minimum effort
	Coffee	Very little or minimum effort
Shopping products	Automobiles	Considerable effort
	Homes	Considerable effort

Classification of Consumer Products by the Effort Expended to Buy Them		
Consumer	**Product Examples**	**Degree of Effort Expended by Consumer**
	Vacations	Considerable effort
Specialty products	Expensive jewelry	Maximum effort
	Gourmet restaurants	Maximum effort
	Limited-production automobiles	Maximum effort

Table 11.4

Classifying Business Products

Products bought by businesses or institutions for use in making other products are called *business products.* These products can be commercial, industrial, or services products. A commercial product would be an 18-wheeler truck used by a major transportation company as part of the business. An industrial product might be a major robotics installation in a state-of-the-art manufacturing facility. A services product (for business) might be telecommunications consulting for a large corporation setting up offices in Singapore. Business products are classified as either capital products or expense items. **Capital products** are usually large, expensive items with a long life span. Examples are buildings, large machines, and airplanes. **Expense items** are typically smaller, less expensive items that usually have a life span of less than a year. Examples are printer cartridges and paper. Industrial products are sometimes further classified in the following categories:

1. *Installations:* These are large, expensive capital items that determine the nature, scope, and efficiency of a company. Capital products such as General Motors' truck assembly plant in Fort Wayne, Indiana, represent a big commitment against future earnings and profitability. Buying an installation requires longer negotiations, more planning, and the judgments of more people than buying any other type of product.
2. *Accessories:* Accessories do not have the same long-run impact on the firm as installations, and they are less expensive and more standardized. But they are still capital products. Minolta photocopy machines, HP laptops, and smaller machines such as Black & Decker table drills and saws are typical accessories. Marketers of accessories often rely on well-known brand names and extensive advertising as well as personal selling.
3. *Component parts and materials:* These are expense items that are built into the end product. Some component parts are custom-made, such as a drive shaft for an automobile, a case for a computer, or a special pigment for painting U.S. Navy harbor buoys; others are standardized for sale to many industrial users. Intel's Pentium chip for PCs and cement for the construction trade are examples of standardized component parts and materials.
4. *Raw materials:* Raw materials are expense items that have undergone little or no processing and are used to create a final product. Examples include lumber, copper, and zinc.
5. *Supplies:* Supplies do not become part of the final product. They are bought routinely and in fairly large quantities. Supply items run the gamut from pencils and paper to paint and machine oil. They have little impact on the firm's long-run profits. Bic pens, Champion copier paper, and Pennzoil machine oil are typical supply items.
6. *Services.* These are expense items used to plan or support company operations—for example, janitorial cleaning and management consulting services.

11.8 The Product Life Cycle

8. What are the stages of the product life cycle?

Product managers create marketing mixes for their products as they move through the life cycle. The **product life cycle** is a pattern of sales and profits over time for a product (Ivory dishwashing liquid) or a product category (liquid detergents). As the product moves through the stages of the life cycle, the firm must keep revising the marketing mix to stay competitive and meet the needs of target customers.

Stages of the Life Cycle

As illustrated in **Exhibit 11.7**, the product life cycle consists of the following stages:

1. *Introduction:* When a product enters the life cycle, it faces many obstacles. Although competition may be light, the *introductory stage* usually features frequent product modifications, limited distribution, and heavy promotion. The failure rate is high. Production and marketing costs are also high, and sales volume is low. Hence, profits are usually small or

negative.

2. *Growth:* If a product survives the introductory stage, it advances to the *growth stage* of the life cycle. In this stage, sales grow at an increasing rate, profits are healthy, and many competitors enter the market. Large companies may start to acquire small pioneering firms that have reached this stage. Emphasis switches from primary demand promotion to aggressive brand advertising and communicating the differences between brands. For example, the goal changes from convincing people to buy flat-screen TVs to convincing them to buy Sony versus Panasonic or Sharp.

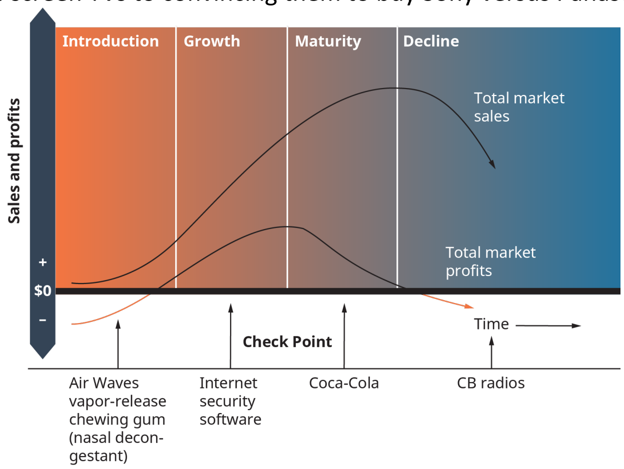

Exhibit 11.7 Sales and Profits during the Product Life Cycle (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Distribution becomes a major key to success during the growth stage, as well as in later stages. Manufacturers scramble to acquire dealers and distributors and to build long-term relationships. Without adequate distribution, it is impossible to establish a strong market position.

Toward the end of the growth phase, prices normally begin falling, and profits peak. Price reductions result from increased competition and from cost reductions from producing larger quantities of items (economies of scale). Also, most firms have recovered their development costs by now, and their priority is in increasing or retaining market share and enhancing profits.

3. *Maturity:* After the growth stage, sales continue to mount—but at a decreasing rate. This is the *maturity stage*. Most products that have been on the market for a long time are in this stage. Thus, most marketing strategies are designed for mature products. One such strategy is to bring out several variations of a basic product (line extension). Kool-Aid, for instance, was originally offered in six flavors. Today there are more than 50, as well as sweetened and unsweetened varieties.
4. *Decline (and death):* When sales and profits fall, the product has reached the *decline stage*. The rate of decline is governed by two factors: the rate of change in consumer tastes and the rate at which new products enter the market. Sony VCRs are an example of a product in the decline stage. The demand for VCRs has now been surpassed by the demand for DVDs and online streaming of content. Sometimes companies can improve a product by implementing changes to the product, such as new ingredients or new services. If the changes are accepted by customers, it can lead to a product moving out of the decline stage and back into the introduction stage.

Exhibit 11.8 Each year Coca-Cola adds new drinks to its product portfolio. While some of these new beverages are close relatives of the original Coca-Cola Classic, others, such as Vitaminwater, constitute entirely new categories of soft drink. *What challenges do new products such as Vitaminwater face during the introduction phase of the product life cycle? (Credit: kobakou/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))*

The Product Life Cycle as a Management Tool

The product life cycle may be used in planning. Marketers who understand the cycle concept are better able to forecast future sales and plan new marketing strategies. **Table 11.5** is a brief summary of strategic needs at various stages of the product life cycle. Marketers must be sure that a product has moved from one stage to the next before changing its marketing strategy. A temporary sales decline should not be interpreted as a sign that the product is dying. Pulling back marketing support can become a self-fulfilling prophecy that brings about the early death of a healthy product.

Strategies for Success at Each Stage of the Product Life Cycle

Category	**Introduction**	**Growth**	**Maturity**	**Decline**
Marketing objectives	Encourage trial, establish distribution	Get triers to repurchase, attract new users	Seek new user or users	Reduce marketing expenses, used to keep loyal users
Product	Establish competitive advantage	Maintain product quality	Modify product	Maintain product
Distribution	Establish distribution network	Solidify distribution relationships	Provide additional incentives to ensure support	Eliminate trade allowances
Promotional	Build brand awareness	Provide information	Reposition product	Eliminate most advertising and sales promotions
Pricing	Set introductory price (skimming or penetration pricing)	Maintain prices	Reduce prices to meet competition	Maintain prices

Table 11.5

11.10 Trends in Developing Products and Pricing

10. What trends are occurring in products and pricing?

As customer expectations increase and competition becomes fiercer, perceptive managers will find innovative strategies to satisfy demanding consumers and establish unique products in the market. Satisfying customers requires the right prices. The internet has delivered pricing power to both buyers and sellers. Another significant trend is the use of one-to-one marketing to create a customized marketing mix for each consumer.

Impact of the Internet on Pricing

The internet, corporate networks, and wireless setups are linking people, machines, and companies around the globe—and connecting sellers and buyers as never before. This link is enabling buyers to quickly and easily compare products and prices, putting them in a better bargaining position. At the same time, the technology enables sellers to collect detailed data about customers' buying habits, preferences, and even spending limits so that they can tailor their products and prices. Amazon, as well as online businesses from traditional retailers such as Walmart, have drastically changed the retail landscape. Amazon's Prime membership, which offers free shipping and other amenities for an annual fee, has also taken market share from traditional low-cost warehouse clubs such as Costco and Sam's Club.

Online price-comparison engines, known as shopbots, are continuing to add new features. ShopSmarter.com now includes coupons and additional retailer discounts in its price results. In the past, consumers had to click deep into a retailer's site to find out about these additional savings. Vendio eCommerce introduced a toolbar that people can download. If a person is on the web page of a particular product—whether it's an iPhone or a Canon digital camera—the toolbar flashes a blinking alert when it finds a lower price for that same item somewhere else. The person can then open a window on the side of the site to learn details of the cheaper price—or simply ignore the alert. BuySAFE introduced a website that lets consumers search among about 1.5 million products that are backed by antifraud guarantees. If a buyer purchases one of the items and the seller fails to deliver, the buyer can get reimbursed for the full cost up to $25,000. Merchants on the site include those that sell on eBay and Overstock.com.

Use of these sites has boomed in the past few years as people have become more reliant on the web both as a research tool and as a place to shop. According to a recent survey, more than 90 percent of consumers have used a smartphone when comparison-shopping in stores. Much of the growth has come from the more-established sites such as Shopify, Bizrate, and NexTag, as well as the shopping sections of Amazon, Microsoft's MSN, and Google. The big attraction with shopping comparison services, of course, is the hunt for a better bargain. Merchants like the sites because they help drive consumer spending. Consumers who use comparison-shopping sites for product information or in-store discount coupons spend more than those who don't.

One-to-One Marketing

One-to-one marketing is creating a unique marketing mix for every consumer. The key to creating one-to-one marketing is a good marketing database. The information contained in a marketing database helps managers know and understand customers, and potential customers, on an individual basis. A **marketing database** is a computerized file of customers' and potential customers' profiles and purchase patterns.

In the 1960s, network television enabled advertisers to "get the same message to everyone simultaneously." Database marketing can get a customized, individual message to everyone simultaneously through direct mail or through the internet. This is why database marketing is sometimes called *micromarketing.* Database marketing can create a computerized form of the old-fashioned relationship that people used to have with the corner grocer, butcher, or baker. "A database is sort of a collective memory," says Richard G. Barlow, president of Frequency Marketing, Inc., a Cincinnati-based consulting firm. "It deals with you in the same personalized way as a mom-and-pop grocery store, where they knew customers by name and stocked what they wanted."

You have also probably heard the term **big data**. Companies such as Facebook and Google can process information and then tailor information to provide marketers with higher-probability targets. For instance, imagine that you and some friends are discussing a spring break vacation and you are searching for possible locations on the Florida gulf coast. That data, along with the social group considering the vacation, can be sold to companies that provide travel services, airline flights, hotel rentals, and the like. Suddenly, you and your friends see travel offers and alternate destinations on your Facebook page. Likewise, imagine you are looking for a mystery novel to read on a long flight. Let's say that you are also searching for ways to remove a rust stain on a favorite sweater. When you go to your Amazon page, you see several new mystery novels as well as cleaning solutions highlighted on your page. All of this was done through the use of big data and analytics to provide consumers solutions they are looking for as well as products that they don't even know that they want. [**Exhibit 11.9**] contrasts the differences in approaches in traditional advertising versus targeted marketing using big data.

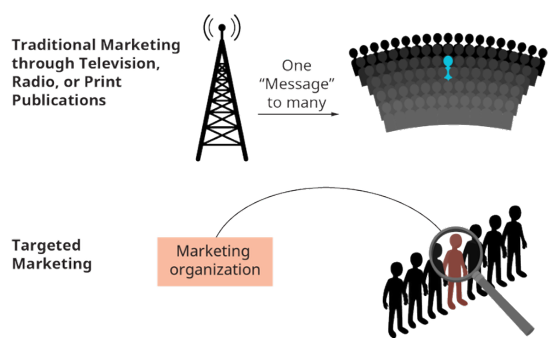

Exhibit 11.9 Traditional Advertising and Targeted Marketing Using Big Data (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

The size of some databases is impressive: Ford Motor Company's is about 50 million names; Kraft General Foods, 30 million; Citicorp, 30 million; and Kimberly Clark, maker of Huggies diapers, 10 million new parents. American Express can pull from its database all cardholders who made purchases at golf pro shops in the past six months, who attended symphony concerts, or who traveled to Europe more than once in the past year, as well as the very few people who did all three.

Companies are using their marketing databases to implement one-to-one marketing. For example, Novartis Seeds, Inc., a Minneapolis-based agriculture business, produces individually customized, full-color brochures for 7,000 farmers. Each piece features products selected by Novartis dealers specifically for the farmer based on information collected about the farm operation and the types of crops grown. Instead of the 30-page catalog Novartis traditionally sent, these customers get a one-page brochure with only the five or six products they need, plus other complementary products dealers feel they should consider.