Recently Published! New 3e has been totally overhauled!

- 3e is expanded: 12 chapters; over 100 pages deeper than 2e.
- Significant expansion of Marketing Management topics.
- 2015 © with fresh examples, including more global and web-based profiles.
- Loaded with colorful photos and illustrations
- 5 format options at reasonable prices!

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- Instructor's Manual
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Dr. Syed H. Akhter is Professor of Marketing at Marquette University. He is a Fulbright scholar and his research interests include globalization, strategic marketing, consumer psychology, and e-marketing. He has published extensively in international business and marketing journals such as Journal of International Business Studies, International Marketing Review, European Journal of Marketing, International Trade Journal, Business Horizons, and Journal of Advertising. He has published two books, Global Marketing and Strategic Marketing and Guest Edited special issues of the Journal of Direct Marketing on International Direct Marketing and a special issue of the Journal of Interactive Marketing on International Interactive Marketing. Dr. Akhter has won the Excellence in Executive Education Award in the EMBA program at Marquette University.

Features of 3e:

- Takes an integrated approach to strategic marketing management
- Covers key strategic marketing management concepts
- Provides a comprehensive view of strategy, strategy development, and strategy execution
- Discusses examples of companies from different countries to reflect developments in the global economy
- Illustrates strategic marketing management concepts with examples
- With more examples in each chapter to illustrate the usefulness of concepts and theories
- Incorporates Internet-related exercises for class discussions and learning enhancement
- More up-to-date data in tables on firm, industry, and country

Sampling of schools that have used Akhter: Temple University, University of Minnesota, University of Cincinnati, Clemson University, Purdue University, Baruch College, University of Mary Hardin-Baylor, Brooklyn College of the City University of New York, New River Community College, Emporia State University, Chaminade University of Honolulu, Oklahoma City University, University of Nebraska at Omaha, Marist College, Mary Baldwin College, Oakland University, Augustana College, California State University, San Francisco State University, University of Sioux Falls, Springfield College, Red River College, George Fox University, Dakota State University, Shorter College, Columbia University

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The consumer, so it is said, is the king ... each is a voter who uses his money as votes to get the things done that he wants done.

--Paul A. Samuelson, Nobel Laureate
Learning Objectives

- Learn the significance of understanding consumers for developing marketing strategies.
- Understand the methods and procedures for conducting consumer analysis.
- Evaluate the consumer buying decision process.
- Understand the development and use of consumer profiles.
- Examine the influence of demand drivers on consumer behavior.

The former chairman and CEO of PepsiCo, Steven S. Reinemund, observed that “Innovation is what consumers are looking for, particularly in the small, routine things of their life.” He credits his company’s double-digit earnings growth to its constant quest for change. Pepsi’s focus on innovation and its ability to understand and respond to changing consumer tastes results in more than 200 product variations yearly. In 2001 it purchased SoBe Beverages for $370 million to capitalize on the growing New Age herbal beverage market. Then it extended the line by introducing SoBe No Fear, SoBe Synergy, and SoBe Fuerte. The Frito Lay division of PepsiCo targeted health-conscious consumers by developing low-fat chips, removing all trans fats from its brands, introducing an organic and natural line, and rolling out low-carb Doritos, Cheetos, and Tostitos. In Canada, Frito Lay sells Tastes of Canada chips in pizza or sea salt and pepper flavors. And for its U.S. foreign-born Hispanic market, it brought in the popular brand from its Mexican subsidiary, Sabritas. PepsiCo defines its mission as serving consumers and giving them what they want. Indra Nooyi, the current CEO, carries on the consumer-oriented tradition, to meet the diverse needs of consumers, with new and innovative products in different market segments.

Lay’s Tastes of Canada line caters to a particular market segment.
In chapter 2, we saw that customer orientation, one of the three elements of market orientation, highlights the importance of aligning marketing strategies with customer needs and wants. Customers are the nucleus around which firms need to develop their value offerings. In a customer-centric firm, strategic marketing decisions are tailored to satisfy needs and wants of customers, both innovatively and profitably. From a competitive perspective, several developments, such as the focus on improving marketing productivity, increasing market diversity, and advances in technology, are propelling firms to gain a deeper understanding of their customers:

- **Focus on improving marketing productivity:** As different functional areas, such as logistics, finance, accounting, and information technology, have achieved significant gains in overall productivity and contributed to improving performance, the spotlight has now turned to marketing. Marketing managers now have to demonstrate how resources spent on marketing activities help improve key marketing metrics, such as consumer loyalty, consumer satisfaction, and brand equity, and how this improvement affects the profitability of the firm.

- **Increasing market diversity:** For marketing managers, the challenge of meeting the diverse needs and wants of consumers has come to the forefront. Consumers are not homogeneous. Their demographics are different and so are their values and lifestyles. These differences influence pre-purchase and purchase behaviors and consumption habits. As market diversity is increasing, marketing managers need to understand these differences to tailor their value offerings.

- **Advances in technology:** Developments in communication and transportation technologies are having a significant impact on how consumers go through the purchasing process. They can now search for product-related information (price, availability, reviews, etc.) on the Internet, make decisions to buy online from the comfort of their home, and have the products delivered directly to the preferred location. Marketers therefore need to understand how advances in technology are changing consumer behavior.

There is a strong connection between how well managers know and understand their customers and what they are able to achieve in the marketplace. Although businesses can improve their competitive positions by adopting the customer-centric approach, the reality is that most firms are not customer but product-centric, that is, they focus mostly on selling products and being transaction oriented (see chapter 2 for the discussion on product orientation). While becoming customer-centric helps firms achieve many advantages, the path to its adoption is filled with challenges and hurdles. These challenges and hurdles relate to organizational culture, organizational structure, processes, and marketing and financial metrics.
· **Organizational culture:** Organizational culture can either impede or facilitate the adoption of a customer-centric approach. When cultural norms (shared beliefs about appropriate or expected behavior) in an organization are such that people do not share customer-related information, do not consider marketing costs to be an investment, and do not think that increasing customer loyalty would translate into greater profitability, it becomes difficult to transform an organization into a customer-centric organization.

· **Organizational structure:** The structure of an organization determines to a great extent how business and marketing activities are conducted. A structure that is organized around product categories may not be very conducive to developing a customer-centric approach to decision making, as each product manager would see his or her task as increasing sales and thus may push products to customers without understanding their needs. Such an approach also will not be viewed favorably by customers. The maximization of each manager’s goal would not result in the maximization of the firm’s goal.

· **Processes:** Firms succeed when they can acquire and retain customers. The process of achieving these two key tasks requires cross-functional coordination. A firm lacking in such coordination may find it challenging to become customer-centric. A singularity of purpose -- acquiring and retaining customers -- towards which all departments should work together is needed. Another challenge the firm faces is the development of capability to meet customers’ expectations with the right product offerings. The better a firm is able to understand customers the better it will be able to offer products that meet their expectations.

· **Marketing and financial metrics:** In many firms, the achievement of market share is emphasized at the expense of achieving other customer-centered metrics. Undue emphasis on market share becomes an impediment for becoming customer-centric. Marketing metrics that are more conducive to customer-centricity include share of customer wallet, customer equity, customer satisfaction, and customer loyalty. These metrics need to be linked with financial outcomes. Thus, for example, while it is important for a firm to increase customer satisfaction, it is more important for the firm to know whether increased satisfaction translates into profitability and by how much.

**3-1 Who Is a Customer?**

There are two types of customers. The first type includes the B2B (Business to Business) customers. These are businesses that buy components and/or finished products from other businesses, such as manufacturers buying parts and components from suppliers to produce the finished products; or wholesalers buying from manufacturers to resell to retailers, or retailers buying from manufacturers or wholesalers to resell to customers. The second
type includes the B2C (Business to Consumer) customers. These are the end consumers, people who buy products and services directly from either retailers or from direct merchants for consumption. In this chapter, we focus on consumers, the end users, and cover issues related to consumer analysis, consumer decision making, consumer profile, and consumer demand drivers.

### 3-2 Consumer Analysis

Firms need to maximize consumer value. We have seen the importance of viewing the exchange process from the consumers’ perspective to achieve a competitive advantage. The underlying idea of **consumer orientation** is a major contribution of marketing to strategic thinking. This orientation places consumers at the center of strategic decision making. The importance of understanding consumers stems from the fact that they are the final arbiter of the success or failure of a firm. It is their decisions, in the final analysis, that affect the performance of firms in a market economy. Apple is successful because consumers prefer to buy its products. General Motors got in trouble because people began switching to competing brands.

Managers know that consumers can be persuaded, but not forced, to buy products. This is the hallmark of a market-based economy. Therefore, to achieve success, firms need to know the characteristics and expectations of consumers as well as understand how these characteristics and expectations influence pre-purchase, purchase, and post-purchase behaviors. Successful managers see the world from the vantage point of consumers. Consumer analysis gives the firm this vantage point for developing the value proposition—the reasons for buying the firm’s products.

**Consumer analysis** focuses on understanding what, why, where, when, and how consumers buy and consume. A deep understanding of these questions is required as it lays the foundation for crafting the marketing mix strategies with the goal of creating a good fit between the needs and wants of consumers and the value offerings of the firm. The broader goal of consumer analysis is to identify market opportunities that the firm can profitably exploit, given its resources and competencies, and which can favorably affect its competitive position in the marketplace. Consider the following example to see how one company in India analyzed consumers’ behaviors and launched a successful product.

India is a large and diverse country with a population of 1.2 billion people. About 70 percent of Indians live in villages, and a majority of them do not own or have access to a refrigerator. And due to low income, they are also not considered a viable market for traditional refrigerators. Gopalan Sunderraman, Executive Vice President of Godrej & Boyce Manufacturing, decided to look into the situation and, with a team of associates, he led trips around rural India to find out how villagers lived, what they bought, what they consumed, and how they stored their foods and drinks. What his team discovered was that the villagers went to the market every...
day and therefore needed an affordable way to store foods and drinks for a day or two. They also found that a lot of food was wasted due to the lack of access to refrigeration.

Based on the above findings, the company developed and launched Chutokool, an inexpensive top-opening refrigerator, 1.5 feet by 2 feet in size (46 by 61 centimeters) and with a capacity of 1.6 gallons (6 liters). The refrigerator uses a thermoelectric chip that maintains a cool temperature on a 12-volt battery. Chutokool was designed to meet the specific needs of the villagers and was priced under $70. To distribute the product, the company worked with India Post, a logistics company with an extensive network of suppliers. To present the value proposition to the target market, Godrej relied on word-of-mouth advertising. The product launch was successful; in 2012 Chutokool was awarded the Edison Award Gold prize in the Social Impact category, and BusinessWeek and Fast Company named Godrej as one of the world’s most innovative companies.

Managers can follow a three-pronged approach to conduct consumer analysis. First, they need to examine the demographic, psychological, and psychographic characteristics of consumers. The analysis of all three characteristics is essential to understand consumer behavior. People with the same demographics can be cognitively and behaviorally different. Therefore, the analysis of demographics alone would not be sufficient to understand their behavior. Furthermore, although psychological and psychographic analysis may yield deep insights into consumer behavior, the findings have to be linked with demographic data so that firms can identify and reach the target market. Second, managers need to understand the different stages of the purchasing decision process. Consumers go through a series of steps before they come to a purchase decision. The knowledge of these steps is essential for understanding consumer motivations, expectations, and perceptions. Third, managers can analyze internal transactional data to detect behavioral patterns and develop consumer profiles. Based on these profiles, managers can allocate resources among the different market segments to meet consumers’ needs effectively. In the following sections, we cover the details of the three-pronged approach to consumer analysis.

3-3 Demography

Demographics, such as gender, age, education, and income, are closely studied by managers because they affect pre-purchase, purchase, and post-purchase behaviors of consumers. The study of demographics, known as the vital statistics of a population, usually serves as a stepping stone to a more complex analysis of consumer behaviors and consumer segments. Comprehensive demographic data, collected mostly by governmental agencies, are widely available in most of the developed and developing economies of the world. In the U.S., for example, the U.S. Census Bureau provides an exten-
sive amount of demographic data that managers can use for making marketing decisions.

**Gender:** Does gender play a role in consumption-related behaviors? That is, do men and women differ in pre-purchase, purchase, and post-purchase behaviors? This is an important question for marketers because the answer will influence how they interact with customers to elicit favorable responses. The impact of gender on consumer behaviors has been extensively examined in marketing literature. Some studies show that gender influences pre-purchase behaviors. For example, women are significantly more likely than men to seek a second opinion before buying products such as eyeglasses, foods, cars, and nonprescription drugs, and services such as airfares, checking accounts, and long-distance phone service. Compared to men, women are also more likely to seek out financial advisors based on recommendations made by friends and relatives and to first build trust relationships with advisors before using the service. Differences also exist in purchasing behavior. For example, women are motivated by non-economic goals more than men and also show a lower preference for risk taking than men.

Gender-related data on online shopping behavior show mixed results. Some studies show that men are more likely to use the Internet for purchasing activities, some show that women are more likely to buy on the Internet, and some show that there are no differences. Thus, gender does not appear to be a reliable predictor of online shopping. What is the explanation? The appeal of the Internet is that it is a convenient and efficient platform for shopping. You can buy products from the comfort of your home or from any place where you have access to the Internet. You can also save time when you buy on the Internet. These characteristics have similar appeals for both men and women, increasing for both the likelihood to shop on the Internet. Furthermore, as the adoption rate of the Internet among women has increased in the recent past, gender-related differences in online buying behavior have diminished.

In addition, the gender-related changes that have occurred in recent years have also changed behaviors of both men and women. In many of the developed economies, as more and more women have entered the workforce, their roles as the primary shopper in the household have changed. In the U.S., for example, men in a traditional, married household now actively participate in shopping. Christopher Camps, marketing director for This Old House Ventures, the producer of TV shows and magazines, notes that there has been a democratization of the household and a blurring of traditional roles.

**Age:** In the United States, two major age-related shifts have occurred. First, life expectancy of Americans has increased, for men from 74.3 in 2000 to 76.2 in
2010 and for women from 79.7 to 81.1 in the same period. Second, there has been a change in the percentage of people in different age brackets. From 2000 to 2012, the percentage of people under five years of age and between five and 14 declined; whereas, the percentage of people between 60 to 74, and over 75 increased (see Figure 3-1). The biggest change occurred in the percentage of people who were 45 years of age and above. This group increased from 34.4 percent in 2000 to 40.2 percent in 2012. This is a significant increase, as it suggests the aging of the U.S. population. The aging of the population is reflected in the median age of the population. In 2000 the median age was 35.3, meaning that half of the population in the U.S. was under 35.3 and half over 35.3 years of age. In 2010, the median age increased to 37.4.

Age has a significant impact on what people buy and consume. The products that babies need are quite different from those that young adults want. For a small baby, pureed food, diapers, and bibs are the typical consumption items, whereas for young adults they are smartphones, fragrances, and fashion goods. Furthermore, the type of products that people buy also differs by age. A twenty year old will most likely prefer energy drinks such as Red Bull or Monster, whereas a sixty something might prefer herbal teas. Managers therefore need to examine the changes in the distribution of age, as they indicate the market potential for different types of products. Let’s look at some of the changes in three major groups of people (older adults, young adults, and children) and see how firms have responded to these changes.

**Figure 3-1: Age of U.S. Residents as a Percent of Total Population**

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<th>Age Group</th>
<th>2000%</th>
<th>2012%</th>
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<td>Under 5</td>
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<td>6.3</td>
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<td>5 to 14</td>
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<td>15 to 24</td>
<td>13.9</td>
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<td>25 to 44</td>
<td>30.2</td>
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<td>45 to 59</td>
<td>18.2</td>
<td>20.7</td>
</tr>
<tr>
<td>60 to 74</td>
<td>10.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Over 75</td>
<td>5.9</td>
<td>6.2</td>
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</tbody>
</table>

Source: US Census Bureau (see endnotes)
The aging population in the U.S. is affecting demand for pharmaceuticals, medical equipment, food products, insurance, travel, housekeeping, and entertainment. Firms are taking steps to meet these emerging opportunities. Hilton, for example, gives travelers, 60 years and older, 25 percent to 50 percent discounts on room rates and dining, and Southwest Airlines offers less restricted fares. People between 50 and 64 now have an active lifestyle. They also have income to back their demand for new products and services. Now known as “zoomers,” this group has attracted marketers’ attention. Sony, for example, targets them for camcorders and digital cameras; Ford plans to sell them a sedan with a trunk that holds eight golf bags; Anheuser-Busch targets the group with a new low-carb beer “Michelob Ultra;” and P&G has identified 30 existing products to target to this group.

The young-adult markets have also gone through a transformation because of the changing attitudes and technological developments. The young are now more conscious of product quality and show preference for products that fulfill a genuine need. Their media habits have also changed. Media fragmentation and the increasing use of TiVo and other devices like it allow them to skip advertisements, making it difficult for mass marketers to reach them through ads placed during prime time. Coke recognized these new realities and changed its promotional strategies. In Chicago and Los Angeles, at the Coke Red Lounges in malls, teens can listen to music, watch movies, play videogames, and buy Coke. In Britain, at the MyCokeMusic.com website, surfers can download over 250,000 songs, mix their own music tracks, and post them for peer review. In Spain, Coke’s website lets young surfers design their own virtual apartment. In the Venezuelan version of “Who Wants to Be a Millionaire,” players must answer Coke trivia questions as part of the show’s content and be part of the actual TV program. And, in the U.S., rather than buying a 30-second advertising spot, Coke paid over $20 million to get the red Coke cups on the desks of the judges of Fox Network’s “American Idol” and to have its green room changed to the Coke Red Room.

Children’s markets have also changed in advanced economies. There is a strong correlation between income and the number of children. When income increases people tend to have fewer children. In high-income countries, such as the U.S and Japan, the birth rate is lower than in low-income countries such as India. In the U.S., for example, the percentage of children under 5 years of age declined from 6.8 percent in 2000 to 6.3 percent in 2012. In China, however, although per capita income is increasing, the expectation is that the birth rate will go up as the country is relaxing the state-mandated one-child policy that was implemented in 1979. While the relaxation of the policy is expected to increase the birth rate at first, it is also ex-
expected that China will soon follow South Korea, Hong Kong, Malaysia, Singapore, and Thailand, where the birth rates declined as income increased.

Managers understand that today’s children are tomorrow’s adult consumers. There is thus a strong incentive to develop brand loyalty among children for foods, beverages, personal care items, and clothing. These are the products that they will keep on consuming throughout their lives. In the children’s wear industry, for example, private label companies have entered the market and increased the number of lifestyle brands. Sam Schwab, CEO of S. Schwab Co., maker of Ralph Lauren children’s wear, notes that purchasing decisions in the children’s wear market are being increasingly based on the child’s preference, and children with specific tastes and preferences are becoming younger and younger.

**Education and Income:** Education and income are grouped together because of the high correlation between these two variables. Higher levels of education are generally associated with higher levels of income. Although these two variables are correlated, it is important to note that education does not explain all the variance in income. That is, differences in income are also influenced by factors other than education.

Significant changes in educational levels have occurred in the U.S. In 2009, compared to 2000, a higher percentage of people in the age group of 25 years and older had associate’s degrees, bachelor’s degree, and graduate or professional degrees. On the other hand, in the same age group, the percentage of people with less than ninth grade education or with no diploma declined (see Figure 3-2). Educational attainment in the U.S. increased from 2000 to 2009. With respect to income, a significant change has occurred in the distribution of income from 1990 to 2009. Overall, the percentage of people making more than $100,000 increased from 15 percent in 1990 to 20.1 percent in 2009, and those making between $35,000 and $99,999 declined from 47.9 percent to 43.7 percent in the same period (see Figure 3-2). This is sometimes referred to as the shrinking of the middle class.

Education affects different facets of a consumer’s life, from information acquisition to product evaluation to product consumption. Educated consumers are able to access product-related information from different sources and are also more likely to engage in extended search. They also show higher levels of self-confidence and are generally well informed about the products and services they buy. More educated people are also more likely to frequent symphonies, art museums, and live theaters, whereas less educated people are more likely to watch television and sports for entertainment.
Income determines not only what consumers buy, but also when they buy, where they buy, and how much they buy. Income determines whether consumers can buy durables such as cars, houses, and stereos, or acquire services such as lawn care, plastic surgery, and therapy, or whether they shop at Wal-Mart or at Nordstrom, or eat at home or at restaurants. Consider how Proctor & Gamble (P&G) introduced a new line of skin-care products targeted to well-heeled baby boomers willing to pay $130 for a five-ounce jar of facial treatment essence. The SK-11 line, the most expensive products in the P&G product mix, was not sold at Wal-Mart, Target, or Walgreen’s, the traditional retail outlets for P&G, but at Saks Fifth Avenue department stores, where L’Oreal and Estee Lauder have a strong presence. P&G entered Saks stores to gain access to high-income consumers with preference for such high-end products.

High-income people become attractive segments for higher-priced shopping and luxury goods. While firms are tapping into these opportunities, they are also finding that declining income of some segments of the middle class is affecting purchasing behavior. Managers had long believed that basic consumer goods were more or less recession-proof and that consumers would not change buying habits to save money on these daily necessities. This assumption has turned out to be incorrect. The recent recession changed people’s shopping habits. P&G and Unilever, two global consumer-goods giants, experienced plummeting profits as consumers began to shop less, buy smaller packs, make do without essentials such as air fresheners and hair conditioners, and scour the Internet for deals. When asked for the reason, consumers noted that they had changed their behavior due to the economic

![Figure 3-2: U.S. Educational Attainment as a Percent of Total Population, 25 Years of Age and Older](chart.png)

Source: US Census Bureau (see endnotes)
downturn. The question for these established corporations is how to bring back these consumers who, having switched to the lower-priced private labels, now think that they are as good as name brands.

Consider another example of how income affects buying behavior. Wal-Mart has successfully attracted low- and middle-income customers to its stores by offering everyday low prices. At its 3,700-plus U.S stores, its revenue was $258.2 billion in 2009. However, in the recent recession, as cash-strapped Americans looked for greater value and bargains, Wal-Mart lost customers to its rivals, the so-called dollar store chains, such as Dollar General, Family Dollar Stores, and Dollar Tree. Together, these three have 19,500 outlets, where they now carry name brands and give more space to food, health and beauty aids, and paper products. With these offerings they have become a new generation of convenience stores.

Figure 3-3: U.S. Household Income Distribution as a Percent of Total Population


3-4 Psychology

The goal of satisfying consumer needs is integral to strategic marketing management. Therefore, marketers need to know what these needs are and how they can be best satisfied. Abraham Maslow, a clinical psychologist, developed a framework for organizing different types of needs into a hierarchy. He identified five levels of needs: physiological, safety and security, social, ego, and self-actualization (see Figure 3-4). The lower-level needs are known as biogenic needs and higher-level needs are known as psychogenic needs. In the needs hierarchy, consumers satisfy lower-level needs first before moving up to the higher-level needs, as shown in Figure 3-4.
Physiological needs are the basic needs, such as the need for food, water, air, sex, shelter, and clothing. People need to satisfy these needs for survival and development. When left unsatisfied, these needs demand attention. To a hungry man, the most pressing concern is the acquisition of food, to a thirsty man the acquisition of water. The next level of needs is safety and security. After the physiological needs are satisfied, safety and security needs become dominant. Safety and security needs are not only physical but also mental. People should feel not only physically but also mentally safe and secure. Safety and security needs are followed by social needs, which include love, affection, and acceptance. The satisfaction of these needs requires the involvement of other people. For example, love has to be reciprocated, affection has to be shared, and acceptance has to be demonstrated. Ego needs are the fourth level of needs. These needs make the “self” dominant, what one does for oneself in comparison to others. Ego needs are followed by self-actualization needs, which focus on the potential of a person. As Maslow says, “what a man can be, he must be.”

Maslow’s hierarchy of needs is a popular framework among marketers for understanding and categorizing consumer needs. The framework’s popularity comes from its intuitive appeal and simplicity. In dividing all the different needs into the five levels, it attempts to capture the complexity and diversity of human needs and also show the progression of actions to satisfy these needs. Although the hierarchy is used widely, it is important to note that Maslow did not develop it
for marketing purposes. His goal was to understand human motivation. It is important to note that the hierarchy is culturally grounded and is more applicable to Western societies than to Asian cultures, where the desire for social belongingness may take precedence over satisfying individuals’ esteem needs. Therefore, the hierarchy should be used cautiously in the global market.

Although consumers in general move up from the lower-level needs to the higher-level needs, a few points about this movement are worth noting. First, people do not satisfy lower-level needs completely before moving up to the next higher-level needs. Social needs, for example, can become pressing before physiological needs have been fully satisfied. Second, people can satisfy their needs in different ways. For some, the satisfaction of social needs may involve going on a cruise, for others it may involve buying a fully loaded stereo system. Third, people can satisfy different needs simultaneously. That is, they can satisfy safety needs and ego needs simultaneously by buying a luxury car with reliable safety features. And fourth, people do not have to satisfy needs linearly. For example, they can go directly from social needs to self-actualization needs and skip the ego needs.

What can marketers do with the needs hierarchy? The strategy for marketers is to identify the needs that their products can satisfy and to link these products with the satisfaction of these needs. Products perform both functional and symbolic roles and in these roles they satisfy different types of needs. Take the case of cars. Functionally, the role of a car is simple. It transports people from one place to another. This functional role is common to all cars, regardless of their price, make, or design. However, cars also assume symbolic roles. When people buy cars, the motives extend beyond the satisfaction of utilitarian needs. They buy cars not just to be able to go from one place to another, but also to satisfy different types of needs, such as prestige, status, or affiliation. By understanding the composition of needs at the different levels of the hierarchy, marketers can select the levels at which they want to position their brands. For example, marketers have successfully linked Gucci bags, BMW cars, and Rolex watches with higher-level needs such as status, esteem, and prestige.

Marketers link brands with specific consumer needs and hope that they become inextricable. Marketing strategies are geared toward communicating this linkage and establishing and maintaining the linkage in consumers’ minds. The goal of the strategy is to position the brand in consumers’ minds in such a way that when, for example, they have a need to project prestige or status, they should think of satisfying the need by using the company’s brands. This is one of the reasons why consumers spend enormous amounts of money to buy designer clothes or hand-crafted watches. The more entrenched these linkages are in consumers’ minds, the more successful the company is in the marketplace.
3-4 Psychographics

Psychographics is defined as “patterns in which people live and spend time and money, reflecting a person’s activities, interests, and opinions, as well as demographic variables.” Psychographics combines demographic data and psychological characteristics of consumers into different lifestyle segments to gain a better understanding of how they live, the type of products they purchase, and why they purchase them. The knowledge of what things consumers do and when and how they do them; what their interests and preferences are; and how they view themselves and the world is essential for making effective marketing decisions. Psychographic research is considered especially useful in obtaining lifestyle data on specific consumer segments.

Lifestyle changes occur slowly and are reflected in what consumers wear, what they eat, where they live, what they drive, how they work, and how they entertain. Managers who are able to recognize these changes early can take proactive decisions to target new segments, develop new products, and stay ahead of competition. In recent years, health consciousness among Americans has been increasing, and for many of them the preferred breakfast now is yogurt, not cereals. Among these consumers, the popular yogurt is the Greek variety with high protein and low fat content. Some of the popular brands marketed by small dairy makers are Chobani, Oikos, and Fage (pronounced fa-yeh). Now Kraft and General Mills, two food giants, have also launched their own brands to win the early fans of Greek yogurt from small dairy makers. Furthermore, the trend towards healthy lifestyles is also making consumers concerned about the health effects of aspartame and other artificial sweeteners used in carbonated soft drinks. This concern has led to a decreasing demand for diet beverages such as Diet Coke and Diet Pepsi.

A popular and commercially available classification of consumers is the VALS™ (values and lifestyle) framework developed by SRI Consulting Business Intelligence, now known as Strategic Business Insights. The basic premise of the VALS™ framework is that psychological traits explain and predict consumer behavior and that people express their personalities through their behaviors. VALS™ divide consumers into eight groups: innovators, thinkers, achievers, experiencers, believers, strivers, makers, and survivors. The defining characteristics of each group are given below:

- **Innovators:** Successful, sophisticated, take-charge people with high self-esteem. They are change leaders, receptive to new ideas and technologies, and active consumers. They reflect cultivated tastes for upscale, niche products and services.

- **Thinkers:** Mature, satisfied, comfortable, and reflective people. They value order, knowledge, and responsibility. They are well-educated and actively seek
out information in the decision-making process. They favor durability, functionality, and value in products.

- **Achievers:** Goal-oriented with a deep commitment to career and family. They avoid situations that encourage a high degree of stimulation or change. They prefer premium products that demonstrate success to their peers.

- **Experiencers:** Appreciate the unconventional. They are active and impulsive, seeking stimulation from the new, offbeat, and risky. They spend a comparatively high proportion of their income on fashion, socializing, and entertainment.

- **Believers:** Strongly traditional and respect rules and authority. Fundamentally conservative, slow to change and technology averse. They choose familiar products and established brands.

- **Strivers:** Trendy and fun loving. They have little discretionary income and tend to have narrow interests. They favor stylish products that emulate the purchases of people with greater material wealth.

- **Makers:** Value practicality and self-sufficiency. They choose hands-on constructive activities and spend leisure time with family and close friends. They prefer value to luxury, buy basic products, and prefer “buy American.”

- **Survivors:** Narrowly focused lives. Have the fewest resources and primarily concerned with safety and security. Tend to be brand loyal and buy discounted merchandise.

The VALS™ classifications, when combined with demographic data, can help managers make decisions about new product development, brand differentiation, customer retention, and target market selection. A Minnesota medical center used VALS™ to identify consumers who would be a good target market for a new line of service in cosmetic surgery. By understanding the motivations of these consumers, the center was able to put together an attractive package of service and develop a compelling sales proposition.

### 3-5 Consumer Purchasing Decision Model

Purchasing decisions are the outcomes of a process. Marketing scholars have made significant advances in understanding the process that consumers go through to arrive at a purchase decision. This knowledge is essential for marketers to craft strategies that are tailored to the process and are effective and profitable. The different stages in the purchasing decision process are problem recognition, information search, alternatives analysis, purchase behavior, and post-purchase behavior. This five-step process applies not only to the purchase of products and services, but also to the selection of retail outlets or other vendors. The five-step process covers the pre-purchase, purchase, and post-purchase behaviors of consumers (see Figure 3-5).
The time that consumers spend at each step of the process is influenced by the type of purchase decisions they are making, that is, whether the decisions involve low involvement or high involvement purchase decisions. In the **low involvement decisions**, consumers do not spend a lot of energy or time in going through the different steps of the buying process, but arrive at the decision rather quickly. Decisions for buying convenience products such as milk or toothpaste or tennis balls belong to this category. In the **high involvement decisions**, consumers go through each step rather diligently, spending a considerable amount of time and energy before reaching a decision. Decisions for buying products such as cars or houses or a wedding dress belong to this category.

**Problem Recognition:** People become aware of a problem when there is a discrepancy between their current state and the desired state. Internal stimuli such as hunger or thirst can make one aware of a problem by creating a desire to move from the current state (hungry/thirsty) to the desired state (not hungry/not thirsty). Problem recognition can also arise from external stimuli such as advertisements. Watching an advertisement for pizza during a football game can create a desire for pizza. In addition to internal and external stimuli, socialization is another source of problem recognition. When people interact with family members, friends, and colleagues, they draw comparisons that can lead to problem recognition. For example, not having a digital TV in one’s home can be seen as a problem if all close friends have one in theirs.

**Information Search:** Problem recognition sets in motion the search for information to solve the problem, the second stage of the purchasing process. A person who is hungry, for example, needs to know how his or her hunger can be satisfied. Information search in this case can begin with a recollection of what is available in the house or where one can go to get food. For many purchases, especially high involvement products, the search for information in the memory bank is generally not sufficient to solve the purchase problem. Consumers, therefore, seek information from external sources. These include sources such as friends and relatives, public and private agencies, businesses, salespeople, trade publications, and the Internet. Information search, thus, encompasses two interrelated sources of infor-
information—internal and external. For someone interested in buying a high-definition TV, the internal search for information might reveal that a friend who has recently bought the TV might be a valuable source of information.

**Alternatives Analysis:** Consumers can satisfy a specific need with different products and with different brands of each product. The shaving need can be satisfied either by a regular blade razor or an electric razor. And, within each product category, there are different brands that can meet the need. Thus, in alternatives analysis, consumers make two important decisions, the selection of the criteria for evaluating the different products and the selection of a specific brand within the selected product category. Some of the brands available in the market in the selected product category may be known to consumers while others may be unknown. And, within the known group itself, some brands may be considered acceptable and others unacceptable. The brands that are acceptable are known as the evoked set or the consideration set, and the brands that are unacceptable are known as the inept set. Consumers make a selection from the evoked set, which generally consists of a small number of brands.

In alternatives analysis, consumers weigh the benefits to be received against the costs incurred in acquiring and using the brand. The benefits reside in the physical features and symbolic characteristics of the brand. Consumers can evaluate these features because they are relatively easy to measure and thus comparable across different brands. In the case of a personal computer, the physical features may include memory capacity, performance, speed, size, handling, durability, and warranty. In contrast, symbolic characteristics are generally difficult to evaluate as they include things such as prestige, design, and style. Although symbolic characteristic cannot be easily measured, they play a key role in brand evaluation and selection.

Consumers also consider different types of costs in evaluating brands. These include financial costs, psychological costs, and social costs. Financial cost is the money paid for obtaining the brand. Financial cost can be a one-time expenditure or it can involve a series of payments stretched over a period of time, as when buying something on installments. Psychological costs are the uncertainties associated with the purchase decision. Consumers do not know how they will feel after they have made the purchase. This uncertainty creates psychological costs for consumers. Social costs are associated with the reactions of others to the purchase made. The reactions can be positive or negative or neutral. Consumers evaluate the different types of costs against the expected benefits. The trade-offs between benefits and costs influence the selection of a brand.
From a marketing perspective, the key to managing the alternatives analysis stage of the purchasing decision process is to realize that if the firm’s brand is not in the consideration set, it will most likely be not the brand that the consumer purchases. The number of brands that consumers have in the consideration set is usually just a few, and marketers need to manage this stage of the purchasing process by addressing the following questions:

1. How can a firm make sure that its brand is among those being considered for purchase by the customer?
2. How can the firm ensure that, for as many people as possible, there are as few competing brands as possible in the consideration set?
3. Which other brands are in the consideration set, and how does the firm make sure that its brand is the one chosen for purchase from among those?

**Purchase Decision:** A brand that provides a higher value to consumers will have a higher probability of being purchased. Marketing strategies are designed to increase this perceived value to motivate a purchase. Value is reflected in the ratio of benefits that consumers derive from the use of the brand and the costs they incur to acquire and use the brand. The choice of a specific brand reflects the outcome of trade-offs between benefits and costs. A firm’s goal is thus to influence this trade-offs to make sure that consumers purchase its brand.

What can firms do to influence the purchase decision? Dawar suggests the following as answers to the three above questions: First, the firm can convince the target market to use the cutoff criteria that favor its brands. Second, it can add features to its brands that competitors cannot easily replicate and that consumers will use to eliminate alternatives from their consideration set. Third, by understanding the trade-offs (benefits and costs) that consumers make in selecting a brand, the firm can influence the decision by increasing the relative importance of attributes associated with its brand and the perceived value of its brands on these attributes.

**Post-purchase Behavior:** Satisfaction is an evaluative judgment about the performance of a brand. When consumers buy a specific brand they build certain expectations about its performance. These expectations are matched against the performance of the brand. When performance matches expectations, consumers’ feelings are neutral; when performance exceeds expectations, positive disconfirmation of expectations results, leading to satisfaction; and when performance is below expectations, negative disconfirmation of expectations results, leading to dissatisfaction. A marketer’s goal is to increase consumer satisfaction, because satisfaction promotes loyalty and generates profitability, whereas dissatisfaction may encourage negative word-of-mouth advertising.
3-6 Consumer Profile

Consumer profile is a description of consumers in a specific product-market segment. The profile covers demographic and psychographic characteristics of consumers related to specific behaviors. For example, a firm may have two profiles of consumers, those who buy frequently versus those who buy infrequently. A valuable source of data for developing consumer profiles is the transactions data in the company. Realizing the significance of consumer profiling for strategic marketing, firms have begun to develop databases on customer behaviors. Recent technological developments have facilitated the task of data collection, storage, processing, and dissemination. The data are collected at different locations in the company and in different departments such as the sales department, service department, and the billing department. The process, known as data warehousing, is centralized in many firms. These internal data can answer many critical questions that are necessary for developing consumer profiles. The questions are as follows:

- Who are the customers?
- What are their characteristics?
- What do they buy?
- How do they buy?
- When do they buy?
- How frequently do they buy?
- How much do they buy?
- Why do they buy?

Marketers analyze and interpret the data to understand their customers. The search for discernible patterns and meanings in these data sets is known as data mining. Different data mining procedures can be employed to develop consumer profiles and to understand consumer behavior. Marketers can employ the technique of associations to determine the different types of products that customers buy. A catalog merchant, for example, may find that people who buy shoes are also more likely to buy belts and vice versa. Thus, consumers who order only one product, say, shoes, can also be targeted for belts. The underlying logic is that these consumers will be more likely to buy belts because they have already bought shoes. The other method marketers can employ to detect patterns is to examine the purchase chronology. Purchase chronology reveals the intervals at which customers buy specific products. Data may show that some customers buy the same product at different time intervals. These customers can then be sent promotional materials at appropriate times to encourage repeat purchases.

Firms use transactional data to also understand which group of consumers contributes most to the profitability of the company. Consider the case of Best Buy, the largest retailer of consumer electronics. It examined transactional and de-
mographics data of its customers and divided them into two categories, the good (angels) and the bad (devils). The angels bought high-definition televisions, portable electronics, and newly released DVDs at the regular prices, boosting Best Buy’s profits. The devils, on the other hand, bought products with rebates, returned their purchases, and then bought them back at returned-merchandise discounts. The devils also loaded up on “loss leaders” and then unloaded them on eBay at a profit. Best Buy’s angels fell into five distinct groups: upper-income men, suburban mothers, small-business owners, young family men, and technology enthusiasts. To attract these customers, Best Buy stocks merchandise that these customers buy and provides them with more appealing service. And to deter the devils, it is cutting back on promotions and sales tactics and removing them from marketing lists. It is also enforcing a stocking fee of 15 percent of the purchase price on returned merchandise. The challenge for Best Buy is to deter the devils without losing the angels.

3-7 Demand Drivers and Consumer Behavior

Demand for products occurs at different points along the value chain. Consumers buy products from retailers; retailers buy from either wholesalers or manufacturers; wholesalers buy from manufacturers; and manufacturers buy raw materials and components from suppliers to turn them into finished products that they sell to wholesalers and/or retailers. Demand drivers refer to the developments that affect what consumers buy, where they buy, why they buy, and how they buy. From a strategic marketing management perspective, managers need to know what the drivers are that influence demand for products and service. We will discuss next two of the major consumer-related demand drivers: consumer expectations and information revolution.

**Demand Drivers:** refer to the developments that affect what consumers buy, where they buy, why they buy, and how they buy.

**Consumer Expectations:** Consumer expectations about product performance play a critical role in the purchase decision, post-purchase evaluation, and satisfaction. When consumers buy a product, they form certain expectations about its performance. In the post-purchase phase, they match the performance of the product with expectations. The expectation-disconfirmation model shows that consumer satisfaction results from the discrepancy between the expectations of product performance and perceptions (experience) of product performance. When consumers experience positive disconfirmation, the product performs better than expected and satisfaction results. When they experience negative disconfirmation, the product performs worse than expected and dissatisfaction results.

Consumer expectations are influenced by competitive developments, changes in consumer conditions, and the value propositions of the firm. In recent years, a significant shift in consumer expectations has occurred due to competitive developments. In many product markets, increasing competitive intensity has improved the quality of products and increased the number of choices for consumers. As firms compete to be more innovative in satisfying the different levels of the need hierarchy, they raise consumer expectations about product performance and value.
At the consumer level, expectations have changed due to changes in economic conditions and lifestyles. An increase in income, for example, has made consumers more quality and image conscious and moved them towards brands that meet these expectations. Consumers with higher incomes shift their purchases to high-priced items because of the positive association between price and performance. They expect the high-priced items to perform better than the low-priced items. A change in lifestyle also affects expectations. The performance expectations of mountaineering gear would change, for example, when a casual mountaineer turns into an avid mountaineer.

Firms manage consumer expectations by articulating their value propositions. **Value proposition** is the statement of what the firm promises to deliver to its customers. Consumers expect the firm to deliver on its promise. The value proposition of Southwest Airlines, for example, is that it is a low-cost carrier with a minimum of frills. Southwest is able to achieve this through coordinated efforts that include fast turnaround time of aircraft on airport tarmacs, use of a common aircraft model, cost control, and highly motivated employees. Southwest’s marketing strategy has worked for the passengers and the firm. Consumers are happy with their travel experience and the firm reaps the award by being highly profitable. Some of the other examples of value propositions are Lexus’s promise to deliver quality and performance and Dell’s to deliver customized PC systems at a low price. What these firms promise to deliver shapes consumer expectations, which, as we have seen above, influence judgment of product performance and satisfaction with the use of the product.

**Information Revolution:** The role of information is salient in the purchasing decision model. After the problem recognition phase (awareness of a need to be satisfied), consumers begin to search for information about products that can satisfy their needs. Among the different types of information available to consumers, company-sponsored advertisements are the most pervasive. These advertisements appear in different media such as newspapers, television and radio programs, billboards, and the Internet to draw consumers’ attention, provide information, and motivate purchase actions. Information about product quality, performance, and price is also available from private sources and public agencies. These sources play an important role in delivering information that consumers can use for making purchase decisions.

Besides the sources mentioned above, a major development in recent years has been the formation of social networking websites such as the Facebook for sharing information. Members of these groups share information about different
activities including the products they purchased, why they purchased them, how the products performed, and whether or not they were a good deal for the money. Members consider these postings as highly reliable because they are from sources that they trust and correspond with on a regular basis. These different avenues of information have empowered consumers and affected pre-purchase (e.g., information seeking behavior), purchase (e.g., product preference), and post-purchase behaviors (e.g., word-of-mouth advertising).

Firms have begun to recognize the influence of social network media on consumer behavior. Consider the following to see how firms are using social sites. A consumer-products company wanted to know, why do men sport stubble? To find the answer, the company set the condition that the answer had to come from the mining of postings by men on social media sites. NetBase, a social media analytics company, worked on the project. With its software that reads and analyzes 50,000 sentences a minute, the company found 77,000 mentions of stubble, from which it isolated all the positive comments, categorized them into themes, and, in less than an hour, built a chart ranking all the reasons. What it found to be the reason for the stubble was that it was perceived as sexy. While the reason may seem obvious, what is noteworthy about this example is the ability of companies to collect and analyze such massive amounts of data with such speed and depth. Many consumer-products companies, such as Coca-Cola, Kraft Foods, and Proctor & Gamble, are now working with social media analytics companies to learn about consumers, competitors, and environmental trends. The information revolution is having an impact not only on consumer behavior, but also on how firms make decisions.

**Summary**

The need to adopt a customer-centric approach to making strategic marketing decisions is propelled by environmental developments. The adoption of this approach improves a firm’s performance because marketing strategies become effective when they are aligned with customer needs and wants. Firms can follow a three-step process to conduct consumer analysis: determine demographic and psychographic characteristics of their consumers; focus on their purchasing decision process; and develop consumer profiles, detect behavioral patterns, and allocate resources among existing and new market segments based on transactional data.

Consumer demographics, also known as the vital statistics of a population, include factors such as gender, age, education, occupation, and income. Demographic characteristics affect pre-purchase, purchase, and post-purchase behaviors. Marketers also need to understand the needs of consumers. Abraham Maslow, a clinical psychologist, developed a framework for organizing different types of needs into a hierarchy. He identified the following five levels of needs: physiological, safety and security, social, ego, and self-actualization needs. Psychographics is the art and science of combining demographic and psychological data to classify people into different segments to gain a better understanding of their be-
behaviors. One of the most popular classifications of consumers is the VALS framework, which divides consumers into eight groups: innovators, thinkers, achievers, experiencers, believers, strivers, makers, and survivors.

Knowing how consumers make a purchasing decision allows marketers to develop strategies for each step of the decision-making process such that the final purchase decision is in their favor. The different steps that constitute the purchasing decision process are problem recognition, information search, alternatives analysis, purchase behavior, and post-purchase behavior.

A valuable source of information for developing consumer profiles is internal transactions data. The integration of these data sets at a central location is known as data warehousing, and the search for discernible patterns and meaning in these data sets is known as data mining. Different data mining procedures can be employed to develop consumer profiles and to understand purchase behavior: associations to determine the different types of products customers buy and purchase chronology to understand the intervals at which customers buy a particular product.

Consumer behavior is influenced by demand drivers such as expectations and information. In today’s competitive environment, consumer expectations have risen and they demand more from firms and products. At the same time, consumers have access to information from different sources. The access to different types of information increases consumers’ power and plays an important role in the buying process.

**Key Terms**
- Consumer orientation
- Consumer analysis
- Consumer profile
- Data mining
- Data warehousing
- Demand drivers
- Ego needs
- High involvement decision
- Low involvement decision
- Physiological needs
- Psychographics
- Purchase chronology
- Purchasing decision process
- Satisfaction
- Safety and security needs
- Self-actualization needs
- Social needs
- VALS (Values and Lifestyle) framework
- Value Proposition
- Vital Statistics
- Zoomers

**Discussion Questions**
1. Review the characteristics of each of the VALS categories. To which of the groups do you think you belong? Why?
2. There is a difference in how consumers buy high and low involvement goods. What types of goods do you think require high rather than low involvement? Is it more beneficial for a company to produce a high or low involvement product?
3. Consider your most recent purchase that cost over $100. Can you trace your entire buying decision process from problem recognition to post-purchase behavior?

**Further Reading**
Web Exercise

Go to the U.S. Census website (www.census.gov), and find pertinent demographic information for your home state. In particular, try to find information about gender, age, education, and income distributions. How would you use this information to formulate marketing strategies?

Endnotes

1. Adapted from Diane Brady, A thousand and one noshes—how Pepsi deftly adapts products to changing consumer tastes, Business Week, June 14, 2004, pp. 54 and 56.
32. www.strategicbusinessinsights.com, 10/28/2010