MKTG10001: PRINCIPLES OF MARKETING

Exam Preparation | Semester 2 2017

Marketing *is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large.*

THE MARKET ORIENTED FIRM

Creating Customer Value

- **Value:** Defined as a customer's subjective assessment of benefits relative to costs in determining the worth of a product. It is an important element of managing long-term customer relationships and implementing the marketing concept.
- **Customer Benefits:** Include anything a buyer receives in an exchange and is defined as all tangible and intangible desirable attributes of the product consumed over the life of its ownership. It is the results delivered, such as improved performance, improved productivity, improved experience and reduced risk.
- **Customer Costs**: Include anything a buyer must give up obtaining the benefits the product provides. Costs are all tangible and intangible costs incurred by the customers over the life of ownership.

The most obvious cost is the monetary price of the product, but non-monetary costs can be equally important in a customers' determination of value.

- ***For example:*** *TIME | EFFORT | RISKS*
  A company can combat this "cost" by increasing *product availability*, thereby making it more convenient for buyers to purchase the product, as well as offer *warranties* or other things such as "100% guarantee."
  The ultimate goal is to create superior perceived value.

Characteristics of the Market Oriented Firm

Market orientation is a company philosophy focused in discovering and meeting the needs and desires of its customers through its product mix.

A market-oriented firm will:

- Actively seek ways and invest in methods such as research and surveys to understand what their customers want so that they can create products specifically designed for those customers.
- Respond to market feedback, both from current and potential customers to better their products.
- Create excitement for their products and services, through the communication of unique features and benefits for customers.
- A market orientated firm differentiates their products and provide more than expected for their customers.

At times, market orientation may reveal customer desires that are not cost effective to implement. This leaves the business in a position to have to determine which consumer stated needs will yield optimum returns for the business while still meeting general customer expectations or needs.

Key Components of the Market Oriented Firm

- In an increasing competitive climate, adaptability is key.
- *Market-oriented companies manage three interrelated processes very well:*
  i. Organisation wide generation of market intelligence.
  ii. Dissemination of that intelligence amongst departments
  iii. Organisation wide responsiveness to information.

  To elaborate:
  - The firm will generate market intelligence by searching secondary sources, conducting market research, observing the market, as well as benchmarking and gather information on competitors.
  - These will then be shared across departments through cross functional teams, databases, as well as internal reports.
  - By doing this, it will allow these insights to influence the way they work in terms of developing and executing strategy and plans, thereby assisting the firm to achieve organisation wide responsiveness.

RELATIONSHIP MARKETING & CUSTOMER LOYALTY

Relationship Marketing

Relationship marketing refers to 'long-term, mutually beneficial arrangements in which both the buyer and seller focus on value enhancement through the creation of more satisfying exchanges.

- To build these long-term customer relationships, marketers are increasingly turning to marketing research and information technology.

Customer Relationship Management (CRM)

Focuses on using information about customers to create marketing strategies that develop and sustain desirable customer relationships.

- By increasing customer value over time, organisations try to retain and increase long-term profitability through customer loyalty.
- Managing customer relationships requires identifying patterns of buying behaviour and using that information to focus on the most promising and profitable customers.
- Companies must be sensitive to customers' requirements and desires and establish communication to build their trust and loyalty.

Customer Retention and Profitability

- A customer's lifetime value results from his or her frequency of purchases, average value of purchases and brand-switching patterns.
- In general, when marketers focus on customers chosen for their lifetime value, they earn higher profits in future periods than when they focus on customers selected for other reasons.
- Because the loss of a loyal potential lifetime customer could result in lower profits, managing customer relationships has become a major focus of strategic marketing today. Companies need to understand the value of paying customers, but also the value of customers subsidised by other customers.
- Customers attracting other customers can grow your business.

- ***Profitability of a particular relationship increases over time primarily due to the following factors:***
    - The customer buys more of your products and services (often at a higher price)
    - The operating costs of servicing the customer reduce.
- ***To reduce customer turnover, a company has to recognise the costs of customer defections:***
    - 5 times more expensive to get a new customer than to retain an existing one.
    - 3-5 times more costly to win back a lost customer than to find a new one.
- ***Real costs of defection:***
    - 20-30% of revenues
    - 15-40% of operating expenses

Attitudinal & Behavioural Loyalty

A person who shops at the same place regularly is ***"behaviourally"*** loyal, while a person who tells others how great a product is, or simply feels really positive about the brand him or herself internally, is ***"attitudinally***" loyal.

- **Behavioural loyalty** is critically important for a business because it means customers are buying, and without buying there are no revenues. However, unhappy customers can be easily enticed to shop elsewhere, either by existing or future competitors, plus they can deter other potential customers through negative word of mouth.
- **Attitudinally loyal** customers on the other hand are great for businesses because they add strength to already positive brands, plus their word of mouth promotions can be invaluable in attracting other customers.

However, If the attitudinally loyal customer isn't behaviourally loyal too then even though that customer has promotional value, he or she contributes very little or no direct revenues to the business. A business with lots of people who like the brand but never spend money will not be in business for very long.

Customer Satisfaction and Delight

Companies delight their consumers by:

- Genuine courtesy and empathy
- Delivering unanticipated value
- Customer intimacy
- Noveltry and entertainment
- Focusing on 'moments of truth'

CONSUMER BEHAVIOUR

Consumer behaviour refers to the decision processes, purchasing and consuming acts of end-user consumers and those consumers who purchase products for personal or household consumption. This does not include consumers who are buying and consuming products for business purposes.

Buyer Decision-Making Process

The consumer buying decision process shown includes five stages:

1. ***Problem recognition***

   Problem recognition occurs when a buyer becomes aware of a difference between a desired state and an actual condition.

   - The speed of consumer problem recognition can be quite rapid or rather slow. Sometimes a person has a problem or need but is unaware of it.
   - Marketers use sales personnel, advertising and packaging to help trigger recognition of such needs or problems.

2. ***Information search***

   After recognising the problem or need, a buyer (if continuing the decision process) searches for product information that will help resolve the problem or satisfy the need.

   An information search has two aspects: internal and external.

   - **Internal Search:** Buyers search their memories for information about products that might solve the problem. If they cannot retrieve enough information from memory to make a decision, they seek additional information from outside sources in an external search.
   - **External Search:** May focus on communication with friends or relatives, comparison of available brands and prices, marketer- dominated sources and/or public sources.
     - An individual's personal contacts – friends, relatives and associates – are often influential sources of information because the person trusts and respects them.
     - However, marketing research suggests that consumers may overestimate friends' knowledge about products and their ability to evaluate them.
   - Indeed, the Internet has become a major information source during the consumer buying decision process, especially for product and pricing information.
   - Buyers also obtain information from independent sources – for instance, government reports, news presentations, publications and reports from product-testing organisations.
   - Consumers frequently view information from these sources as highly credible because of their factual and unbiased nature.

3. ***Evaluation of alternatives***

   A known group of brands that a buyer views as possible alternatives is referred to as an evoked set.

   - Research suggests that repeated brand exposures favourably influence consumer brand choice, even when that exposure is minimal and incidental.
   - Thus, when attempting to choose between two brands, most consumers will choose the one they are aware of rather than an unfamiliar brand.
   - To assess the products in an evoked set, the consumer uses both objective and subjective evaluative criteria.

4. ***Purchase***

In the purchase stage, the consumer chooses the product to be bought.

- Selection is based on the outcome of the evaluation stage and on other dimensions.
- Product availability may influence which brand is purchased.
- During this stage, consumers also choose the seller from whom they will buy the product.
- The choice of seller may affect final product selection, terms of sale, price, etc. which will be settled in this stage prior to the actual purchase taking place.

5. ***Post-purchase evaluation.***

After the purchase, the buyer begins evaluating the product to ascertain if the actual performance meets expected levels.

- The outcome of this stage is either satisfaction or dissatisfaction, which influences whether the consumer complaints, communicates with other possible buyers or repurchases the product.
- Shortly after the purchase of an expensive product, evaluation may result in cognitive dissonance: doubts in the buyer's mind about whether purchasing the product was the right decision.

Cognitive dissonance: is most likely to arise when a person has recently bought an expensive, high-involvement product that lacks some of the desirable features of competing brands.

- A buyer experiencing cognitive dissonance may attempt to return the product or seek positive information about it to justify choosing it.
- Marketers sometimes attempt to reduce cognitive dissonance by having salespeople contact recent purchasers to make sure that they are satisfied with their new purchases.

Contextual Influences on Consumer Behaviour

Situational Influences

Situational influences include physical and social surroundings, time and reason considerations as well as the buyer's mood. These influences affect the consumer buying decision process.

1. ***Physical surroundings:***

Example: *Store location, atmosphere, aromas.*

- Research suggests that retail store chains should design their store layout to make browsing as easy as possible for shoppers to spend

2. ***Social surroundings:***

Example: *Characteristics and interactions of others (friends, relatives, salespeople and other customers, who are present when a purchase decision is being made.)*

- Buyers may feel pressured to behave in a certain way because they are in public places, thoughts about who will be around when the product is used or consumed are another dimension of the social setting.

3. *Time*

Example:

- The amount of time required to become knowledgeable about a product, to search for it and to buy it, also influences the buying decision process in several ways.
- Other time dimensions include the possible frequency of product use, the length of time required to consume the product and the amount of time pressure a consumer is under.

4. *Purchase reason*

- The purchase reason raises the questions of what exactly the product purchase should accomplish and for whom.
- Generally, consumers purchase an item for their own use, for household use or as a gift.

5. *Buyer's mood and condition*

- The buyer's momentary moods or momentary conditions may have a bearing on the consumer buying decision process.
- These moods or conditions immediately precede the current situation and are not chronic. Any of these moods or conditions can affect a person's ability and desire to search for information, receive information, or seek and evaluate alternatives.
- There is evidence to suggest that sad buyers are more inclined to take risks, whereas happy buyers are more likely to be risk-aversive in buying decisions.11 Moods can also influence a consumer's post-purchase evaluation significantly.

Psychological Influences

Psychological influences partly determine people's general behaviour and therefore influence their behaviour as consumers.

1. *Perception*

Perception is the process of selecting, organising and interpreting information inputs to produce meaning. The process of perceiving an image in its entirety, rather than individual lines and curves, suggests the whole is greater than the sum of its parts.

- ***Selective Exposure***:
  Selecting some inputs and ignoring others. Deciding which inputs will reach awareness.
- ***Selective Distortion*:**
  Changing or twisting currently received information; it occurs when a person receives information inconsistent with personal feelings or beliefs.
- ***Selective Retention*:**
  A person remembers information inputs that support personal feelings and beliefs and forgets inputs that do not.

2. *Motives*

- A motive is an internal energising force that orients a person's activities towards satisfying needs or achieving goals.
- Buyers' actions are affected by a set of motives rather than by just one motive. At a single point in time, some of a person's motives are stronger than others

3. *Learning*

- Learning refers to changes in a person's thought processes and behaviour caused by information and experience.
- Consequences of behaviour strongly influence the learning process. Behaviours that result in satisfying consequences tend to be repeated.

4. *Attitudes*

- An attitude is an individual's enduring evaluation of, feelings about and behavioural tendencies towards an object or idea.
- *For example: a positive attitude toward a product may increase the probability of intention to purchase.*

5. *Personality and self-concept*

- Self-concept *(sometimes called self-image)* is a person's view or perception of himself or herself.
- Individuals develop and alter their self-concepts based on an interaction of psychological and social dimensions.
- Research shows that buyers purchase products that reflect and enhance their self-concept and that purchase decisions are important to the development and maintenance of a stable self-concept.

6. *Lifestyles*

- A lifestyle is an individual's pattern of living expressed through activities, interests and opinions.
- Lifestyle patterns include the ways people spend time, the extent of their interaction with others and their general outlook on life and living.

Social Influences

Social influences are external social forces on an individual's buying behaviour.

1. *Roles*

A set of actions and activities associated with an individual's position.
For example: Family.

2. *Reference groups*

- A reference group is any group that positively or negatively affects a person's values, attitudes or behaviour.
- Reference groups can be large or small.
- Most people have several reference groups, such as families, work- related groups, local commerce groups, professional associations or religion-related groups.

3. *Opinion leaders*

- An opinion leader provides information about a specific sphere that interests reference group participants who seek information.
- Opinion leaders are viewed by other group members as being well informed about a particular area and as easily accessible.

4. *Digital network*

- Consumers' reliance on the Internet for assistance during the decision-making process can be seen in the proliferation of blogs, social networking websites, online forums, mailing lists and wikis, as well as text messaging and podcasts.

5. *Culture and subculture*

- Culture influences consumption behaviour because it permeates our daily lives.
- Our culture determines what we wear and eat and how daily life takes place.