

CHAPTER 2

VALUE AND THE CONSUMER BEHAVIOUR VALUE FRAMEWORK

WHAT DO YOU THINK? POLLING QUESTION

I get a lot out of shopping even when I don't buy anything.
Strongly disagree 1 2 3 4 5 6 7 Strongly agree

Have students access www.icancb.com to answer the polling questions for each chapter of *CB*. Ask them to take the online poll to see how their answers compare with those of other students taking consumer behaviour courses across the country. Then turn to the last page of the chapter to find the What Others Have Thought box feature. This graph is a snapshot of how other consumer behaviour students have answered this polling question thus far.

LEARNING OUTCOMES

After studying this chapter, the student should be able to:

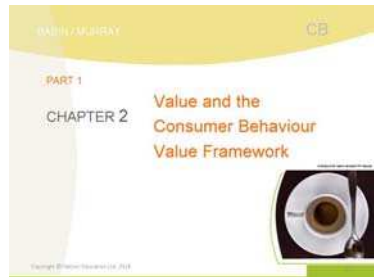
- LO1 Describe the Consumer Value Framework, including its basic components.
- LO2 Define consumer value and compare and contrast two key types of value.
- LO3 Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.
- LO4 Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.
- LO5 Analyze consumer markets using elementary perceptual maps.
- LO6 Justify consumers' lifetime value as an effective focus for long-term business success.

SUGGESTED LECTURE OPENER

Consumer segments play a vital and sometimes surprising role in marketing. Consider the wine industry. The image that likely comes to mind is of an older crowd composed mostly of Baby Boomers. While this image isn't completely wrong, the demographics of wine consumption have changed dramatically in recent years, with younger Canadians playing a surprising role. In a press release dated February 24, 2011, Wine Intelligence (www.wineintelligence.com) describes an attitude and behaviour-based study of Canadian wine drinkers which finds younger, highly involved wine drinkers experimenting with new styles, varietals, and countries of origin, and spending significantly more on wine, though perhaps not drinking it as often, compared to the older "traditional" wine-drinking segments whose primary concern, increasingly, is price. "It's a fascinating moment for the Canadian wine market," said Erika Neudorf, a native of the Niagara region and project manager for Wine Intelligence Canada. "We have an amazing opportunity to engage with a new generation of wine drinkers who are into our product, and looking for quality." While adults under 45 represent only a third of all Canadian wine drinkers, they account for 60% of the most valuable segment, the Adventurous Tasters.

KEY CONCEPTS WITH POWERPOINT® SLIDES

Slide 1



Slide 2



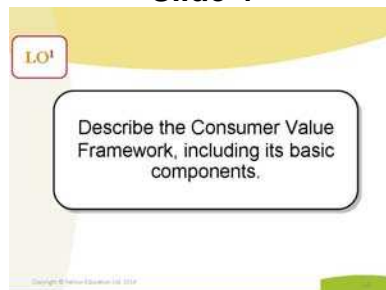
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LO1. Describe the Consumer Value Framework, including its basic components.

The Consumer Value Framework and Its Components

Slide 4



What can I do in class?

Q: Should the band allow their fans to choose the type of music they play?

A: Answers will vary. In the introduction to this chapter, the pie chart shows different consumer preferences for types of music.

The Consumer Value Framework

The *Consumer Value Framework (CVF)* represents consumer behaviour theory that illustrates the factors shaping consumption-related behaviours and ultimately determines the value associated with consumption. Exhibit 2.1 explains the various functions of CVF in greater detail. All components in the model are related and consist of the following elements:

- Internal influences
- External influences
- Consumption process
- Value
- Relationship quality

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LO1 The Consumer Value Framework (CVF)

Represents consumer behaviour theory illustrating factors that shape consumption-related behaviours and ultimately determine the value associated with consumption.

Slide 6

LO1 Exhibit 2.1: The Consumer Value Framework (CVF)



Value and the CVF Components

The concept of value is at the heart of consumer behaviour and found throughout the entire book.

Relationship Quality

A term used to describe this relationship that has gained popularity over the years is *Customer Relationship Management (CRM)*. The basis of this concept is that a company builds a relationship with a customer over a period of time as opposed to simply conducting a transactional exchange. From there, the marketer can determine an effective strategy to communicate with customers. *Relationship quality* reflects the connectedness between a consumer and a retailer, brand, or service provider.

Consumption Process

The consumption process contains many factors, which can be divided into internal, external, and situational influences.

Internal Influences: The Psychology and Personality of the Consumer

Internal influences constitute the psychology of the consumer. For example, how will customers react to a price increase from \$80 to \$100? Are some scents and colours better for selling certain products? The psychology of the consumer involves both *cognition* and *affect*.

Individual differences are the traits including personality and lifestyle differences that help determine consumer behaviour. This is the personality of the consumer. So a consumer who is highly health-conscious is more likely to buy a gym membership or low-fat food than a consumer who is less health-conscious.

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LO1 Internal Influences

Psychology of the consumer

Personality of the consumer

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LO1 Psychology of the Consumer

- **Cognition**—the thinking or mental processes that go on as we process and store things that can become knowledge.
- **Affect**—refers to the feelings experienced during consumption activities or associated with specific objects.

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LO1 Personality of the Consumer

Individual differences include things like personality and lifestyles.

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Why do consumers have such varied tastes in food? *External influences* include the social and cultural aspects of life as a consumer. The *social environment* includes the people and groups who help shape a consumer's everyday experiences. For example, what we like to eat is primarily shaped by our families and what we eat at home. *Situational influences* include the effect that the physical environment has on consumer behaviour.

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LO1 External Influences: Interpersonal Influences

Social Environment

Situational Influences

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What can I do in class?

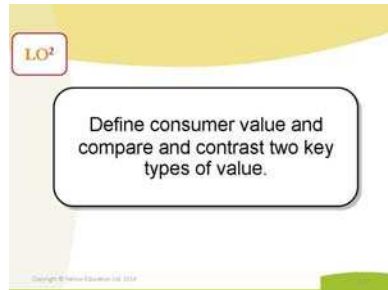
Q: Ask students to recall a recent shopping experience. Determine whether anyone shops at Hollister, where the music is loud and the perfume and cologne are sprayed every few minutes. Do the situational influences affect their purchase?

A: Answers will vary. Some students will not even be aware that music is playing in a store, while others will experience a heightened state because of the environment.

LO2. Define consumer value and compare and contrast two key types of value.

Value and Two Basic Types of Value

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LO²

Define consumer value and compare and contrast two key types of value.

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Value is a personal assessment of the net worth—that is, the benefits minus the costs—obtained from an activity. Consumers are never willing to sacrifice value, but they often are willing to sacrifice quality or satisfaction. An example of value used in the book involves a person’s choice of eating establishments. Those who eat at a fast food chain tend to relinquish quality in return for a better price or faster service. It is worth noting, however, that high value does not necessarily mean low price. In fact, companies from Starbucks to Lululemon to Harley-Davidson have created exceptionally loyal customers with products at relatively high price points.


The Value Equation

Exhibit 2.2 demonstrates the value equation, which is “what you get” for “what you have to give.”

- What you get = benefits such as quality, convenience, and nostalgia
- What you give = time, money, and effort

Consumers ultimately pursue *value* because valuable actions address motivations that manifest themselves in needs and desires. It is a good idea to look at the types of value in order to better understand the concept.

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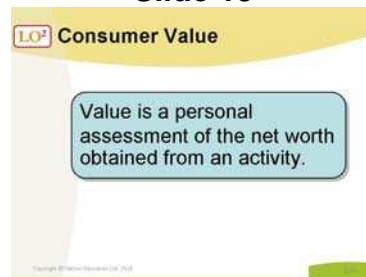


LO² Exhibit 2.2
The Value Equation

EXHIBIT 2.2
The Value Equation

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LO² Consumer Value

Value is a personal assessment of the net worth obtained from an activity.

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Utilitarian Value

Utilitarian value describes how the consumer solves the issues that come with being a consumer and can generally be equated to how a consumer completes a task. An example of utilitarian value would be using bleach to clean something.

Hedonic Value

Hedonic value is the immediate gratification that comes from experiencing some activity. Because it is emotional and subjective in nature, hedonic value is not a means to an end, but an experience. An example of hedonic value would be watching a horror film.

It should be noted that consumers can derive both a utilitarian and a hedonic value from the same experience. The book uses the example of dining in a place like the Hard Rock Café. A consumer can have a fun dining experience while still being nourished by food. Exhibit 2.3 further explains this concept.

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LO² Types of Value

Utilitarian

Hedonic

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LO² Exhibit 2.3: Consumption Activities Can Fall into Any of These Categories

Activity	Utilitarian Value	Hedonic Value
Shopping	High	Low
Travel	Low	High
Watching TV	Low	High
Reading	High	Low
Volunteering	High	Low
Attending a concert	Low	High
Attending a lecture	High	Low
Attending a religious service	High	Low
Attending a sporting event	Low	High
Attending a political rally	High	Low
Attending a religious service	High	Low
Attending a sporting event	Low	High
Attending a political rally	High	Low

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LO³

Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.

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What can I do in class?

Q: Many restaurants are reviewed by diners online through various websites and smartphone applications. Have these reviews helped you to experience a restaurant that has put it all together—a high-quality meal with impeccable service in a memorable place? How might this experience change your consumer behaviour?

A: Answers will vary.

LO3. Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.

Marketing Strategy and Consumer Value

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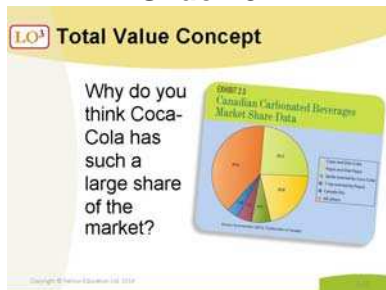


Marketing Strategy

Exhibit 2.4 details the different levels of a marketing strategy.

1. *Corporate strategy*—This strategy deals with how the firm will be defined and sets general goals.
2. *Marketing strategy*—This is the way a company goes about creating value for customers. Good strategy ensures that value is delivered in a way that is not easy for competitors to copy, and is not defined only in terms of the tangible product offered. Apple’s focus on aesthetics, ease of use, advanced technology, and high-end image is a good example.
3. *Marketing tactics*—These are the ways in which marketing management is implemented. They involve price, promotion, product, and distribution decisions.

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Total Value Concept

Is Coca-Cola just a soft drink? No. Coke and Diet Coke together represent about one-quarter of all carbonated drinks sold in Canada, but Coke is definitely not the cheapest product on the market. Exhibit 2.5 shows Canadian market share data for carbonated drinks. *Total value concept* is practised when companies operate with the understanding that products provide value in multiple ways, not through price alone.

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LO³ Total Value Concept

Every product's value is made up of the basic benefits, plus the augmented product, plus the "feel" benefits.



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The Total Value Concept Illustrated

How does the Ferrari provide value? If you understand this, you understand the total value concept. Here are some likely value factors:

1. Transportation
2. Ferrari service plan
3. Feelings associated with driving the car
4. Positive feelings that go along with ownership
5. Negative feelings that go along with ownership

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LO³ Value Is Co-Created

Value co-creation is the realization that a consumer is necessary and must play a part in order to produce value.

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Value Is Co-Created

Value is not created only by the marketer; the consumer adds his or her own resources to the consumption process.

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LO⁴

Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.

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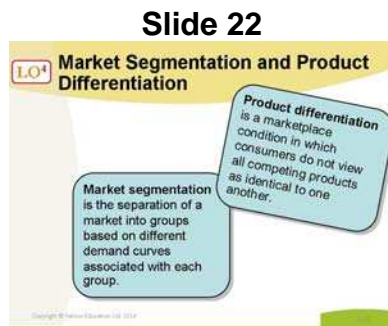
What can I do in class?

Q: Ask students for an example of a total value concept. Students may use the textbook and walk through the example of purchasing a Ferrari or a university education.

A: Answers will vary. Encourage students to use the book as a guide for comprehending the concept of total value.

LO4. Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.

Market Characteristics: Market Segments and Product Differentiation



Target market is a common term signifying the particular market segment that a company will serve with a specific marketing mix. The *marketing mix* is the combination of product, pricing, promotion, and distribution strategies used to position the brand in the marketplace.

What can I do in class?

Q: Ask students to name the potential target markets that might be found among their peers. For example, how would the students in the class be grouped into segments by a coffee shop like Tim Hortons or Starbucks?

A: Answers will vary.

Market Segmentation

Market segmentation is the separation of a market into groups based on the different demand curves associated with each group. There may be many or few market segments (groups of people with similar characteristics) in any given market. Exhibit 2.6 depicts the market segmentation process.

Elasticity is a term that is used to demonstrate the degree to which a consumer is sensitive to changes in some product characteristic. The example in the book suggested

that there was more elasticity in the price variable versus the warranty variable when consumers purchase HDTVs.

Product category demand explains the market segment for many products that features a positive price–quantity demand relationship. The book uses the example of two perfumes—Trés Cher sold by the gallon and Chanel No.5 sold by the ounce.

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LO⁴ Exhibit 2.6: Total Market Sales and Sales within Market Segments

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LO⁴ Product Category Demand

Chanel No. 5 is in high demand at about \$250 an ounce.

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LO³

Analyze consumer markets using elementary perceptual maps.

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Product Differentiation

Product differentiation is a marketplace condition in which consumers do not view all competing products as identical to one another. An example of product differentiation is that many people regard Coke and Pepsi as similar but different products.

What can I do in class?

- Q:** Have students name products that appeal to different groups of people, such as an iPhone. iPhone users range from college students to professionals. How do the segments differ? How could Apple differentiate the product?
- A:** Answers will vary. Encourage students to come up with different types of consumers and identify their needs. Apple could possibly find new ways to differentiate the product and reach multiple market segments by changing the colour of the iPhone or by adding ring tones or additional features.

LO5. Analyze consumer markets using elementary perceptual maps.

Analyzing Markets with Perceptual Maps

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Product differentiation becomes the basis for product positioning. *Product positioning* refers to the way in which a product is perceived by a consumer. Positioning takes place in the mind of the consumer.

Perceptual Maps

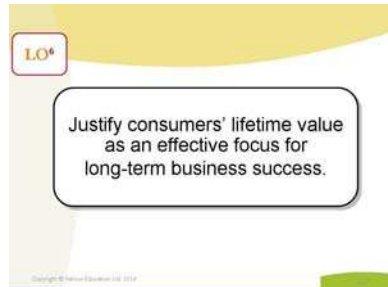
Perceptual maps are used to depict the positioning of competing products graphically.

Illustrating a Perceptual Map

Exhibit 2.7 uses a radio station launching in the Springdale market as an example. After analyzing the perceptual map, the analyst can draw several conclusions about the radio station:

1. Because this is a start-up station without massive resources, an “oldies” format with nearly all music is recommended in an attempt to capitalize on the purple segment.
2. The highest demand quadrant appears to be quadrant 1, with contemporary music and little news/talk. A lot of resources would be required to start here because of the entrenched competition. Thus, option 1 appears preferable.
3. A potential threat exists if WXPC were to decrease the amount of news and talk, thus moving them toward the purple ideal point; however, this appears unlikely. If WXPC were to undergo a format change, a move to more news and talk to try to capitalize on the red segment’s ideal point appears easier because of the relative proximity.

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What can I do in class?

Have students choose an example of a product (i.e., car, makeup, household product) using Exhibit 2.7. Students can come up to the board or draw a perceptual map in their notebooks for a classroom discussion.

Using Consumer Behaviour Theory in Marketing Strategy

Businesses are constantly using consumer behaviour to make better strategic and operational marketing decisions. Exhibit 2.8 in the book displays a consumer behaviour analysis checklist that is used by simply applying each question to the given situation.

LO6. Justify consumers' lifetime value as an effective focus for long-term business success.

Value Today and Tomorrow—Customer Lifetime Value

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LO* Customer Lifetime Value (CLV)

Customer lifetime value (CLV) represents the approximate worth of a customer to a company in economic terms.

$$CLV = npv(\text{sales-costs}) + npv(\text{equity})$$

Not all customers are created equal. Therefore, firms increasingly want to know the lifetime value associated with a customer or customer segment. Ultimately, companies need to delineate their most profitable segment and devise a way to communicate with them to increase profit.

Customer Lifetime Value (CLV) represents the approximate worth of a customer to a company in economic terms or the overall profitability of an individual consumer. Although there is no generally accepted formula for CLV, the basic premise is simple and can be represented as follows:

$$CLV = npv(\text{sales} - \text{costs}) + npv(\text{equity})$$

where *npv* = net present value. Consider a customer who shops twice a week at IKEA. On average, this customer spends \$200 per week, or \$10,400 per year, at IKEA. If we assume a 5% operating margin, this customer yields a *net* \$520 per year to IKEA.

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LO⁴ Authenticity



Some consumers will recognize the real Stilton cheese from the pretenders and are willing to pay more for the real deal.

What can I do in class?

- Q: Have students calculate the CLV of their favourite take-out restaurant or shopping destination. It might make sense to calculate the CLV of their pizza habits over the course of four years at university.**
- A: Answers will vary. Students may assume that the average university student eats pizza twice a week or spends \$10 per week or \$520 a year (if the student stays for the summer). If you assume a 10% margin, the cost per year is \$52 or \$208 over four years.**

Consumers who find value in the authenticity of cheese, for instance, are willing to spend more for Stilton cheese than plain blue cheese. Some governments recognize the uniqueness of certain products that can be identified by geographical areas and protect their names by law, including Stilton cheese (it can be produced only in three specific counties in England). Authenticity is a potential product characteristic that creates product differentiation.

VIDEO CLIP

PowerPoint Clip from *The Toledo Mud Hens*

Run time 1:12 minutes

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Value and Baseball: The Toledo Mud Hens

- Watch this clip to see how the Toledo Mud Hens increase consumer value.



The Toledo Mud Hens are a minor league baseball team inspired by the poem *Casey at the Bat*. The baseball team is positioned as a family entertainment brand. Although the team has historically strong players and performs well during the baseball season, the

major focus of the positioning strategy is actually to brand an experience all fans can count on: a fun, affordable, family or group outing. This strategy has worked successfully for the team in both athletic performance and marketing performance arenas.

Ask your students:

1. How does the business model of the Mud Hens provide a different value to minor league fans than it would to major league fans?

Answer: Fans that attend minor league baseball games are looking for a different experience than those who attend major league games. Major league fans are looking for star players and winning records. The minor league Mud Hens focus on providing an affordable and engaging family activity over stars and streaks.

2. How does attending a Mud Hens event provide value beyond a baseball game?

Answer: By focusing on merchandising, food and beverage sales, and low-priced tickets the Mud Hens are able to extend a consumer's concept of value beyond just watching baseball, which one might do at home, and into the area of a multi-age, low-cost entertainment outing.

END OF CHAPTER MATERIAL

CASE ANSWERS: Rogers Communications Market Segmentation in Atlantic Canada

1. What benefits does Rogers Cable offer Atlantic Canadians? Provide examples of both hedonic and utilitarian value.

Answer: With its mix of cable, wireless, and media businesses, Rogers can offer a unique blend of service offerings to consumers. Utilitarian value includes functional benefits such as billing simplicity and discounts through bundling of services and streamlined customer service with a single point of contact. Hedonic value may include breadth of content offered to entertain consumers through a variety of devices, potentially with higher quality than the competition's, resulting in a more satisfying experience.

2. If the quality of Rogers Cable's offerings is defined as $Q=f(p,w,x,\dots z)$, what are the key characteristics (x , y , and z) that will determine Rogers Cable's success?

Answer: Key characteristics can include basic customer service issues such as speed of initial installation and subsequent repairs or modifications, quality of customer support centre, ease of use, convenience, reliability, breadth of programming, bundling, etc.

3. How might those key characteristics (x , y , and z) differ among the four target segments that Rogers has identified?

Answer: The relative importance of each key characteristic may differ based on each target segment's specific wants and needs. For example, the Francophone Families segment is more likely to be concerned with the amount of French-language programming available, while Midscale Older Adults / Seniors may have greater concerns with convenience and quality of customer support. Each segment is likely to desire a slightly different mix of programming options (suited to household composition and age, as well as education and income level). In each case, performance on the key characteristics identified will be evaluated against the competition, and also in relation to the price being charged.

4. What might a perceptual map of Rogers Cable versus iTunes look like based on two of these key characteristics?

Answer: Students can choose characteristics such as price and breadth of programming, or price and convenience as the dimensions to build their perceptual maps. The important point is to clearly position each company in the appropriate quadrant, and to consider both utilitarian and hedonic value from the consumer's perspective. Instructors may also encourage students to think about price elasticity in the market, as well as the price premium that can be demanded for a "superior" service offering.

5. Go to www.environicsanalytics.ca and click on the "Lifestyle Lookup" link. By entering your postal code you can see which of Environics Analytics' 66 PRIZM C2 segments you belong to. Does the segment overview accurately describe you and your neighbours?

Answer: Answers will vary. Some students may find the segment descriptions to be very accurate, while others may feel the profile better describes their parents than themselves. The variety of answers presents an excellent opportunity to discuss the various segmentation characteristics (demographics, psychographics, geography), and their application to marketing strategy.

ONLINE CASE ANSWERS

Visit www.icancb.com to access the online case studies for *CB*.

1. Visit the CVS/pharmacy website (www.cvs.com). What other benefits does CVS provide to ExtraCare customers? Provide examples of both utilitarian and hedonic value.

Answer: Utilitarian value is provided when an object or activity allows something else to happen. Examples may include cosmetics, hair care products, hygiene products, and so forth. For instance, soap allows your face to become clean. Hedonic value is the immediate gratification that comes from some activity.

Furthermore, hedonic value is emotional and subjective. Examples may include chocolate, candy, and other impulse items sold at CVS.

2. Suppose a major competitor launches their own customer value card program. How might CVS respond? What recommendations would you give CVS to improve the ExtraCare program?

Answer: Students may choose any number of ways in which to increase “value” and should refer to the Value Equation in Exhibit 2.2. Students may recommend improvements to benefits or to “what you get” such as quality, convenience, emotions, prestige, and experience. They may also recommend a decrease in what customers “give” or sacrifice including time, money, and effort.

3. What are the advantages and disadvantages of not requiring personal information from customers for participating in the ExtraCare program?

Answer: The main benefit to CVS customers of not requiring personal information is privacy. The main disadvantage is that not having personal customer information limits the ability of CVS to improve the quality of their relationship with their customers. CVS can learn valuable information from customer purchases and consequently provide direct marketing (CRM) incentives, such as coupons, to build stronger relationships with customers.

4. What ethical issues would CVS need to consider before changing their ExtraCare policy to require an address and phone number?

Answer: Students should address privacy issues, such as identity theft and how to protect customer information in the ExtraCare database against those threats. Another specific ethical issue for CVS is concern over pharmacy transactions. Prescriptions reflect a customer’s medical history and therefore elicit an even higher expectation of privacy.

REVIEW QUESTIONS

(*) *Indicates material on prep cards.*

1. [LO1] What are the differences between internal and external influences on consumers?

Answer: Internal influences are characteristics or traits inherent in the consumer. External influences come from outside the consumer such as culture, the environment, and time of day.

2. [LO1] How is the Customer Value Framework useful?

Answer: The CVF represents consumer behaviour theory, which illustrates factors shaping consumption-related behaviours and ultimately determines the value associated with consumption. Thus, the CVF provides potential explanations for behaviour.

3. [LO2] List three examples of products you have consumed that provide high utilitarian value. List three examples of items that provide high hedonic value. Think of at least one product or brand that you would associate with both high utilitarian and hedonic value.

Answer: Typical items possessing utilitarian value include fast food, mass transit (subway, bus ride), and cleaning products. Typical items possessing hedonic value include attending a sports event or an amusement park or going shopping in an exciting venue.

4. [LO2] What is the core concept of consumer behaviour? Define it and use an example from your own life to illustrate its meaning.

Answer: Value is the core concept of consumer behaviour. Value is a personal (subjective) assessment of the overall net worth obtained from an activity.

5. [LO3] Define and distinguish marketing strategy, corporate strategy, and marketing tactics, and provide examples. You may consult the Internet for names of well known marketing firms.

Answer: Corporate strategy deals with how the firm will be defined and sets general goals for the company. Marketing strategy deals more specifically with the way in which a company goes about creating value. Marketing tactics are ways in which the strategy is actually implemented in the marketplace. Walmart has a corporate strategy that emphasizes efficiency and low-cost operations. The marketing strategy is to provide consumers with a wide selection of goods that are placed on the market at low prices driven by low costs. Marketing management includes strategies such as low price guarantees and promotions that emphasize prices.

6. *[LO3] What is the total value concept? Can you use the total value concept to explain why Callaway Golf or Starbucks are such successful companies?

Answer: The total value concept is practised when companies operate with the understanding that products provide value in multiple ways. Callaway Golf realizes that they aren't really selling golf clubs so much as selling the advantage of a better golf experience. Therefore, experiences such as customer club fitting are integral in helping the consumer enjoy more value from their exchange with Callaway. Starbucks sells the coffee experience and not just the coffee. Thus, the atmosphere of the establishment along with things such as wi-fi access enhance the product and are important to deliver to customers even if it is a cost to Starbucks.

7. *[LO3] What is marketing myopia? How does it relate to the total value concept?

Answer: Marketing myopia results when firms define themselves based on the product they produce rather than the value they provide. Firms avoid myopia when they practise the total value concept.

8. [LO4] In what way are market segmentation and product differentiation similar? How are the two concepts different?

Answer: Both are marketplace conditions. Market segmentation is a marketplace characteristic determined by consumer preferences, whereas product differentiation is determined by perceptions of product alternatives.

9. [LO4] Consider the customers visiting a Cineplex movie theatre playing 18 different movies. Use this thought to illustrate both market segmentation and product differentiation. How do these two marketplace characteristics influence the value received by these customers?

Answer: Market segmentation could be observed easily by noting the characteristics of the consumers that see each movie. From these observations, one might observe different demographic characteristics associated with different types of movies. Families may be more likely to see G-rated movies and thus have different demand curves than other movie consumers. Product differentiation is illustrated by the fact that few consumers go to the theatre with no movie preference in mind. In other words, the movies are not viewed by consumers as all being similar. Both marketplace characteristics influence consumers' value perceptions by allowing a closer fit between the products offered and consumer preferences. Consumers therefore receive something more to their tastes.

10. *[LO5] What is a perceptual map? What are the dimensions of a perceptual map?

Answer: A perceptual map is used to depict the positioning of competing products graphically. The dimensions of a perceptual map are simply the characteristics that help distinguish different brands or products from each other. For example, price is a commonly used dimension. Brands can be distinguished into low-priced, moderately priced, and high-priced alternatives.

11. [LO5] What is meant by product positioning?

Answer: Positioning refers to the way in which a product is perceived by a consumer. Positioning can be represented by the amount and types of characteristics perceived by consumers and can be depicted on a perceptual map.

12. [LO5] List at least three ways in which a firm can use a perceptual map to analyze a given consumer market.

Answer: When marketing analysts examine perceptual maps, they can identify competitors by seeing which brands are located in the same area on the perceptual map, identify opportunities for doing more business, and diagnose potential problems in the marketing mix. For instance, the analyst may realize that by changing the amount of some product characteristic, they can "move" closer to the ideal point of some segments and thus increase the competitiveness of their product. Alternatively, a new business may choose to position a product in a way that leaves it facing little direct competition. This can be done by "locating" the product as far away from other brands as possible.

13. [LO6] How do marketing firms assess the value of a given customer?

Answer: Customer lifetime value (CLV) represents the approximate worth of a customer to a company in economic terms. Put another way, CLV is the overall, long-term profitability of an individual consumer.

14. [LO6—ETHICS] How do you feel about companies that give special perks like discounts or preferred seating to their “best” customers? Is this treatment fair?

Answer: Even though this is mostly an opinion question, students should be using CLV concepts in their opinions. Do they believe it is fair that loyal airline customers get upgrades to first class or gain access to exclusive airport lounges where they enjoy free drinks in a comfortable and relaxing waiting environment?

INTERACTIVE/APPLICATION EXERCISES

15. *Interview three consumers from your town. Ask them how they believe the following companies provide value to consumers:

- Home Depot
- Apple
- Chapters / Indigo
- John Deere

Answer: The main focus here is to foster a better understanding of how benefits lead to utilitarian and hedonic value.

16. From the list of companies in Question 15, use Internet resources (such as the Wilson Business Resource Database, Hoovers, or corporate sites) to learn about the corporate and marketing strategies of these companies. From your experience, does it seem that they truly understand the value that consumers desire from companies in their respective industries?

Answer: The main focus here is to help students develop a working knowledge of the total value concept.

17. List 10 fast food restaurants. Consider what a typical lunch would be like at each place. Use their websites if you need to review the menu. Rank them from least to most expensive. Then, using the same 10 restaurants, rank them from the least to the most healthy. Form “dimensions” with these rankings and then create a perceptual map illustrating the fast-food market formed by these 10 restaurants.

Answer: This exercise should result in a two-dimensional perceptual map with price as one dimension and healthiness as the other. Probe students to look for business opportunities within the perceptual map.

18. Interview several consumers, and ask them about their concerns when choosing a fast-food restaurant. Using these results, estimate the location of the ideal points for different fast-food markets on the perceptual map that you developed in Question 17. Then, prepare an executive summary (bulleted list) indicating potential

opportunities that exist within this market. Also state which restaurants appear to have the best and the worst positioning, respectively.

Answer: Adding the consumer ideal points should allow students to develop a better understanding of where different fast-food businesses should “move” on the perceptual map. For example, if consumers desire lower prices, perhaps a restaurant would lower their prices to “move” closer to this segment.

19. Assume that someone wishing to start a band in your town has come to you for advice on positioning the band to be a commercial success. Using the Customer Value Framework and your knowledge of positioning, what factors do you think would ultimately explain how or if the band will be successful? Some general advice on successful bands can be found at www.epinions.com.

Answer: The main focus here is designing a product for an existing market segment. By changing certain characteristics (type of music played, media through which music is delivered, price), the band can move closer to or farther from market segments.

20. Review the Customer Value Framework. At first glance, what aspects of the Customer Value Framework do you believe are most relevant in helping you understand that consumer behaviour is useful to study so as to make you a better consumer?

Answer: Any discussion about this topic is acceptable as long as students use terminology from the CVF.

GROUP ACTIVITY

*Have students interview other students in class to determine whether some students are members of a club, fraternity, or sorority; are working part time; or are engaged in other extracurricular activities. Then, have students pair up in groups to analyze how members of their organization are following Maslow’s hierarchy in regard to their purchases or activities outside of school.

You may also want to incorporate a homework assignment in which each group finds a print ad that appeals to each of the levels of Maslow’s hierarchy. Is there overlap between levels? Is this good or bad?

CHAPTER VIDEO CASE

To view the video case E-Business at Evo, go to the *CB* companion website www.icancb.com to select this video.¹

When professional skier Bryce Phillips began selling closeout ski equipment out of his garage in 2001, he was hoping to make a little extra money to fund his ski vacations. Things went well with the first garage sale, and soon he had a few employees and started selling snowboard, skateboard, and wakeboarding gear. Almost by accident, at age 20, Phillips had a company on his hands. He pulled some equity out of his house—and online retailer Evo was born. The company grew to 40 employees, then 60. Revenues came to nearly \$6 million. Evogear.com became known worldwide by pros and amateurs alike looking for good deals on great stuff. They now offer all the top brands, closeouts, and used gear for every level and budget.

All this success is quite surprising when you consider that buying skis or snowboards isn't the kind of thing generally done online or through a catalogue. To get fully outfitted can cost \$500 to \$1,000, and most people need some expert help with their purchase. Through the design of the site and Bryce's desire to create a community for like-minded people, rather than simply another online discounter, Evogear.com is shredding the competition.

“Well, we want it to be functional, number one,” says Molly Hawkins, affiliate program manager at Evo. “If you go to some of our competitors' sites, some of them look really cool” but, she says, “you try and navigate around their sites, they're not as intuitive.” Evogear.com is easy to use and does look cool, but adding value for the shopper is key to their business. The site offers product reviews, user accounts with all your past and current orders and preferences, tonnes of links to affiliate sites, events, blogs—pretty much everything you would want in a website or a brick-and-mortar shop. “Aside from that,” Molly says, “the *About Us* page has played a huge role.” Evo has, from the beginning, wanted to create a community for lovers of water and snow sports, and the *About Us* page really offers the customer an “in” to the company: their mission, values, personal pages, and video clips by each employee. Customers love the idea that they can virtually “meet” their customer service person or buyer or Bryce himself. Hawkins believes this helped to legitimize the company in the beginning. “People would get excited to find that the person that they're talking to or the people that they're buying from are actual users of this gear that we're selling,” she says.

Being seen as legit and trustworthy is paramount in the land of e-commerce. You spend weeks searching for the best price on that new digital camera or gaming system and when it arrives, if it arrives, it was not what you thought you were buying. Often, there is little you can do. The people at Evo know where you're coming from and want to make sure every purchase is stress-free. They have an easy return policy: just let them know what the problem is, from buyer's remorse to a box of splintered skis, and they'll make the switch.

¹ From Boone & Kurtz. E-business at Evo from Contemporary Marketing 14e, pg. VC-5. Copyright (c) 2010 South-Western, a part of Cengage Learning, Inc. Reproduced by permission.
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Once an order is placed, Evo's distribution centre jumps to attention. Most orders are shipped fast, within a day or two of the order. If you're not in a hurry, they'll ship it ground for free, or overnight via a partnership with FedEx.

Trust, value, and personal service are the key elements in Evo's success, but word of mouth only gets you so far. Advertising is difficult for an e-business such as Evo, where keeping it simple with low overhead and a no-frills annual budget is what makes them able to pass the discounts on to their customers. Like many websites, they offer an affiliate program that places ads or links on other websites to drive traffic back to Evo.

An affiliate program or pay-per-click program pays owners of other sites every time a user clicks on an ad. In addition to paying for each click, Evo sends a "thank you" gift of 12 percent of each completed sale at evogear.com originating from the affiliate site. To protect their brand, remain authentic to their consumers, and remain in good standing with their suppliers, Molly Hawkins and her team lay out some ground rules for each potential affiliate. Their site must be well designed, easy to navigate, and, most importantly, must not contain any references to gambling, sexually explicit material, hate speech, or racist content or any other inappropriate material. Sounds obvious, but being inadvertently connected with the most obscure, unseemly website could mean the end of their business.

Ask your students:

1. Aside from offering good prices, how does Evogear.com offer value to the consumer?

Answer: In addition to offering good prices, Evogear.com offers 24-hour online shopping convenience; personalization features, such as the "Package Builder" product-matching tool; relevant marketing offers based on user shopping habits; product reviews; order tracking; and ski-culture-related video "web episodes."

2. Evo has opened a large brick-and-mortar store/community art space in Seattle, Washington. Go to culture.evogear.com/category/seattle/ to learn more about what the store offers. Do you think this store will distract from or enhance the website? Consider potential channel conflicts, pricing strategy, convenience, and consumer behaviour in your answer.

Answer: Answers will vary. However, opening a flagship store in Seattle has helped Evo integrate its brand and retailing strategy with the broader ski and skate youth culture. The space is designed to unite local customers around shared interests in music, streetwear fashions, art, skiing, snowboarding, and skateboarding. Evo founder Bryce Phillips calls the brick-and-mortar retail store "the heart and soul of the company." He explains that it serves as the physical location where local customers, supply chain partners, and sales reps can experience firsthand what the Evo brand is all about. The store supports Evo's primary e-tailing business and does not cause channel conflict. In the world of e-business, channel conflict typically occurs when product manufacturers undercut the success of their retail partners by selling products directly to consumers through their own electronic storefronts.

3. Evo Founder Bryce Phillips says that e-commerce is yet in its infancy and has not attained its fullest marketing potential. What is Phillips' vision for improving e-commerce, and do you agree with his perspective? Explain.

Answer: Bryce Phillips says that e-commerce has focused too much on sales transactions and too little on creating loyal customers who connect emotionally with brands online. He explains that many online shoppers conduct quick searches on Google or at electronic storefronts but don't get personally involved beyond that limited transaction. According to Phillips, that scenario doesn't produce loyal customers. The Evo founder envisions an e-marketing strategy that combines hip content, social networking, interactive media, and blogs to engage and retain online customers for the long term.

4. What challenges does Evo have in operating its Web-based business?

Answer: The video mentions a variety of challenges related to managing inventories, shipping errors, and understanding customers' online viewing habits. Although not discussed in the video, Internet businesses face serious threats over privacy issues, safe online payments, fraud, and scams. Cybercrime is a serious financial and legal threat to e-businesses.

PART 1 VIDEO CASE

To view the Part 1 video case, go to the *CB* companion website www.icancb.com to select this video.

North Face Shopping Experience

Time: This video is between 5 and 7 minutes long.

Concepts Illustrated in the Video

- Value
- Consumption
- Consumer Value Framework
- Relationship marketing
- Relationship quality
- Internal influences
- External influences

Synopsis

Patrick, a medical school student, enters a North Face store. Today, he's shopping for hiking gear for an upcoming trip to the Mount Washington area located in the Northeast. He's planning his trip during the warm summer month of June. Andy, the North Face employee, shows Patrick a variety of jackets to fit his needs. The jackets all come with insulation, ease of entry, and have a lifetime warranty. Price is a concern to Patrick, so he asks Andy to show him alternative choices to the original fleece version selling for \$150.

Patrick finally settles for a jacket retailing for \$79 and presents the store with a coupon for added savings. After Patrick's hiking trip, he returns to the store to purchase the original jacket Andy recommended for \$150! Ironically, the summit reached a record low of 10 degrees Fahrenheit in June.

Teaching Objectives for the Video Case

- Introduce students to the consumption process
- Define consumer value and compare and contrast two key types of value

Critical Thinking Questions—Suggested Answers

1. Explain what is meant by relationship marketing. How many touchpoints were illustrated in the video?

Answer: Relationship marketing is the recognition that customer desires are recurring and that a single purchase act may be only one touchpoint in an ongoing series of interactions with a customer. In this video, we see two touchpoints between the customer and the store.

2. What is the value of a North Face jacket? Does the salesperson in the video clearly communicate the value of the jacket? Explain your answer.

Answer: The value of the North Face jacket is the lifetime warranty, high quality products, and service one receives when shopping in the store. The salesperson clearly communicates the pros and cons of cheaper products not only by North Face but their competitors.

3. List the internal influences and external influences Patrick faced in purchasing the jacket.

Answer: Internal influences included Patrick's lifestyle, motivation, and personality. He's a medical student and concerned about spending money. External influences included the timing of the purchases, possibly Patrick's social class, and the store's atmospherics. *However, students' answers may vary to this question.*