

**BIEM**

**A.Y. 2024/2025**

**BLAB**

# HANDOUTS

## MARKETING

WRITTEN BY

**MICHELE ROSSINI**



TEACHING DIVISION

“

**This handout is written by students with no intention of replacing university materials.**

**It is a useful tool for studying the subject, but does not guarantee preparation as exhaustive and complete as the material recommended by the University.**



# Marketing

## General Exam

Michele Rossini - BIEM16 - AY: 2024-2025

This handout has been written by a student with no intention to substitute the University official materials. Its purpose is to be an instrument useful to the exam preparation, but it does not give a total knowledge about the program of the course it is related to, as the materials of the university website or professor. I thank Riccardo Caruso and Francesco d'Angela who contributed to the creation of these notes as well.

<b>Marketing Strategy</b>	<b>4</b>
Defining Marketing	4
Marketing Strategy	4
<b>Developing the Marketing Plan</b>	<b>9</b>
Components of a Marketing Plan	9
<b>Marketing Research</b>	<b>11</b>
Marketing Research Stages	11
Descriptive Research	14
Causal Research	19
Experimental Design	20
Validity	21
<b>Consumer Behavior</b>	<b>22</b>
Need Recognition	22
Information Search	23
Evaluation of Alternatives	25
Purchase	27
Post-Purchase Behaviour	27
<b>Consumer Influence</b>	<b>30</b>
Factors affecting Purchase	30
<b>Segmentation &amp; Targeting</b>	<b>36</b>
Segmentation	36
Targeting	38
<b>Branding</b>	<b>40</b>
Product Benefits	40
Brand Associations	40
Brand Elements	41
Brand Equity & Value	42
Brand Positioning & Differentiation	42
Brand Architecture	44
Brand Development & Extensions	45
Brand Acquisition & Re-Branding	46
<b>Promotion</b>	<b>47</b>
Advertising	47
Promotions	49
Public Relations	50
Personal Selling	51
Digital Marketing	51
<b>Product Service Strategy</b>	<b>52</b>
Product Marketing	52
Services Marketing	54

Product and Service Marketing Classification	55
<b>New Product Development</b>	<b>56</b>
Product Life Cycle	56
New Product Introduction	57
New Product Failure	57
Stages of Product Development	58
New Product Success (ACCORD)	60
<b>Marketing/Distribution Channels</b>	<b>61</b>
Benefits of Channels	61
Channel Conflicts	62
Channel Strategies	63
Store Decisions and Consumer Behavior	65
<b>Pricing</b>	<b>66</b>
Basics of Pricing Strategy	67
Price Adjustments and Strategies	69
<b>Behavioural Pricing III</b>	<b>72</b>
Psychological Pricing	72
Price Perception	73

# Marketing Strategy

## Defining Marketing

**Marketing is the process by which companies CREATE VALUE for customers and build STRONG customer relationships in order to CAPTURE VALUE from customers in return. Marketing does NOT create needs, but SHAPES WANTS.**

- **Needs:** physiological requirements such as food, clothing and shelter
- **Wants:** a felt need shaped by a person's knowledge, culture and personality

What marketing **should NOT be:**

- Sales or Advertising
- Following Fads (moda) without understanding long-term value
- Tricking people into buying things they don't need
- Focusing only on catching attention without delivering value

What marketing **should BE:**

- Identifying and addressing market demands before the product is developed.
- Understanding what the market will support naturally and filling a demand.

## Marketing Strategy

It's the marketing **logic** by which the company hopes to **create customer value** and achieve profitable customer relationships

1. **Define the MISSION:** a statement about the organization's **purpose (goal)**; what it wants to accomplish in the larger environment. It should include
  - Who are we? (What is our business? And Who are our customers?)
  - What do customers value? Market-oriented understanding?
  - What is our company about? Environment, based on competition, motivates employees...

For a statement, use concrete language and talk about the why = the mission (**do NOT use the word 'solution'**).

**EG:** Apple creates Macs, renowned as the world's best personal computers, alongside OS X, iWork, and professional software. The company has pioneered the digital music revolution with its iPods and the iTunes online store.

2. **Set OBJECTIVES and GOALS:** **Businesses objectives** need to be translated into strategic **marketing objectives (plans)** that companies implement.

**Business => marketing objectives:**

- **Maximize profits** (main goal) => **improve/develop new products**
  - **Be customer-centric** (acquisition costs are higher if you are customer-centric because you have higher customer attention) => **increase loyalty, create local partnerships**
  - **Sustainability**, i.e. the image of the company (customers care about this) => **increase promotion, retail, inventory, decrease prices** (however, take into account the high costs to be sustainable!).
3. **Design the BUSINESS PORTFOLIO**: collection of businesses and products that make up the company. **Portfolio analysis** is a major activity in strategic planning whereby management evaluates the products and businesses that make up the company.

(EG: Which are newer development areas? Which products bring more returns?)

**Strategic Business Units (SBUs)**: a **subgroup of a single business** or collection of related businesses within the larger organization. They can be separated between different functions. SBUs can be a:

- **Company division** (EG Coca-Cola HBC Italy) => regional or national boundaries
- **Product line within a division** (EG Coca-Cola)
- **Single product or brand** (EG Diet Coke)

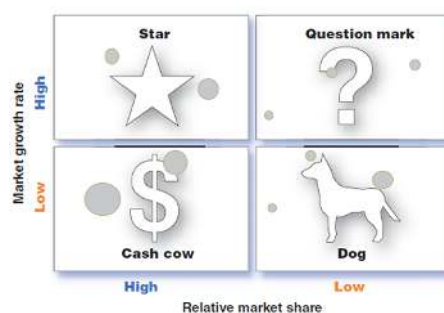
Each SBU has:

- A **distinct mission** for itself (derived from and feeding the mission of the larger organization)
- A **specific target market**
- Its **own competitors**
- **Control** of its **own resources**
- **Plans independent** of other SBUs

To **EVALUATE a business portfolio**, we can use 3 different matrices. They help companies analyze, assess, and make strategic decisions about their products, services, and business units.

### BCG Matrix

It categorizes a company's products or business units based on **market growth rate** and **relative market share**. By evaluating the current position of products, companies can make strategic portfolio decisions (invest, develop, divest)



- **Dogs** = things you want to start **divesting** in => no high returns
- **Question mark** => develop products

BCG matrix with **Coca-Cola Italy**

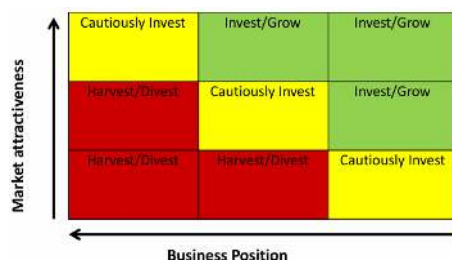
- **Coca cola** is a **cash cow** (high relative market share but low market growth rate) [?] they can differentiate their brand but not do much about it
- **Water is a star** => hasn't reached potential in terms of growth (they can acquire)
- **Coca-cola life is a dog** => low market share and low growth rate (when they develop another product, they hope it will be a question mark)
- **Fuze tea is the question mark** (could still differentiate and grow in the market of beverages)



**Innovation/Investment Matrix (GE/McKinsey)**

It evaluates business units based on **industry attractiveness** and **business strength (position)**. This helps companies allocate resources to business areas with the highest potential for growth and profitability.

- **Market attractiveness** comprehends a lot of things (we keep it **abstract**).  
The more a product goes up in the y axis (it is more attractive), the more you invest.
- **Business position:** how much you have **already invested** in that market.  
Bottom left: you have invested a lot but the product is not attractive so you stop investing.



**Ansoff Matrix**

Ansoff identifies **growth opportunities** instead of evaluating current business units. It helps businesses decide the **best approach to expand their portfolio**.

Market potential is customer-based => how many sales could be made  
Existing markets vs new = existing customers vs new

What are the strategies depending on markets and products:

	Existing products	New products
Existing markets	Market Penetration	Product Development
New markets	Market Development	Diversification

### EG: Google

- **Market penetration:** research website
- **Market development:** google Fi (like a sim card or phone plan)
- **Product development:** Gemini (AI). Old product developments: google calendar, google drive
- **Diversification:** Waymo self-driving taxi service

### Problems with matrix approaches:

- **Difficulty in defining SBUs and measuring market share, growth, and predicting future prospects** (some companies' products are in the middle; consumers might not be willing to give out their data)
  - **Time consuming**
  - **Costly**
  - **Overly restrictive**, forcing businesses into rigid categories rather than recognizing continuous variations.
4. **PLAN MARKETING AND OTHER STRATEGIES:** develop tactics to meet objectives, including pricing, promotion, distribution and product decisions.

### Strategy Basis (STPD):

- **Segmentation (WHICH):** identifying **groups of consumers** who respond in a **similar** way to a given set of marketing efforts (who are the units of customers)
- **Targeting:** the process of **evaluating each market segment's attractiveness** and selecting one or more segments to enter (how you reach consumers)
- **Positioning:** arranging for a **product to occupy a clear, distinctive, and desirable place** relative to competing products in the minds of target consumers (how your offering is different from what is on the market)
- **Differentiation:** actually differentiating the market offering to **create superior customer value** (what your value is relative to the other products in the market)

### 4 Ps Model of Strategy:

- **Product (Customer Solution):** focuses on solving customer problems and fulfilling their needs. Includes functionality, quality, design, brand/image, variety, add-ons, packaging, and warranty/services.
- **Place (Convenience):** highlights the convenience of making the product available to the customer. It includes retail channels, coverage/locations, supply chain/logistics, shipping/delivery and inventory.
- **Price (Customer Cost):** emphasizes the cost incurred by the customer to acquire the product. Includes list price, non-promotional discounts, allowances, payment periods, and credit terms.
- **Promotion (Communication):** focuses on effective communication to inform and persuade customers about the product. It includes advertising, personal selling, sales promotions/displays, public relations and trade shows.

**CREATIVE MARKETING:** Create **with** the customer, **NOT** just **for** the customer, asking what they need through surveys, interviews, focus groups. It includes the product, buying process, the ability to provide support, and customer relationships over time.

**EG:** McDonald's digital machine to order food (the big display) => speeds up the process of ordering and no language barrier

# Developing the Marketing Plan

A marketing plan:

- Provides **DIRECTION** and **FOCUS** for your brand, product, or company
- Describes **HOW** specific marketing strategies and actions will help achieve company's strategic objectives
- **Address one or more of the 4 Ps**

Marketing Plan should be supported by **market analysis** and **research**. Research should be assessed to the **environment, competition, market segments, threats** and **opportunities**. Market research is conducted to learn about customers' needs, wants, expectations, perceptions and levels of satisfaction.

## Components of a Marketing Plan

1. **Executive Summary**: summarizes the plan to show to the CEO. It is an **overview of the primary objectives** of marketing plan
  - New product launch?
  - Differentiating existing product offerings?
  - New channel?
  - New branding?
  - Novel segmentation/targeting strategy?
  - Change pricing strategy?
2. **Current Market Situation**: describes:
  - **Market**: what the company is already offering and what they will offer.
  - **Company's products**:
  - **Competitors**:
  - **Distribution channels**: online or in person.
  - **Other relevant** company-specific **elements**
3. **Strategy Components**:
  - **SWOT Analysis**:
    - **Strengths**: internal capabilities that may help the company reach its objective
    - **Weaknesses**: internal limitations that may interfere with the company's ability to reach its objective

- **Opportunities:** external factors that the company may be able to exploit to its advantage.
  - **Threats:** external factors (current and emerging) that may challenge the company's performance
4. **OBJECTIVE & SOLUTIONS that address main marketing problem (at least one of the 4 Ps):**
5. **Additional Components:**
- **Budget / financial analysis** of marketing actions (actions like changing the price)
    - Estimated **cost** of marketing actions
    - Estimated **potential increase in revenue**
    - Analyses of worst / best case scenarios (doing calculations)
  - **Risk assessment:** what could go wrong / backfire? => for ex. if it is a promotion campaign (every plan has its weaknesses)
  - **Controls:** describe how the company should monitor and measure the effectiveness of action programs as well as monitor risks => what you can do to prevent bad things from happening

# Marketing Research

It's the process of gathering, analyzing and interpreting information about a market, including potential customers, competitors and industry trends. It helps businesses understand consumer needs, preferences, and behaviors, allowing them to make informed decisions about products, pricing, marketing strategies and business expansion.

## Marketing Research Stages

1. **Assess Information NEEDS:** What do we need to know?

- **Consumer attitudes** toward our products
- **Sales** relative to our **competitors**
- **Consumer characteristics**

**EG:** Assume Domino's managerial problem is: why is the company's market share low?

The research questions would then be:

- How many consumers know our brand/store? (**acknowledgment** issue)
- What are **consumers' attitudes** towards our brand/store and our competitors?
- Which **competitors** have a higher market share?
- What are the attributes along which those **competitors** are (**perceived** to be) better? How important is each of these attributes?

2. **Develop PLAN and Collect INFORMATION:** 3 sources of marketing information:

- **Internal Databases:** consumer information and data obtained from sources **within** the **company** (free, no expenses)

**EG:** loyalty cards, products, position of shop

- **Marketing Intelligence:** monitoring, collection, and analysis of **publicly available information about the market**

**EG:** r/Ikea: online community on Reddit where people discuss Ikea's products, post reviews and ask for advice

- **Marketing Research:** **systematic design** to **collect**, analyze, and report data relevant to a **specific** marketing problem

- **Exploratory Research:** provides preliminary (broad) information that will help assess and define the problem
- **Descriptive Research:** describes the marketing problem
- **Causal Research:** tests a research hypothesis (cause and effect relationships)

**EG:** Back to the low market share managerial problem, some research questions to collect information to tackle the problem might be: Which attributes are important in the choice of

pizza? How do consumers rate Domino's as well as competitors' performance on each of these attributes?

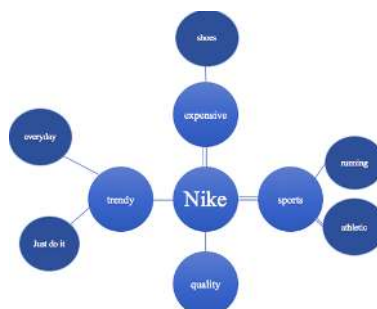
3. **RESEARCH Plan:** research objectives are translated into specific information needs. It describes the:
  - Information required: **VARIABLES**
  - Data **SOURCES:**
    - **PRIMARY Data (more costly):** data that are not yet available, and have to be collected for the specific problem => collected for the sole purpose of answering specific questions  
Generally preferred because it:
      - answers a specific problem
      - is up-to-date/current
      - has higher reliability (source is known and trusted)
    - **SECONDARY Data (cost effective):** data that are readily available; typically collected for other reasons at an earlier time
      - **Internal databases**
      - **External databases** (commercial online databases, public online databases, offline databases, etc.)
  - Research **METHODS**
  - Estimated **COSTS**
4. **RESEARCH OBJECTIVES:** A combination of one or more of the following research types:
  - **QUALITATIVE (Exploratory) research:** provides internal insights into human behaviour and experience, it is **unstructured** (observe and interpret) and made on **small samples**. It will help assess and define the problem.
    - **FOCUS GROUPS:** a planned, **focused discussion** involving similar people designed to obtain **qualitative data** regarding the **perceptions and feelings about products**, services, and organizations. The discussion is focused on specific topics.
      - Typically **6-10 participants** talking to each other (could also meet virtually)
      - **Skilled moderator** facilitating, listening, "focusing" => the moderator is in charge to lead the discussion
      - Participants are offered an **incentive to participate** (they get paid because they get a lot of incentives out of it)

Other types of focus groups:

- **Immersion groups:** small **groups of consumers** who interact with product designers **without** any moderator
- **Virtual groups:** members share their experiences and discuss ideas without being physically present in the same place

**Remark:** In focus groups you do not get broad opinions by a single person (usually with open-ended questions). However, when a person explains their idea quickly (by answering close ended questions like: who likes/dislikes such product?), the moderator can ask to get deeper into that.

- **IN-DEPTH INTERVIEWS:** **one-on-one** interviews with **trained professional guides**. The interviewer explains difficult questions and explores various issues that may arise. While **costly**, they bring **2 major advantages**:
  - Allows for intense probing of respondents or **reaction to ideas without peer influence**
  - Permits the **investigation** of **motivations**, **associations**, and **explanations** behind product preference
- **PROJECTIVE TECHNIQUES:** have respondents **think in METAPHORICAL terms**, allowing researchers to collect **sensitive** or **hard-to-articulate** information. It's strictly related to associations.
  - **Incomplete stimuli:** sentence completion, word associations, story completion
  - **Creating stimuli:** collages, role playing, sketching something (ex "draw a BMW as if it were a person")
  - **Imaginative exercises and personification:** visitor from another planet, imaginary universe, guided fantasy (ex "which car would Colgate be?")
- A. **BRAND ASSOCIATIONS:** Start from Nike and then ask people which words come into their mind => use that to make marketing associations to the brand



- B. **CONTENT ANALYSIS:** Examining **communication patterns** to gain insight into an object or brand
  - **Collect qualitative data:** social media posts, online reviews, forums, influencer content, articles on fashion

- **Code and categorize:** identify **recurring themes** in existing content (ex. brand perception, sustainability, competitors, etc.) => find dimensions to classify the company
- **Sentiment analysis:** assess brand perception by coding content as positive/negative (ex. analyze social media feedbacks like tweets)
- **Trend analysis:** look at changes in content over time
- **OBSERVATION (can also be quantitative):**
  - **Observation:** involves gathering data by watching people, events, and situations in a natural setting.
  - **Ethnography:** trained researchers **interact with** consumers in their “natural environments” to gain deeper insights.
  - **Netnography:** digital version of ethnography, where researchers analyze online forums and communities.
  - **Mystery shoppers:** researchers posing as customers to assess store environments and interactions with employees
  - **Smart shopping carts:** they track the movements of the customers between aisles, their interests, how much time it takes for them to decide which products to pick.
  - **Cookies:** digital tracking tools that monitor users’ website visits and match them with relevant ads for targeted marketing.
- **QUANTITATIVE research:** provides insights about human behavior **via data analysis and tools**, it is **structured** (measure and test) and made on **large samples**
  - **DESCRIPTIVE research** describes the marketing problem (**EG** attitude towards product, profile of potential customers, etc.)
    - **SURVEYS/cross sectional studies:**
  - **CAUSAL research** tests a research hypothesis (cause-and-effect relationship)
    - **EXPERIMENTS:**

## Descriptive Research

**SURVEYS** are the most widely used method for primary data collection. People are asked questions about their knowledge, attitudes, preferences, and behavior.

**EG:** What are Bocconi students’ attitudes towards restaurants that are close to campus?

Tools to answer surveys

- **Likert scales:** How much do you like the following restaurants? 1 = dislike very much; 9 = like it very much

- **Multiple choice questions:** How many times do you have lunch out? 0-2 times, 3-5, 6-8..
- **Open ended questions:** How much money do you spend for lunch? \_\_\_€
- **Demographic questions:** What is your age?

It can have a:

- **Cross-sectional design:** captures a snapshot of variables at a single point in time.  
Quick and cost-effective  
**EG:** Survey 500 students once this semester on average sleep hours and stress levels.
- **Longitudinal design:** measures the same variables repeatedly over time.  
Track changes and trends, offering deeper insights into developments and causal relationships.  
**EG:** Survey the same 500 students every semester for 4 years about their sleep and stress

## ATTITUDE

***It is a person tendency to respond positively or negatively towards an object*** (such as a ***product, action, idea*** or a ***person***) ***and it depends on specificity.***

**EG:** attitude towards The Weekend

- Category => arts
- Subcategory 1 / 2 => R&B/pop
- Artist => the Weeknd
- Album => Starboy
- Situational => concert for starboy tour
- Specific action => Attending The Weeknd concert with a friend at venue with a bar

How specific the question is changes how much concentrated the answer is.

It is widely measured in marketing research to understand consumer preferences, predict behavior and shape marketing strategies.

- **Explicit:** evaluation which the person is **consciously aware of** and is assessed with **self-reports**

Types of questions:

- **Open ended:** respondents answer in their own words
- **Close ended:** respondents choose from a fixed set of options => no judgement the contestant can add to the answer
- **Scaled response:** a type of closed ended questions measuring intensity
- **Rank-order:** respondents rank items based on preference

**EG:** ratings. There are ways to manipulate the rankings to get a wider range of estimates: if you know everyone in the sample likes The Weekend, you should expand the positive side of the answer to get more accurate answers, otherwise you would just get 7/8 out of 10 from everyone.

- **Implicit:** evaluation which the person is typically **NOT consciously aware of** and is assessed by using **implicit measures**. (**EG:** measuring the heartbeat/sweat when listening to the Weekend)

People's attitudes can depend on the nature of the eliciting task. "Task effects" violate procedure invariance: normative assumption that differences in procedures used to measure preference should not influence preference. Which type of question we choose may affect the response of the sample.

**EG:** assume there are two televisions, A and B. A is by Sony and costs \$309, B is by Magnavox and costs \$209.

Choice (close ended) question: which of the two televisions would you buy? Answer: Magnavox>Sony  
 Rating: indicate on a scale from 1 to 10 how likely you would be to buy television A (followed by B) =>  
 Answer: Sony>Magnavox

In the close-ended question, people might prioritize price and pick the cheaper option (forced choice). In the rating question, they evaluate each TV separately and might acknowledge Sony's higher quality, giving it a higher rating despite ultimately preferring the cheaper option (independent valuation)

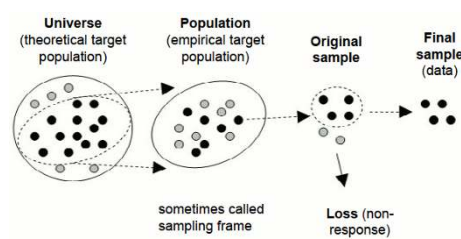
## SAMPLING

***It is a segment of the population selected for research to represent the population as a whole.***

Whom is to be studied and how is it chosen? How many people should be studied? When addressing these questions we need to consider:

**SAMPLING PROCESS:** it involves several steps to systematically select a subset of individuals from a larger population for research.

1. **Define the TARGET POPULATION (universe):** this represents the entire group of interest in the study, known as the theoretical target population. Not all individuals in this universe may be accessible for sampling.
2. **Determine SAMPLING FRAME (empirical target population):** this is a subset of the universe that can be practically reached => meet specific eligibility criteria. Determining your sample size hinges on your research questions and design: while larger samples generally yield more precise estimates and reduce variance, they also drive up costs. The optimal number depends on the total population size and the level of precision you need.
3. **Select the ORIGINAL SAMPLE:** a subset of individuals is chosen from the sampling frame using a specific sampling technique. This group represents the study population before data collection.
4. **Account for NON-RESPONSES (Loss):** some individuals in the same sample may not participate due to various reasons (**EG:** lack of interest, lack of motivation, social desirability)
5. **Obtain the Final Sample (Data Collection):** the remaining respondents form the final sample, which is used for analysis.



## SAMPLING TECHNIQUES

- **Probability sampling**: the probability to select any individual from the population is **fixed** (equal chances)
  - **SIMPLE random sampling**: participants are selected purely by chance, like a lottery draw. It still requires validation against population statistics (randomness does not guarantee a perfectly representative sample)
  - **SYSTEMATIC random sampling**: selects individuals at regular intervals from an ordered population list (i.e. choosing every 5 people).
  - **STRATIFIED sampling**: divide population into **subgroups (strata)** based on characteristic (age, gender, income). A random sample is then drawn proportionally from each group.  
**EG**: in a university with 60% male and 40% female students, the sample should maintain this ratio.
  - **CLUSTER sampling**: divide population into **clusters**, and entire clusters are randomly selected instead of individuals. It is not based on specific characteristics.
- **NON-probability sampling**: individuals are selected from the population based on judgment of the researcher. These methods **DO NOT provide an equal chance for all individuals to be selected** but are **often more practical and cost-effective**, especially for exploratory research.
  - **CONVENIENCE sampling**: sampling **nearby/easy-to-reach individuals**. It's relatively cheap and straightforward.
  - **SNOWBALL sampling**: **existing participants refer others**, creating a growing network of respondents. There is high chance of **BIAS**, as participants tend to refer people similar to themselves.
  - **QUOTA sampling**: participants are selected based on predetermined quotas to match specific characteristics of the population. Selection is not random, so results may still be biased.

## HEAT MAP ANALYSIS

It's a **data visualization technique** that represents values using **color intensity**, making it easier to identify **patterns, trends**, and **outliers** in data. It is widely used in various fields, including business, marketing, finance and research.

**EG**: After seeing a stimulus, what are consumers **focusing** on? (EG: searching on google a certain type of store/shop)

## MARKET STRUCTURE ANALYSIS

Market structure analysis involves **GROUPING** or segmenting brands and products based on **KEY CHARACTERISTICS** such as competition, pricing and product differentiation. Different structural alternatives can be used depending on the dimensions of interest, such as:

- By **product type**: categorizing products based on features, such as Compact vs DSLR cameras:



- By **brand**: identifying which companies dominate specific market segments



- By **consumer segments**: understanding customer preferences based on demographics or behavior

### POSITIONING STUDIES

It helps companies determine **HOW TO MARKET** their product by understanding customer preferences and perceptions. These studies assess how a brand is positioned relative to its competitors and allow marketers to refine their messaging to align with customer expectations. By analyzing whether brands are perceived as similar or different, researchers can identify key differentiators and areas for improvement.

### SEGMENTATION STUDIES

A **consumer segment** is defined by analyzing key factors such as consumer needs, motivations and preferences. By understanding what drives consumers, whether their essential needs, desires, or behavioral tendencies, companies can refine their offerings to better match market demand.

Segmentation is based on a mix of a **PRIORI ASSUMPTIONS, USAGE CHARACTERISTICS, ATTITUDINAL FACTORS** and **NEEDS-BASED ATTRIBUTES**.

**EG:** A sportswear brand can tailor strategies for different consumer segments by analyzing preferences and purchase behavior. Performance-driven athletes value high-tech fabrics and elite endorsements, while eco-conscious consumers prioritize sustainability, driving demand for eco-friendly products. Through surveys and data analysis, the brand can refine its messaging and offerings to effectively engage both groups and stay competitive.

### PITFALLS of DESCRIPTIVE RESEARCH

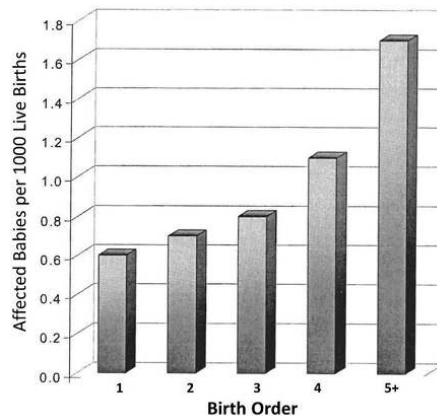
- **Directionality problem:** does A cause B or does B cause A?  
**EG:** if a study finds that people who exercise more happier, it is uncertain whether exercise leads to happiness or if happier people are more likely to exercise.
- **Spurious correlation:** is there any meaningful relationship between A and B or is it merely statistical?  
**EG:** a study may find that students who eat breakfast perform better in school, but the real cause could be parental involvement or socioeconomic status, which affects both breakfast and academic performance.
- **Omitted variables/confounds:** does A cause B or can the relationship be explained by C, D, E, or F?  
**EG:** ice cream sales and drowning rates both rise in the summer, but eating ice cream does not cause drowning. Instead, a their factor, hot weather, drives both trends.

Descriptive research is used to find relationships or connections by observing

## Causal Research

Causal research focuses on the **cause-effect mechanism** of market variables.

**EG:**



Positive relationship between birth order (whether a child is born before or after their siblings), or variable A, and the babies affected by a certain medical condition (variable B). However, the medical condition could be due to several more variables that are unexplained by the causal research

**CAUSALITY:** A change in one variable (X) will produce a change in another variable (O)

**Necessary conditions:**

- **COVARIATION:** the cause must be related to the effect (i.e., a change in X needs to result in change in O)
- **TIME-ORDER:** the cause must precede the effect
- **NO CONFOUNDS:** no plausible alternative explanations must exist for the effect other than the cause

The **independent variable** (X) is what the experimenter manipulates at different treatment “levels”.

**EG:** different advertisements, different prices, different store layouts

The **dependent variable** (O) is observed or measured.

**EG:** product attitudes, purchase, willingness to pay, satisfaction

**GOAL:**

It's to determine **whether changes in an independent variable (IV) directly cause changes in a dependent variable (DV)**. This is achieved by comparing controlled situations where the **IV** is present or **manipulated at different levels**. Researchers aim to **eliminate confounding variables** and rule out alternative explanations to establish a **clear cause and effect relationship**. By carefully designing experiments and controlling for extraneous influences, causal research helps validate hypothesis and ensures reliable conclusions about the impact of specific factors.

**EG:** Some people were asked to choose their preferred Coca-Cola advertisement between two options.

The IV is: different treatment level of advertisement A and B

The DV is: "How much do you like Coca-Cola" => this opinion is correlated to the advertisements

### ISSUES:

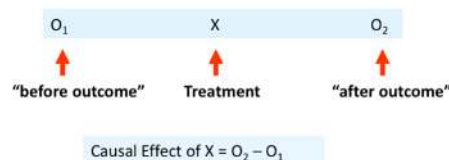
- **No random allocation:** participants saw both advertisements, and those who choose one advertisement may differ systematically from those who choose the other
- **No control group/baseline:** evaluates A versus B (ideally), but does not evaluate the effect of A or the effect of B => without a baseline (a measure of how much people like Coca-Cola **before** seeing any ad), we cannot tell if A or B actually increased or decreased people's preference for Coca-Cola

## Experimental Design

### ONE-GROUP BEFORE-AFTER

The pre-test post-test design measures the effect of a treatment by comparing outcomes before ( $O_1$ ) and after ( $O_2$ ) the intervention ( $X$ ).

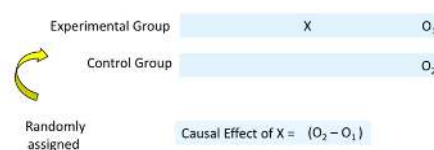
- **Pros:** Uses **fewer participants** since each person is measured twice.
- **Cons:** participants may **remember** pre-test responses and adjust their responses based on expectations rather than real change



### AFTER-ONLY

Participants are randomly assigned to either a treatment group, which receives an intervention ( $X$ ), or a control group, which does not. Unlike the above method, this approach measures outcomes only after the treatment, comparing the results ( $O_1$  and  $O_2$ ) between groups to determine the treatment effect.

- **Pros:** Cuts down on measurement/experimenter demand effects
- **Cons:** No baseline measure (we do not know the participants' opinions before the test): difficult to compare opinions if we do not have a 'before the test' situation

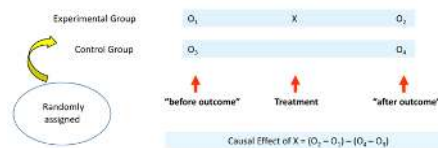


### TWO-GROUP BEFORE-AFTER

The 2 group before after design, also known as a **randomized controlled trial (RCT)**, is an experimental method that compares an **experimental group** receiving treatment (**X**) with a **control group** that does not. Both groups are **randomly assigned** to ensure fairness and reduce bias.

Measurements are taken **before** (O<sub>1</sub>, O<sub>3</sub>) and **after** (O<sub>2</sub>, O<sub>4</sub>) the treatment, allowing researchers to **assess the causal effect of X** by comparing the changes in both groups.

- **Pros:** effective because it **controls for external factors** and provides a clear cause and effect relationship.
- **Cons:** it requires **true randomization** of individuals or entities to ensure reliable results.



## Validity

1. **INTERNAL VALIDITY:** shows if the study really proves that one thing causes another. It represents the **extent to which a causal conclusion is warranted** (and thus, says something about the quality of the experiment). If the observed **effect** on the **dependent variable** is caused **only** by the **variation in the independent variable**, then internal validity has been achieved.

### Problems:

- **History Effects:** something outside the study happens and affect the results.
  - **Instrumentation Issues:** the way you measure things changes during the study.
  - **Main Testing** (or pre-measurement) **Effect:** taking a test before can change how people answer later.
  - **Experimental Mortality:** people quit the study before it ends.
  - **Selection Bias:** the groups being studied are already different from the start.
  - **Demand Effects:** participants act differently because they guess what the researcher wants.
  - **Maturation Effects:** people naturally change over time, not because of the study.
2. **EXTERNAL VALIDITY:** shows if the results of the study can be applied to other people, places times, outcomes or different versions of the treatment. It measures whether the **findings apply beyond the specific test conditions**. If external validity is weak, companies might make decisions based on results that do not hold up in the real world, leading to poor business outcomes.

# Consumer Behavior

The **buying process** has multiple steps:

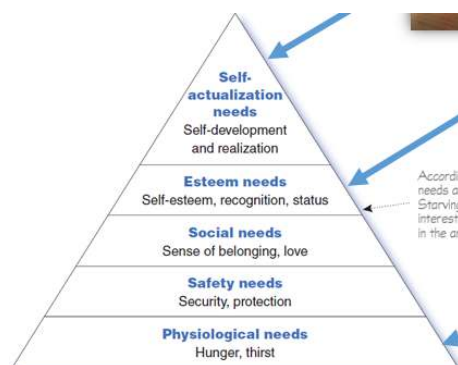
## Need Recognition

Internal and external stimuli influence the shift from a current state to a desired state.

- **Internal stimuli** arise from personal needs or motivations
- **External stimuli** come from environmental or external pressures

Both driving change and decision making.

**Maslow Hierarchy Needs:** Human needs are arranged in a hierarchy: we don't think about the highest levels if the bottom are not satisfied



### Types of consumers needs

- **Functional (Utilitarian):** focuses on the practical use, what the product allows the user to do.  
**EG:** Audi => the advertisement makes you feel about functional needs through the different components of the engine and the vehicle (horse symbol: how powerful is the car).
- **Emotional (Hedonic):** relates to the feelings and experiences the product evokes.  
**EG** audi: joy => the product is going to make you happy
- **Social:** concerns how using the product influences others' perception of the user.  
**EG** audi: the car is going to make you part of a higher social class (how you feel as a member of society).

### Model of consumer motivation

It explains the motivation process, where **individuals act to resolve a gap between their actual and desired state**. When a **DISCREPANCY** arises, it creates **TENSION** or **discomfort**, pushing the **individual to seek change**. This DISCOMFORT generates a drive, providing the necessary energy and focus to take action. The process culminates in reaching the **GOAL**, which satisfies the need and restores balance. This concept is widely applied in consumer behavior, psychology and decision making.

## GOAL SYSTEM

It's a **mental representation of associative networks** composed of interconnected **goals** and **means**

**EG:** if the goal is to get a really high average grade, one (interconnected) subgoal is to get a high grade in marketing class; the mean would be to study

### Properties:

- **EQUIFINALITY:** A **single goal** is associated with **multiple means**

**EG:** goal is to reduce anxiety; different means are: distract yourself, sports, meditation.

**Perceived instrumentality of specific means:** the perception about the effectiveness of the means in attaining the goal (e.g., because of past experience)

- **MULTIFINALITY:** **Multiple goals** are associated with a **single means**

**EG:** Sports can reduce anxiety, promote a healthy habit, makes you fit, reduces blood pressure.

**Perceived value of a specific means:** the sum total of the perceived value of all the goals the mean serves => the more value I perceive the more I am motivated to reach the goal.

## Information Search

When people search for information before making a decision, they can use two types of sources:

- **Internal:** they think back to what they already know from their **memory**.

**EG:** remembering a good experience you had with a brand

- **External:**

- **personal:** family, friends, neighbors

- **commercial:** ads, salespeople, dealer and manufacturer websites, packaging, displays

- **public:** mass media, consumer ratings organizations, social media, online searches, forums, peer reviews

- **experiential:** trying or testing the product yourself.

## BASIC MEMORY SYSTEM

It consists of 3 stages:

- **Sensory Memory:** environment stimuli are registered for a short duration ( $\frac{1}{4}$  to 3 sec). It has a large capacity but only retains information momentarily unless **attention** is given to transfer to short memory. It is related to 5 senses (sight, hearing, touch, taste, smell or: iconic, echoic, haptic, gustatory, olfactory).

**ATTENTION:** selective focus on informational content.

- **Short-Term (Working) Memory:** holds information temporarily (20sec) and has limited capacity and inefficient. It processes new information from sensory memory while also retrieving relevant data from long term memory. If the information is **encoded**, it moves to long term storage.

**ENCODING:** converting information into long-term memory through processing.

- **Long-Term Memory:** where permanently stored information resides. It has an unlimited capacity and holds data that has been encoded and stored from short term memory. Information can be retrieved when needed and brought back to short term memory for active use.

**RETRIEVAL:** recalling/recognizing long term memory

### Types of associations

They are different ways the ideas or memories are connected in your mind, especially when you think about brands.

- **Secondary Associations:** associations of associations

**EG:** Hermès - Paris; Paris – Beautiful; Paris – Posh => Hermès associated with posh.

- **Reciprocal Associations:** category evokes brand, but does a brand evoke the category?

**EG:** Hermès <=> Luxury bags but Hermès => Blankets (Blankets => Hermes is not a very easy and automatic association)

- **Interconnecting Associations:** used to improve consistency and brand image

**EG:** Hermes <=> luxury bags; Hermes <=> luxury clutches; Hermes <=> luxury shoes

These different associations help positioning the product into the luxury market

### DRIVERS OF KNOWLEDGE ACCESSIBILITY

- **Frequency:** How often?
- **Recency:** How recent?
- **Association strength:** How strong?
- **Number of associations:** How many?

These can make you have stimuli when you retrieve your memory

### EFFECTS OF KNOWLEDGE ACCESSIBILITY

- **Memory Retrieval:** depends on how specific memories are encoded and a person's reconstructive memory
- **Evaluation:** more liking and higher ratings

### MODELS OF CONSUMER LEARNING

- **Cognitive Learning:** consumers actively process information, reasoning through experiences and problem solving to make informed decisions.
  - **Repetition:** when something is repeated, memory strength is increased
  - **Elaboration:** could include consideration, clarification, analogies, generation of EGs
  - **Mnemonics:** associations to aid in memorization (e.g., PEMDAS – order of parenthesis, EGBDF – order of notes in music, ROYGBIV – colours of rainbow)

- **Conditioning:** learning occurs through associations and reinforcement.
  - **Classical (Pavlov):** associates a stimulus with an **involuntary response**. It is based on the stimulus-response relationship, where an initially neutral stimulus eventually triggers a conditioned response.
 

**EG:** A perfume brand repeatedly shows romantic scenes in its advertisements. Over time, consumers associate the scent(stimulus) with romantic feelings (response), making them more likely to buy the product.
  - **Operant (Skinner):** behavior is shaped by **rewards** and **punishments**. The individual learns through trial and error, adjusting their actions based on the consequences
 

**EG:** A coffee shop offers A LOYALTY CARD where every 10th coffee is free. Customers are motivated to return frequently (behavior) because they receive a reward (free coffee), reinforcing purchasing habit.
- **Modeling:** consumers **learn by observing others' behaviors** and their **consequences**, often influenced by social proof of endorsements. You don't have to try it yourself, just seeing what happens to others teaches you. What makes it stronger:
  - The model is **admired**: you're more likely to copy people who are famous, successful or smart.
  - The model is **similar to you**: if the person reminds you of yourself, you're more likely to imitate them.
  - **You can actually do it**: if you're able to copy the behavior you see, learning is easier.

**Reconstructive memory:** When you remember something, it's not always 100% perfect. Instead, you rebuild the memory using what you really experienced plus other information you get from your surroundings or from inside your mind.

**EG:** The juice study tested whether advertising influences memory. Participants tasted one of three orange juices (good, medium and bad), then saw an ad or no ad. Those exposed to the ad were less likely to identify the juice correctly, with many who drank the bad juice falsely "remembering" it as good, showing how marketing can alter perception.

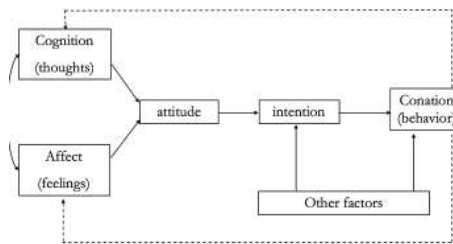
### EXTERNAL INFORMATION SEARCH

Commercial environment influences consumer behaviour.

- **Marketing-controlled information:** the seller gives information to you about the product. However they will present information highlighting only the good features instead of flaws.
- **Non-marketing information:** websites that review products (different and random opinions not controlled by producers to induce consumers to buy)

## Evaluation of Alternatives

### COMPONENTS OF ATTITUDE



- **Cognition:** thinking process, how you perceive, remember, reason, solve problems, and make decisions.
- **Belief:** it's what you believe to be true about the connection between an object and a result or feature.  
**EG:** "Milk is healthy", "The iPhone screen is high-quality", conspiracy theories  
 In economics, a belief means a probability ('I believe it is going to rain tomorrow') => you can prove that I am wrong. In marketing a belief is subjective and cannot be proved.

### COMPENSATORY DECISION MAKING

All attributes and beliefs are considered simultaneously and may receive different weights

- **Single/simple additive strategy:** you add up all the pros and cons of different options, treating every factor equally.
- **Weighted additive strategy:** you add up the pros and cons but give more importance to some factors than others.
- **Lexicographic strategy:** you rank the attributes by importance and choose based on the most important one first.

### AFFECTS (influence of emotions)

Affect s your emotional state (feeling happy or sad) that influences how you think and act. It has a:

- **Valence:** positive or negative feeling
- **Arousal:** how strong the feeling is

Types of affects:

- **Integral:** direct emotional reaction to something specific.  
**EG:** this movie makes me feel happy
- **Incidental:** emotions that come from somewhere else, but still affect your judgments.  
**EG:** being in a bad mood because of the weather, and then rating a product poorly

### Differential Memory Accessibility

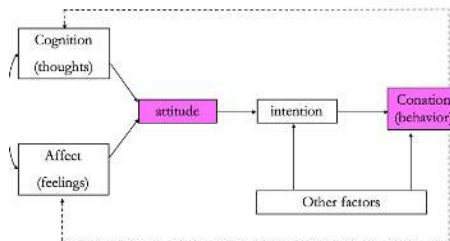
Your **mood:** can bring certain memories to mind, changing how you judge things.

**Feelings as information:** you might mistake your mood as a sign of how good or bad something is, even if your mood has nothing to do with it.

**EG:** if I feel sad => I may want to eat junk food

# Purchase

## ATTITUDES AND BEHAVIOUR



Just **because someone wants to buy something doesn't mean they actually will**. There could be some **obstacles**: price, paying method, availability of money of the consumer, availability of the product (maybe it is out of stock), etc...

Consumer decisions are shaped by 2 main things:

- **Psychological Factors:**

- How strong and confident people feel about a product (attitude strength)
- How involved, knowledgeable or experienced they are with the product.
- How easily they remember their feelings about it
- How much they are influenced by other people's opinions

- **Market Factors:**

- **Price**
- **Availability**
- **Budget**

## AIDA MODEL

The AIDA model shows the steps people go through before buying:

- **Awareness:** They **notice** the product.
- **Interest:** They become **interested** in it.
- **Desire:** They start to **want** it.
- **Action:** They **buy** it.

## Post-Purchase Behaviour

After buying a product, 2 important things affect consumer behavior:

- **(Dis)satisfaction:** feeling based on the experience of using a product (or buying process).

- If they are **happy (satisfied)**: they might buy again and stay loyal to the brand.
- If they are **unhappy (dissatisfied)**: they might leave bad reviews or switch to another brand
- **Disposal**: what the customer does with the product when they no longer want it. They decide when to get rid of it, why they don't need it anymore and whether they are replacing it with something new.

### Expectancy Confirmation Model

**Satisfaction** is **driven by expectations**: this model explains consumer satisfaction by comparing expectations of product performance with perceived performance after purchase.

- **Expectation = Perception** → Confirmation
- **Expectation < Perception** → Positive disconfirmation
- **Expectation > Perception** → Negative disconfirmation (performance falls short of expectations).

### Cognitive Dissonance (after buying something)

**Dissatisfaction** is a cognitive dissonance: it's the uncomfortable feeling people get when they hold 2 conflicting ideas at the same time.

**EG**: "I bought this product" but "maybe it wasn't the best choice".

#### How to reduce it:

- Return the product to cancel the decision
- Look for information that says they made a good choice
- Find negative information about the other options to feel better about their choice
- Ignore or avoid information that says they made the wrong decision.

#### Attributions of dissatisfaction:

- **Internal locus of control** ("blame yourself"): success or failure due to own actions.
- **External locus of control** ("blame other factors"): success or failure due to outside factors (luck, product issues)
- **Self-serving bias**: success credited to oneself, failure blamed on others.
- **Fundamental attribution error**: others' mistakes are blamed on their personality, not their situation.

Confidence may also drive (dis)satisfaction: **above average effect**: people want to be the best => people think they are the best because it is harder to get better by starting from the bottom

#### Dissatisfaction and inaction:

When consumers feel dissatisfied, they can react in different ways.

- Consumers may **exit**: they stop buying
- Consumers may **take actions**: **complain formally**, leave **bad reviews**, **complain** to others

If companies do not handle these complaints well, dissatisfaction can grow, damaging the brand's reputation and causing a **loss of customer loyalty**.

Several factors influence whether a customer **will actually complain**:

- **Motivation**: includes personal traits, how strongly they feel dissatisfied and how they explain the problem.
- **Ability**: whether the customer feels confident and capable of complaining
- **Opportunity**: whether they have the chance or way to voice their complaint

**Reactions to complaints**: to keep customers happy, businesses must handle complaints quickly and properly. Good practices include:

- **Thanking customers** for their feedback to show their opinions are valued
- **Suggesting better alternatives**, even recommending another company if needed
- **Routing complaints** to the right person or department to speed up solutions
- **Offering refunds, discounts or sincere apologies** to show real commitment to customer satisfaction

### **Satisfaction and Brand Loyalty**

When companies manage complaints well and create positive experiences, customer satisfaction increases leading to **strong brand loyalty**. Dissatisfaction leads to **lost sales and valuable feedback**, other than **negative word-of-mouth** (bad reputation)

**EG**: Brand loyalty (IKEA) => 'ikea hackers' website: customers can design new furniture by putting different pieces of furniture together => consumers feel important

### **Happiness: Material vs Experiential Purchases**

- **Material purchases**: are about owning physical things like clothes, electronics or furniture. They often show personal style or status.
- **Experiential purchases**: focus on experience like traveling, going to concerts or eating at fine restaurants. They are valued for the memories and emotions they create.

# Consumer Influence

Consumer influence is an important factor which affects purchase decisions.

## Factors affecting Purchase

### CULTURAL FACTORS

**Values, behaviours, norms, rituals/customs, myths/histories, foods, clothes and traditions.**

**EG:** Walmart opening in Japan but not working out. In America it had major success because Americans want a lot of things (quantity) but do not care a lot about quality (Japanese do).

**National cultural values:**

- **Power Distance:** how much a society ACCEPTS INEQUALITY and hierarchies between people.
  - **High Power Distance:** big gaps between rich and poor are accepted
  - **Low Power Distance:** people expect more equality
- **Individualism vs. Collectivism:** whether a culture values individuals (personal success) or groups (team success and relationships)
  - **Individualism:** focus on personal goals
  - **Collectivism:** focus on group harmony
- **Uncertainty Avoidance:** how much people DISLIKE UNCERTAINTY and change.
  - **High uncertainty avoidance:** prefer clear rules, avoid risks
  - **Low uncertainty avoidance:** open to risks, flexible with rules

### INDIVIDUAL FACTORS

- **Demographic:** consumer preferences change with age. Preferences form between ages 15-30, after which people stick to their product choices.

**EG:** Younger people like new products and are willing to take more risks on them (spend more money). Old people prefer traditional, nostalgic products.
- **Socioeconomic:**
  - **Risk tolerance:** willingness to make risky choices
  - **Present bias / temporal discounting:** preference for immediate rewards over future gains
  - **Future self-orientation:** how much a person cares about future goals and well being
- **Psychological:**
  - **Materialism:** defining yourself through what your own
  - **Need for Uniqueness:** wanting to stand out and be different

- **Social Comparison**: evaluating yourself by comparing to others.

## CONTEXTUAL FACTORS

Context refers to:

- the **subtle cues** (segnali sottili) in the **environment**,
- the **framing of a decision**
- any **factors that influence a decision without altering its core fundamentals**. It shapes how individuals perceive and respond to situations, affecting judgment and behavior in ways that may not be immediately obvious.

**EG**: Supermarkets that design the environment with different colors and specific lighting that makes you feel like you are immersed in nature (using wood for cashiers, green colours, deem lighting). In this way people are willing to spend more if they think they would consume more natural products.

**EG**: List the first 8 chocolate brands that come to mind and List the first 6 soda brands that come to mind

Participants asked for to list either:

one day prior to Halloween

one week following Halloween

Question: when are people more likely to list orange products (chocolate or soda brands)? One day prior to Halloween because you think about Halloween, or they were listed earlier in the list because it was what came to mind at first.

### SUBLIMINAL vs SUPRALIMINAL messages:

- **SUPRALIMINAL**: when a **stimulus exceeds the threshold to be consciously detected** (hear it, see it).
  - Directly influence awareness, decision making and consumer behavior.
  - Common in marketing, including product placements, celebrity endorsements, visible ads
  - **EG**: a McDonald's billboard displaying a steaming burger with the slogan "I'm lovin' it"
- **SUBLIMINAL**: when a **stimulus cannot be consciously detected**
  - Not consciously noticed, yet they can subtly influence behavior.
  - regulated or banned in many countries due to ethical concerns in advertising
  - **EG**: The smell of popcorn at a movie theater triggering cravings

### CONTEXT EFFECT:

People's preferences change depending on what OTHER OPTIONS are available. Different psychological effects influence this:

- **Compromise Effects:** consumer prefer an option that is moderate in price, quality or features.  
**EG:** given a basic, mid range and premium TV, most people choose the mid range one.
- **Attraction Effects:** a worse option (decoy) makes another choice look better.  
**EG:** adding a medium coffee for 6.5\$ makes the large coffee for 7\$ seem like a better deal
- **Phantom Effects:** an attractive but unavailable option pushes consumers toward a similar available one.  
**EG:** a cheap first class flight upgrade sells out, so customers buy business class instead.
- **Single-Option Aversion:** when only one choice is available, people hesitate or delay the decision.  
**EG:** seeing only one laptop model, customers may postpone buying or look elsewhere

### SOCIAL FACTORS

Information transmission influences consumers:

- **Scant or ambiguous product information:** when customers receive limited, unclear or misleading information about a product, they may struggle to make informed purchasing decisions or reliance on external cues  
**EG:** such as brand reputation, reviews or word of mouth.
- **Unclear acceptable behavior:** if consumers are uncertain about proper conduct their behavior may vary  
**EG:** how to use a product, ethical considerations or social norms.

Influence has numerous SOURCES:

- **Informational Influence:** how you present the same information influences purchase.
  - **Product Enthusiast:** highly passionate about a specific product.
  - **Professional Advisor:** expert who provides specialized knowledge, recommendations.
  - **Thought/Opinion leaders:** people who are very knowledgeable about certain products and have a lot of expertise. Others trust their opinion and often listen to their advice when making decisions about products. They can be identified in different ways:
    - **By Observation:** you can notice these people by watching how they behave or how others listen to them
    - **Self-Designation:** sometimes, people call themselves thought leaders because they feel confident about their knowledge and expertise
    - **Data Analytic Techniques:** sometimes, technology and data are used to identify who the thought leaders are based on patterns in social media or other sources.

**Difference between influencers and opinion leaders?**

**Influencers are bottom up** (meanwhile **leaders are top down**: they are **successful for other reasons** and then they get successful)

- **Word-of-mouth**: consumers talking about consumers
  - **Social currency**: people tend to share content that enhances their reputation or makes them appear knowledgeable
  - **Triggers**: content that remains top of mind or is frequently encountered is more likely to be shared.
  - **Emotion**: strong emotional reactions, especially high arousal emotions, increase the likelihood of sharing
  - **Practical value**: people prefer sharing useful and helpful information that benefits others
  - **Reliability**: information is more likely to be shared if it appears trustworthy and free from conflicts of interest

#### **Drivers of REFERRALS:**

- Supporting others by **improving their well-being and decision-making**.
- Contributing to the company's success through **positive actions**.
- Expressing **enthusiasm** and spreading **positive emotions**.
- Seeking **recognition, appreciation, or attention** from others.
- Influenced by **personality** traits that drive engagement and sharing.

#### **NORMATIVE INFLUENCE**

- **Peer Pressure**: refers to the influence that others, especially people within a consumer's social circle, have on their behavior. People often feel the need to conform to the expectations of groups they are part of, such as family, friends or workplace. This desire to fit in is driven by the fear of being either rewarded for following social rules or punished for not following them. Consumers often want to act in ways that are considered acceptable by those around them, and this can affect their choices and behaviors.
- **Conformity study**: the need to **adhere to social norms** and positive expectations or beliefs of others. Influence depends on numbers of observers, authority of social groups and ambiguity of the situation.

#### **PERCEIVED AUTHORITY**

It is often regarded as an undisputed source of information, influencing people's decisions and behaviors. Authority can be:

- **content based**,
- **derived from objective knowledge**
- **tangible power** over individuals

- **conveyed through presentation**, such as clothing.  
**EG:** doctors wearing white coats, soldiers in uniform
- **conveyed through physical appearance**  
**EG:** grey hair, height
- **conveyed through professional roles**  
**EG:** police officers, doctors, professors.

These elements contribute to the perception of credibility and influence how people respond to authoritative figures.

### COMMITMENT

1. **Low-Ball Commitment:** getting someone to agree to an initial request before revealing additional costs or downsides. Once the person has made a commitment, they feel psychologically inclined to stick with their decision, even when conditions change.
  - **EG:** A car dealer offers a car at a low price, but after the buyer agrees, additional fees or conditions are introduced. Despite the increased cost, many buyers still follow through.
2. **Mere Measurement Effect:** asking people about their future behavior increases the likelihood that they will follow through. This happens because thinking about an action makes it more mentally accessible and aligns with their self-perception.
  - **EG:** A study shows that asking people if they plan to vote increases actual voter turnout.
3. **Free Gift Technique:** relies on the reciprocity principle, where people feel obligated to give back after receiving something for free. Even if the gift is small, recipients tend to return the favor, often by making a purchase or complying with a request.
  - **EG:** Some participants given a free Coke, either from someone else or the vendor; others given no Coke
4. **Door-in-the-Face Technique:** making a large, unreasonable request first, which is likely to be refused, followed by a smaller, more reasonable request. People feel guilty for rejecting the first request and are more likely to accept the second.
  - **EG:** A fundraiser asks for a \$500 donation (likely rejected) and then follows up with a request for a \$50 donation, which is more likely to be accepted.

### SOCIAL NORMS

- **Descriptive norms:** indicate what people typically do, guiding behavior through social proof  
**EG:** if most people avoid tax fraud, others are less likely to engage in
- **Injunctive norms:** reflect societal approval or disapproval, reinforcing what is considered morally right or wrong.  
**EG:** Even if tax fraud were common, an injunctive norm would still label it as unethical.

### VALUE-EXPRESSIVE INFLUENCE

This refers to how people make choices based on the role models, celebrities, or social groups they look up to or identify with. This can come from personal relationships, famous people or larger communities.

- **Associative identification:** people may adopt certain behaviors to fit in with a group they admire.
- **Dissociative identification:** avoid behaviors tied to groups they don't want to be associated with.

### **Conspicuous consumption:**

This is when people buy expensive or rare items to show off their status or social position. These products are often seen as symbols of prestige or exclusivity. Luxury brands, for example, are expensive and well-known, so buying them makes people feel like they belong to a high-status group.

By purchasing these items, individuals not only satisfy their own desires but also show others that they have money and belong to an elite group.

# Segmentation & Targeting

## Segmentation

**Breaking up groups of consumers/individuals that buy products and can have different usage.**

The **purpose** is for companies to tailor strategies and marketing mixes to suit specific segments, instead of using a one size fits all approach

**Offering the same product to everyone is often ineffective** and fails to address the unique preferences of different consumer groups.

**EG:** some people like hot tea, some like iced. But if we average the market and we try to develop a tepid tea, no one would buy it.

Successful segmentation helps businesses better meet customer needs, enhance engagement and improve marketing efficiency.

### CONDITIONS FOR SEGMENTS

- **Differentiable/Useful:** segments are conceptually **distinguishable** (differentiable) and **respond differently to different marketing mix elements and programs** (useful).

There needs to be something distinguishable between the segments

**EG:** credit scores => number associated with your past transactions in a bank account (ex: if the bank gives you a loan it checks your credit scores)

You look at it if you are a lender

Other versions of segmentation: they segment on consumer who are willing to pay more vs less, and based on what they want (have a bag instead of luggage). Average here also does not work: people who pay little are not willing to pay the average, people who pay more could have gotten more out of them than the average

Eye color: could be used as a segment for eye glasses, lenses.

they are not useful for EG choosing dog food: there is no association between the two products.

- **Accessible:** segments need to be **reachable**. This means the company should be able to **effectively contact and serve the segment** with marketing efforts. (Advertising, Promotions)
- **Actionable:** businesses need to be able to **design effective strategies** or marketing programs that will attract and meet the needs of each segment.
- **Substantial:** the segment should be big enough or profitable enough to make it worth targeting. If the segment is too small or not financially valuable, it might not be worth the effort.
- **Measurable:** The size, purchasing power, and other characteristics (age, income, etc) should be quantifiable. This helps businesses understand how big the segment is and how much they can expect to earn from it.

## TYPES OF SEGMENTATION

- **Geographic:** Dividing the market based on location-related factors.

### **Key Variables:**

- **Region:** Continent, country, state, city.
- **Climate:** Temperature zones, seasonal patterns.
- **Culture & Language:** Local customs, dialects, official languages.
- **Infrastructure & Politics:** Urban vs. rural, regulatory environment.

### **EG:** H&M Outerwear:

- Minnesota (Cold Climate): Wide range of winter apparel (economy to premium lines) to meet year-round demand.
- Florida (Hot Climate): Minimal winter stock; focus on premium or specialty cold-weather items for travelers.

### **EG:** Supermarkets:

- Esselunga: Large-format stores in suburbs or peripheries, leveraging abundant space for wide assortments and promotional discounts.
- laESSE: Compact urban formats targeting city dwellers with higher willingness-to-pay (WTP), fewer promotions, and premium pricing.

- **Demographic:** Segmenting the market by statistical characteristics of populations.

**Key Variables:** Age, gender, income, education level, nationality, family structure.

**Pros:** Readily available data; clear, measurable groups.

**Cons:** Relies on stereotypes; may overlook psychographic nuances.

- **Psychographic:** Grouping consumers based on lifestyles, values, opinions, and personality traits.

**Key Variables:** Beliefs & values, social class, activities, interests, opinions.

**EG:** Political Campaigns: Messaging tailored to prevention-focused (risk-averse) vs. promotion-focused (aspirational) audiences.

**EG:** Automotive Industry: Achievement-Oriented: Luxury sedans, Affiliation-Oriented: Family SUVs or minivans, Power-Oriented: Sports cars.

- **Behavioral:** Dividing consumers based on observable actions and decision-making patterns.

**Key Variables:** Purchase frequency, loyalty status, channel preferences, usage occasions.

**EG:** Airline Loyalty Programs: Tiered credit cards offering exclusive lounge access and perks for high-frequency flyers.

**EG:** Beverage Consumption: Regular buyers vs. occasional party drinkers.

- **Benefits-based:** Identifying segments by the specific benefits or solutions consumers seek.

**Key Variables:** Desired product features, emotional vs. functional benefits, usage occasions, intensity of usage.

**EG:** Pregnancy Tests:

- Trying to Conceive: Premium kits labeled explicitly for conception.
- General Monitoring: Discreet packaging for privacy.

**EG:** Orange Juice:

- Breakfast Consumers: Emphasis on freshness and daily routine.
- Cocktail Mixers: Smaller pack sizes marketed for evening entertaining (e.g., mimosas).

**EG:** Pharmaceuticals: Antidepressants vs. anxiolytics focusing on emotional relief vs. symptom control.

**Personality & Motivational Segmentation:** classifying consumers by personality traits or motivational drivers (e.g., prevention vs. promotion focus).

**Key Variables:** Big Five personality factors, regulatory focus, risk tolerance.

**EG:** Regulatory Focus:

- Promotion-Focused: Aspiration-driven products (e.g., career coaching programs).
- Prevention-Focused: Safety and security offerings (e.g., insurance, health products during a pandemic).

## Targeting

**Targeting is the process of evaluating market segments and selecting which one(s) to serve based on factors like size, growth potential and long term visibility.**

The problems with **nuance (oversimplification)** occur when older individuals (50+) are stereotyped as homogeneous, inactive and solely concerned with health or longevity. They are often targeted only for products aimed at older people, ignoring their higher disposable income and diverse interests, such as buying gifts for grandchildren. This leads to misrepresentation and ineffective marketing.

### TARGETING STRATEGIES

- **UNDIFFERENTIATED (MASS) Marketing:** target the entire market with a single offer.
  - **Approach:** one product/message for all consumers
  - **Pros:** Cost-effective (economies of scale)
  - **Cons:** Lacks personalization
  - **EG:** Coca-Cola (historically)
- **DIFFERENTIATED Marketing:** Target several different segments and design separate offers for each
  - **Approach:** tailors product/message for multiple segments

- **Pros:** captures a larger market share
- **Cons:** cannibalization (products of the same company in competition)
- **EG:** Nike (targeting different sports)
- **CONCENTRATED (NICHE) Marketing:** Target a large part of a smaller segment
  - **Approach:** focuses on a specific, narrow segment
  - **Pros:** builds strong brand reputation
  - **Cons:** risky if the segment is too small or declines
  - **EG:** Rolex (luxury market)
- **MICROMARKETING:** Target individuals with tailored products and marketing programs
  - **Approach:** highly personalized marketing for individuals or small groups.
  - **Pros:** strong customer loyalty
  - **Cons:** resource-intensive (requires data analysis)
  - **EG:** Amazon (personalized recommendations)

A targeting strategy is shaped by several key factors that influence how a company selects and approaches its target market.

1. **Product specifics:** The nature of the product itself determines the best targeting approach. For example, niche luxury goods require concentrated marketing, while everyday essentials may benefit from mass marketing.
2. **Variability in the market:** Markets with diverse consumer needs often require differentiated marketing, whereas homogeneous markets might be better suited for undifferentiated strategies.
3. **Company resources:** The level of financial, technological, and human resources available affects whether a company can sustain a broad or segmented targeting approach. Large companies can afford differentiated marketing, while smaller firms may focus on a niche.
4. **Competitor's marketing strategies:** Understanding how competitors position themselves helps a company differentiate its offerings and select an effective market entry approach.
5. **Product life-cycle stage:** Different targeting strategies are used depending on whether a product is in the introduction, growth, maturity, or decline stage. New products often start with niche targeting before expanding.
6. **Consumer demand characteristics:** Understanding consumer behaviors, preferences, and purchasing power allows companies to tailor marketing efforts for better engagement and conversion.

**Ethics** in marketing ensures fairness, honesty, and respect for consumer rights. It involves transparent data collection, privacy protection, and truthful advertising. Companies should obtain informed consent for personal data use, avoid manipulative tactics, and ensure fair targeting. Ethical marketing fosters trust and long-term customer relationships.

# Branding

## Product Benefits

Products offer different types of benefits that influence consumer decisions. These benefits can be categorized into 3 main types.

1. **Functional Benefits:** relate to the **practical utility** of a product, such as performance, reliability, efficiency, or ease of use. Example: A smartphone with a long battery life.
2. **Financial Benefits:** refer to the **economic value** a product provides, such as cost savings, investment returns, or affordability.
3. **Psychological Benefits:** These impact **consumer emotions, identity, and social perception:**
  - **Emotions:** Products that evoke feelings like happiness, comfort, or excitement (e.g., luxury perfumes).
  - **Identity:** Products that align with personal values and self-image (e.g., sustainable fashion brands).
  - **Social Signaling:** Products that enhance status or reputation (e.g., designer handbags or high-end cars).

## Brand Associations

### Building Associations

When we think about a brand, we think about **color, logos, slogans** (visual part of the brand), **sound** (music), **position** in the market (price: premium or economy)

The more associations there are in the brand, the higher the value of the good.

In general, brand associations play a key role when products are hard to differentiate (like cameras)

When there is strong brand associations, the barriers to entry are higher

Leverage in distribution channels: if you have a lot of brand associations and you become a big firm, you would get power in the distribution channel

Brand personality: try to think about brand associations as human personalities

### Measuring Associations

Understanding how people associate concepts, brands, or ideas can be done through two main types of measures:

1. **Explicit Measures:** These rely on self-reported data, such as surveys and interviews, where individuals consciously express their thoughts and opinions.
2. **Implicit Measures:** These assess subconscious associations by measuring automatic responses rather than direct self-reporting. Common techniques include:

- **Reaction times:** Faster answers show stronger mental connections
- **Word stem completion:** Tests memory and hidden connections.
- **Facial action coding:** Looks at microexpressions to detect emotions.
- **Looking times:** Measures attention by how long someone looks at something.
- **Neuroimaging:** Uses brain scans (like fMRI or EEG) to track brain activity.

## Brand Elements

### NAMES

A brand is the name, term, sign or design that **identifies the product or its seller/maker.**

**Remark:** if we do not have the association with the product already, we wouldn't know what the products are (we do know because we have always associated them with the logos).

**Brand names** follow different paths:

- Convey key benefits and qualities effectively
- Simple to pronounce, easily recognizable and highly memorable
- Unique, scalable, adaptable across languages and globally relevant

**EG:**

- 7-Eleven: named for opening hours
- Nike: Greek goddess of victory [?] people who do sports want to win, even if some people do not know the name of the goddess, it is something people would talk about
- Coca-Cola: Coca leaves and cola berries
- Starbucks: Named after Moby Dick character

**Company Benefits:**

- **Marketing Efficiency:** strong brand requires less advertising effort to gain recognition and trust
- **Building Loyal Consumers:** brand identity fosters customer trust and long term loyalty
- **Competitive Advantage:** differentiation through branding helps companies stand out in the market and maintain a strong position.
- **Brand Extensions:** A well-established brand can expand into new products or services more easily.

**Consumer Benefits:**

- **Easier Information Processing:** Recognizable brands help consumers interpret, store, and recall product details more efficiently.

- **Confidence in Decision-Making:** Familiar brands reduce perceived risks and make purchasing decisions easier.
- **Psychological Benefits:** Strong brands create emotional connections, enhancing consumer satisfaction and self-identity.

## Brand Equity & Value

**Brand Equity:** differential effect that knowing the brand name has on customer response to the product or its marketing

**Brand value:** total financial value of a brand (often hard to measure)

### Key benefits of Strong Brand Equity:

- **Improved perception of product performance:** consumers tend to associate strong brands with higher quality and reliability, even if the product itself is similar to competitors.
- **Greater Customer Loyalty:** a strong brand fosters trust and emotional connections, leading to repeat purchases and long-term customer relationships.
- **Less Vulnerability to External Forces:** established brands are less affected by price fluctuations, competitor actions, and market shifts, as consumers remain committed.
- **Increased Marketing Communication Effectiveness:** Branding enhances the impact of advertising and promotions, making campaigns more persuasive and cost-effective.

### Sources

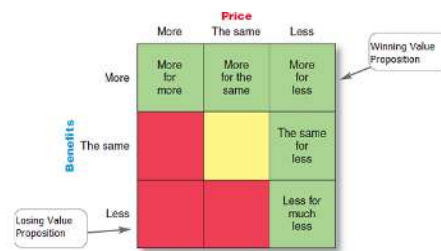
- **Brand Awareness:** Recognition and recall, whether prompted, unprompted, or part of a consumer's consideration set.
- **Brand Associations:** Mental connections consumers make with the brand, including emotions, values, and experiences.
- **Perceived Quality:** Consumer perception of a brand's reliability, performance, and overall quality.
- **Brand Loyalty:** Customer commitment reflected in repeat purchases, advocacy, and resistance to competitors.
- **Proprietary Assets:** Patents, trademarks, and relationships that provide competitive advantages and brand protection.

## Brand Positioning & Differentiation

**Positioning:** act of **framing company's image** and offer in the target consumers' minds, so it occupies a **distinct, valued place in relation to competitors**



**Differentiation:** offering “**better**” **benefits relative to competitors** based on product, service quality



### Brand sponsorship:

- **Manufacturer’s Brand (National Brand):** Products branded and marketed by the producer (e.g., Nike, Apple).
- **Private Brand (Store Brand):** Exclusive brands owned and sold by retailers (e.g., Costco’s Kirkland, Walmart’s Great Value).
- **Licensed Brand:** A brand name legally granted for use by another company in exchange for royalties (e.g., Disney merchandise produced by third-party manufacturers).
- **Co-Brand:** A partnership where two brands collaborate to create a product (e.g., Nike + Apple Watch, Starbucks + Spotify).

### Why people prefer global brand:

- **Perceived Superior Quality:** Consumers associate the brand with higher craftsmanship, reliability, or performance.
- **Global Cultural Identity:** The brand represents a modern, cosmopolitan lifestyle, appealing to internationally minded consumers.
- **Country-of-Origin Effect:** The brand benefits from positive associations with its home country, such as Italian luxury, German engineering, or Japanese technology.

**Brand Portfolios** are structured by levels like company, brand, product, and product category. Some brands have a **simple structure** (e.g., Red Bull).

- **Master Brands:** strong, well-established brands that represent the company itself  
EG Google, Apple
- **Umbrella/Family Brands** cover multiple products under a single brand name.  
EG: Axe, Disney
- **Sub-Brands:** secondary brands that are linked to the master brand but target different segments or products.  
EG: Armani Exchange, Windows
- **Endorsed Brands:** products that carry the endorsement of a strong brand but maintain their own identity.  
EG: Kellogg's cereals, PlayStation

## Brand Architecture

**House of Brands:** structure where a company owns multiple independent brands, each targeting different audiences and market segments.

- **Advantages:**

- **Global influence and flexibility:** each brand operates independently, allowing customized strategies for different markets
- **Market Diversification:** reduces risk by spreading operations across various industries or consumer groups.

- **Challenges:**

- **Weaker Corporate image:** the parent company remains in the background, limiting brand synergy.
- **Cannibalization Risks:** different brands under the same company may compete for the same customers
- **Higher Marketing and Operational Costs:** each brand requires separate marketing campaigns and management

**EG:** P&G, Coca-Cola and Nestle

**Branded House:** a strategy where a single master brand serves as the umbrella for multiple sub brands that rely on its reputation.

- **Advantages:**

- **Strong Corporate Image:** all sub brands benefit from the trust and credibility of the main brand
- **Cost Efficiency:** centralized marketing and branding efforts create synergies across product lines

- **Challenges:**

- **Growth Constraints:** expanding into unrelated product categories may be difficult if they do not align with the master brand
- **Brand Vulnerability:** any reputational crisis impacts all sub brands

**EG:** Virgin

### Brand Architecture Strategies:

- **Merge:** combine brands
- **Sell:** transfer ownership to another entity
- **Milk:** divest, cash in, and allow brand to run its course
- **Eliminate:** kill the brand

## Brand Development & Extensions

- Individual brands are limited in reach
- Competition can erode market share
- New brands can revitalize existing brands

### Line Brand Extensions

#### Benefits

- **Enhances Company Image:** A successful extension reinforces brand credibility and strengthens overall perception.
- **Attracts New Customers:** Expands the brand's reach by appealing to new market segments.
- **Encourages Customer Upgrading:** Consumers may transition to higher-end products within the brand portfolio.

#### Drawbacks

- **Weakens the Parent Brand:** If the extension fails, it can damage the brand's reputation.
- **Crowds Out Core Brand:** Too many extensions can dilute the brand identity and create internal competition.
- **Customer/Retailer Confusion:** An unclear brand strategy may make it harder for customers and retailers to understand product positioning.

#### Extension vs New Brands:

- New brands avoid brand dilution or consumer confusion since they operate independently.
- New brands cannot leverage existing brand equity, requiring them to build recognition from scratch.
- New brands demand high investment and resources to establish market presence and consumer trust.

### Successful Brand Extension

- **Brand-Extension Fit:** The new product must align with the parent brand's image and values.
- **Retailer Acceptance:** Strong distribution partnerships influence market success.
- **Brand Equity:** A well-established brand can enhance consumer trust in the extension.
- **Consumer Perception of the Parent Brand:** Prior attitudes toward the original brand affect acceptance.
- **Marketing Investment:** Strategic promotion ensures visibility and consumer adoption.

### Brand Extension Goals

- **Understand Consumer Perception:** Identify what customers recognize and value about the parent brand.
- **Explore Potential Extensions:** Determine new product categories that align with the brand.
- **Evaluate Feasibility:** Assess market fit, brand consistency, and other influencing factors.
- **Develop a Marketing Strategy:** Design branding and promotional efforts for the extension.
- **Measure Impact:** Analyze the extension's performance and its effect on the parent brand.

## Brand Acquisition & Re-Branding

### Brand Acquisition:

- **Growth Strategy:** Acquiring brands can be a cost-effective alternative to creating new ones from scratch.
- **Uncertain Impact:** It is unclear whether acquisitions always enhance brand value.
- **Revenue Growth:** A diverse brand portfolio can drive higher revenues by reaching different customer segments.

**Re-Branding** is more than just advertising, it requires a **consistent message** across the entire marketing mix.

- **Product:** Design, packaging, and features must align with brand identity.
- **Place:** Distribution strategy should match the target market (luxury vs. mass-market).
- **Price:** Pricing should reflect the brand's positioning (premium vs. budget-friendly).

# Promotion

## Advertising

### ADVERTISING CAMPAIGNS

- **Institutional**: enhance organization's image
- **Product-driven**: promotes benefits of the product
  - **Competitive**: For established products
  - **Comparative**: For products with the need for some differentiation
  - **Pioneering**: For early-stage product [?] when you do not know about a brand

### ADVERTISING FRAMEWORK (5Ms)

#### 1. **MISSION: what do we want to happen?**

It's to build a **strong brand presence** while driving consumer action. This involves:

- increase **awareness**,
- **create meaningful associations** (Coca-Cola: opening a bottle = happiness)
- develop **motivation to act**.

These efforts contribute to long term brand equity growth while simultaneously increasing short term purchase intention, ensuring both sustained brand value and immediate market impact.

#### 2. **MESSAGE: What should we say?**

Effective ads should **clearly communicate key takeaways** and align with the overall marketing strategy. They must be customer focused, considering the audience's perspective and creatively unique without being over complex. Integration with broader marketing efforts ensures consistency and impact.

Effective messaging:

- **Understandable and believable**: clear, credible and easy to process
- **Contagious**: cultural relevance, human interest and social concerns
- **Memorable: Simplicity, Unexpectedness, Emotion**, Humor and Psychological triggers like sex and fear appeals to engage audiences.

**EG** Chrome add: use chrome as a memory box to collect positive memories that you want to remember; the background music also very nostalgic. The main mission of the ad is to show that google is not just tech).

**EG** P&G brand: they sell all kinds of products for home chores => association between moms' role in the family; also here the music is carefully selected to reinforce emotional memories.

### 3. **MEDIA: Where/when/how often should we say it?**

#### Channels:

- **Traditional Media:** TV, radio, newsprint => broad audience reach
- **Digital Media:** online platforms, social media => interactive & viral engagement
- **Buzz Advertising:** word of mouth, viral marketing => high engagement potential

#### Measuring Effectiveness:

- **Reach:** number (or %) of people in target market who are exposed to the ad campaign during period
- **Frequency:** number of times the average person in target market is exposed to the message
- **Impact:** value of a message exposure through a given medium (versus another medium)
- **Engagement:** ratings, readership, listenership, click-through rates, etc

#### Problems:

- **Recency Effect:** most recent parts of advertisements may have large impact
- **Primacy Effect:** first parts of advertisements may have large impact
- **Peak-end Rule:** final part and peak parts have large impact

Put the important message of the ad at the beginning and at the end (the middle is not going to be remembered)

#### Media Strategy:

- **Product Placement:** Embedding brands in media content
- **Unique Locations:** High-visibility, non-traditional ad placements
- **Balanced Exposure:** Avoiding overexposure to prevent ad fatigue
- **Subtlety in Messaging:** Keeping ads engaging without overwhelming the audience

### 4. **MEASUREMENT: How effective is the campaign?**

Objectives => **KPI**

- Brand awareness => **impressions**
- Sales => **click through**
- Engagement => **likes/shares**

### 5. **MONEY: How much money do we need to spend? Return On Investment?**

- **Affordable method:** budget based on what management believes it can afford
  - **Pros:** you never go off budget.

- **Cons:** not based on effectiveness but on how much you want to spend (may be too low for the ad to be effective)
- **Percentage-of-sales method:** set budget as a percentage of sales forecast
  - **Pros** with respect to affordable method: you link expenses to revenues and costs to benefits.
  - **Cons:** we assume that what we spend in advertising will be transformed into profits
- **Competitive-parity method:** set budget to match what competitors spend
  - It does not mean that if you spend the same in advertising, the results are all the same; this method might lead to overspending.
- **Objective-and-task method:** set budget by determining tasks to achieve objectives and estimating associated costs

## Promotions

### SALES PROMOTION

*It's a short-term incentive to encourage purchase. It increases the desire to act (remember AIDA pyramid)*

**EG** of sales promotion on charity: you give one dollar and they receive 2. The cost of charity is discounted by 50%. This satisfies the action part of AIDA.

#### Functions:

- **“Shot in the arm” to invigorate a mature product:** use sales promotion to make sales of an old product spike up again
- **Provide trial of new products:** letting customers try a new product for free or at a discount
- **Increase usage by loading current customers:** target different customers to increase the product's consumption

Sales promotions EGs:

- Free samples / bonus packs
- Discounts / coupons
- Rebates (saldi)
- Buy one, get one free
- Loyalty cards
- Events
- Contests and sweepstakes

#### Problems:

- **Long-term effects of temporary discounts:** customers only buy during sales
- **Potentially negative effect on brand equity:** too many promotions can make a product seem cheap, and this decreases the perceived value of the brand
- **Forward-buying:** consumers stockpile discounted products so they won't need to buy when prices are in full
- **Increased costs from swings in volume:** demand could spike during promotion and then suddenly drop; this may create high costs for firms to manage inventory and disposal.
- **They can backfire:** hurt profitability if discounts are too aggressive

## TRADE PROMOTION

*A trade promotion is an incentive for sellers to carry a brand, give it shelf space, promote it in advertising, and push it to consumers*

- **Off-invoice allowances:** provide retailers discounted product (they have more incentives to use the shells to store your products)
- **Free goods:** provide retailers free product (maybe brand new: satisfies awareness of AIDA)
- **Push money:** direct payment to retailer to advertise product
- **Bill-back allowances:** offer retailers discounts for specific actions (ex. give discounts to companies who advertise your product)
- **Slotting allowances:** pay retailers to sell product
- **Buy-back allowances:** pay retailers back if they cannot sell product

Main **difference** between sales and trade promotion is targeting:

- **Sales** promotions are addressed to consumers (**B2C**)
- **Trade** promotions are addressed to retailers/distributors (**B2B**)

## Public Relations

PR are activities that engage and foster positive relations with the company's various publics/stakeholders

- **Publicity:** publicizing specific products and brands
- **Relationship management:** maintaining key stakeholder relations
  - **Public affairs:** national/local
  - **Investor relations:** shareholders
  - **Employee relations:** personnel (employees are important stakeholders)
- **Lobbying:** influence government/legislation (ex. lobbying is important for universities, since they get government fundings)

- **Corporate communication:** official statements
- **Crisis management:** handling crises/scandals

### PR Crisis Strategies

- **Reaction** strategy: **deny** or **ignore** responsibility
- **Defense** strategy: put up a **fight**, but **give in** where necessary
- **Accommodation** strategy: **give in** to outside pressure
- **Proactive** strategy: take on **responsibility** without pressure (transparency)

**EG** of crisis management: if a flight is overbooked, airline companies give vouchers to people and ask them to leave (pro-active strategy).

## Personal Selling

*It's the presentation or discussion by sales force to engage customers, make sales, and build relationships*

In person communication: direct face to face interactions.

Remote communication: via telephone or online platforms

Marketing events: sales presentations and trade shows

### Sales Performance

- **Conscientious** personality (people who care about doing well): strong predictor
- **Extraverted** personality (helpful but in huge doses it could be annoying and drive down sales): strong predictor
- **Cognitive skills/ability:** predictor of supervisor ratings, not sales (managers may perceive the salesperson well, but persuasion and emotional intelligence are more important to achieve high sales)
- **Sales ability tests:** practical tests on sales ability to salespeople (how able they are to do sales): strong predictor
- **Age:** old people have more experience, predictor of supervisor ratings, not sales (younger people can be more energetic and adaptable to succeed)

## Digital Marketing

**Social media objectives:** promote offerings, strengthen relationships and enhance customer service

**Digital outlets:** social media, websites, emails, search-based...

# Product Service Strategy

- **Product:** anything that can be offered in a market for attention, acquisition, use, or consumption that might satisfy a need or want (physical material)
- **Service:** a product that consists of activities, benefits, or satisfactions that is essentially intangible and does not result in the ownership of anything

## Product Marketing

Buyer involvement is how much time and effort a buyer puts into making a purchase decision. It depends on how important or complex the product is. Here's a simpler breakdown:

1. **Information Search:** This is when the buyer looks for details about the product. If it's something important, like a car, they'll spend more time researching.
2. **Consideration of Alternatives:** After gathering info, the buyer looks at different options. For bigger decisions, they compare many choices, but for simpler ones, they might just pick the first option.
3. **Consideration of Attributes:** This is when the buyer thinks about the FEATURES of the product (like price, quality, or design). For big purchases, they focus on many features, but for smaller ones, they may only care about one or two things.
4. **Weighing Attributes:** The buyer decides which features matter most. For bigger purchases, they might spend time deciding between things like quality and price. For smaller ones, they might not think much about it.

**CONSUMER PRODUCTS:** bought for personal use

1. **Convenience Products:**
  - **Characteristics:** Bought frequently, with little effort, and typically without much comparison.
  - **EG:** Snacks, toiletries, and cleaning supplies.
  - **Marketing:** Attractive packaging, good placement in stores, and frequent discounts.
2. **Shopping Products:**
  - **Characteristics:** Bought less often, with more thought and careful comparison of price, quality, and suitability.
  - **EG:** Clothing, electronics, and appliances.
  - **Marketing:** Buyers compare options, so stores focus on providing detailed information and competitive pricing.
3. **Specialty Products:**
  - **Characteristics:** Have unique features or brand identity, and are often bought after careful planning.

- **EG:** Luxury cars, designer clothes, and high-end electronics.
  - **Marketing:** Buyers seek out these products because they offer something special, and they may go out of their way to purchase them.
4. **Unsought Products:**
- **Characteristics:** Products that consumers don't usually think about or may not know about at all.
  - **EG:** Life insurance, funeral services, and emergency tools.
  - **Marketing:** These require more effort to make consumers aware of their need, often through advertising or direct marketing.

**INDUSTRIAL PRODUCTS:** These products are bought for BUSINESS use or further processing.

1. **Materials and Parts:**
- **Characteristics:** Includes raw materials or components that create other products.
  - **EG:** Steel, rubber, and electronic components.
2. **Capital Items:**
- **Characteristics:** Products that help businesses run, either for production or operational purposes.
  - **EG:** Machinery, buildings, and office equipment.
3. **Supplies and Services:**
- **Characteristics:** These are items needed for everyday business operations or to maintain the functioning of business equipment.
  - **EG:** Cleaning supplies, repair parts, and business consulting services.

### **AUGMENTED PRODUCT**

- **Delivery and credit:** how product received and paid for
- **Product support:** assistance with product setup, issues, and troubleshooting
- **Warranty:** guarantee of product repair or replacement; may be time-limited
- **After-sale service:** support offered after purchase completed

### **PRODUCT LINE DECISIONS**

- **Product Line:** A set of RELATED PRODUCTS that SERVE SIMILAR FUNCTIONS, target the same customer segments, are sold through similar channels, or fall within similar price ranges.
- **Product Line Length:** The total number of items included within a product line.
- **Product Mix:** The complete assortment of product lines and individual items that a company offers for sale.

## PRODUCT LINE STRATEGIES

- **Filling:** Introducing **ADDITIONAL ITEMS** within the **CURRENT PRODUCT** line range to address market gaps or meet customer demand more precisely.
- **Stretching:** **EXPANDING** the product line beyond its current boundaries. This can be done in two directions:
  - **Downward Stretching:** Adding lower-end products to reach more price-sensitive customers.
  - **Upward Stretching:** Introducing higher-end products to attract more premium market segments.

## PRODUCT MIX

- **Product Mix:** The complete collection of all product lines and items a company offers.
- **Width:** The number of distinct product lines the company offers.
- **Length:** The total number of items across all product lines.
- **Depth:** The VARIETY OF VERSIONS AVAILABLE for each item in a product line (e.g., sizes, colors, models).
- **Consistency:** The degree to which product lines are re

## Services Marketing

**Services types:** governmental, private for non-profit organizations, business organizations.

**Features:**

- **Intangibility:** Services cannot be physically sensed, they can't be seen, touched, tasted
- **Inseparability:** Services are produced and consumed simultaneously, meaning they cannot be detached from the provider.
- **Variability:** The quality of services can vary depending on WHO delivers them and under what circumstances (time, location, and method).
- **Perishability:** Services CANNOT BE STORED or saved for future sale or use, they are time-sensitive

## MARKETING SERVICE STRATEGIES

- **Service Profit Chain:** **Link profits with employee and customer satisfaction.** Motivate and reward employees by linking their compensation to customer loyalty and satisfaction
- **Interactive Marketing:** focuses on **buyer-seller relationship** during service delivery, impacting service quality.
  - **Service Differentiation:** creating unique services that provide a competitive edge
  - **Service Quality:** ensuring consistency and excellence in delivering services
  - **Service Productivity:** efficiently using resources while maintaining high service quality.

- **Internal marketing:** emphasizes aligning employees to deliver great customer experiences
  - Employees should reflect the company's customer-focused values
  - Hiring the right people and ensuring team alignment towards customer satisfaction is crucial

### Southwest Airlines Case Example:

It does a great job of taking care of customers when something goes wrong during a flight, like delays, bad weather, or problems with passengers. Here's what they do:

- Finding problem flights: The customer service team looks for flights where things went wrong.
- Reaching out quickly: They contact the customers within 24 hours of the flight to:
  - Apologize sincerely.
  - Explain what happened.
  - Offer a gift or a voucher as compensation.
- Better satisfaction: Customers are actually happier on these flights with issues than on flights where nothing went wrong.
- Better ratings: Southwest gets higher ratings for customer satisfaction compared to other airlines.

## Product and Service Marketing Classification

- **ORGANIZATION Marketing:** changing how people feel or think about a company.  
**EG:** a business might run campaigns to build a positive image or improve its reputation.
- **PERSON Marketing:** promoting individuals, like celebrities or experts, to build their personal brand.  
**EG:** a famous chef might use social media and TV shows to gain followers, sell books, or attract customers to their restaurants
- **PLACE Marketing:** promoting a specific location to change how people view it.  
**EG:** Dubai's tourism ads showcase its luxury and modern attractions to draw in tourists and investors
- **SOCIAL/CAUSE Marketing:** aims to influence people's behavior for social good.  
**EG:** a campaign encouraging people to quit smoking by showing the health risks and offering support, aiming to improve public health.

# New Product Development

## Product Life Cycle

### STAGES:

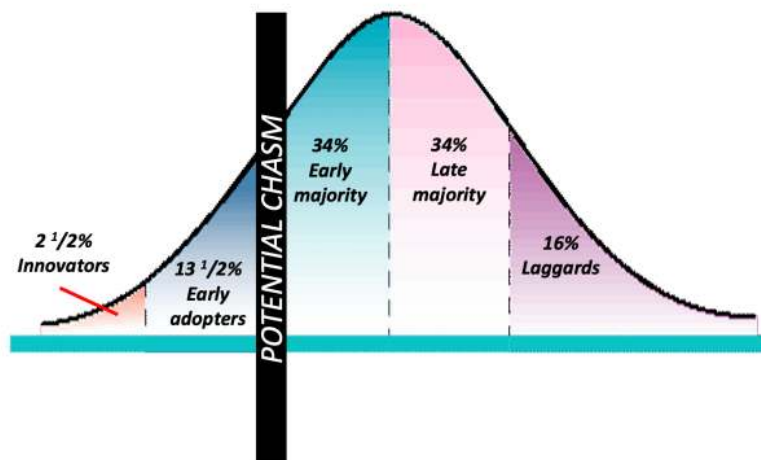
1. **Product Development:** the company generates and refines a new product concept
2. **Introduction:** the product is launched into the market; profits are typically 0 because initial costs are high
3. **Growth:** sales climb quickly and profits  $\uparrow$ , supported by intensive promotion and distribution efforts.
4. **Maturity:** profits stabilize or begin to  $\downarrow$ , often due to heavier marketing spend to protect market share from competitors.
5. **Decline:** demand for the product wanes, causing a noticeable  $\downarrow$  in sales.

### Product Adoption Timeline:

- **Innovators:** first ones who buy the new product
- **Early adopters:** different from innovators because **they have some knowledge about the product** since it is already released (less risk than innovators)

Then we have potential chasm:

- **Early majority:** do not want the product badly but they still get it early on
- **Late majority:** just before or after it goes on its peak
- **Laggards:** people that will never buy the new product



## New Product Introduction

The idea is to create with the customer and not for the customer, thinking about how users consume the products

**Innovativeness** refers to the degree of novelty or newness in a product idea. Here's a breakdown of the different types of innovation.

- **Incremental innovation:** small gradual improvements made to existing products, focusing on better performance, added value or cost efficiency. These are often easy to implement and don't radically change the product.  
**EG:** a smartphone with a better camera or improved battery life
- **Substantial innovation:** significantly new products that offer major improvements or value to consumers, but they don't completely reshape industries. They provide a noticeable advancement over previous versions.  
**EG:** The first touch-screen smartphone, which changed how we interact with phones.
- **Transformational innovation:** Radical and groundbreaking innovations that completely change industries or create entirely new markets. These innovations are often disruptive and lead to a significant shift in how things are done.  
**EG:** The introduction of the internet or electric vehicles, which revolutionized communication and transportation

### Product Development:

- **In-House:** This means creating the product within the company.
  - **Pros:** you have full control over the product and its rights
  - **Cons:** it can be time-consuming, expensive, and risky.
- **Acquisition:** company buys a product or technology from another company.
  - **Pros:** shared risk, less time intensive
  - **Cons:** shared property rights, royalty fees

## New Product Failure

Most products never make it to the market, and others do not work out (like 99%)

Are the ideas bad then? Are they developed badly?

- **No differentiation**, not clear what the product is.  
**EG:** Clairol's look of buttermilk
- At the time there was **already a market leader** (facebook), so nothing is new, they cannot compete.  
**EG:** Google+ (social media of google)

- Did not work because the market in which they were **positioning was not clear**: segmentation problem. Who wants that combination of food items? Not clear.

**EG:** IncrEdibles breakaway foods

**EG:** Yellow emperor inc.'s city vs country people

shampoo products that would protect from environmental problems depending on where you lived (anti-pollution for city, wind and sun for countryside).

People could not understand if they were country or city people (hard to identify the match of the person with the shampoo) + not enough demand (city people won't buy countryside shampoo, and countryside won't buy city shampoo)

**EG:** Nescafe's hot when you want (self-heating coffee cans by pushing a button).

Did not work out because they started trials in may (when summer was arriving); when autumn arrived, the coffee sold was not hot enough.

**EG:** McDonalds' arch deluxe burger

Burger to reach adults ('grownup burger'). Did not work because Mc already has a product that a lot of people like. The idea of the company is not to have a grownup burger but a junk food burger, so it does not make sense.

## HUMAN FACTORS:

- Packaging
- Surface features (names): pronounceable, attractive, inoffensive, sensical
- Design

**CRAP design principles:** what features should the design have to ensure that people would be able to understand the object

- **Contrast:** differentiate elements to enhance visual interest and establish hierarchy.
- **Repetition:** maintain consistency in design (fonts, colors, styles) for a cohesive look
- **Alignment:** arrange elements intentionally to improve readability and structure
- **Proximity:** group related elements to highlight relationship and enhance clarity.

The idea is to create **with the customer** and not for the customer, thinking about how users consume the products

## Stages of Product Development

1. **IDEA GENERATION:** where new product ideas are created. It can come from:
  - **Internal sources:** research teams, employees, ideas from within the company.
  - **External:** feedback from customers, looking at what competitors are doing.
2. **IDEA SCREENING:** not every idea is good enough to turn into a product, so this step helps to decide which ideas are worth pursuing. The company looks at:

- **Feasibility:** can we actually make this product?
- **Market potential:** is there enough demand for it?
- **Competition:** how many other companies are already offering similar products?

Tools like **SWOT** analysis and **BLUE OCEAN STRATEGY** are used to evaluate risks and benefits.

3. **DEVELOPMENT AND TESTING:** after picking a promising idea, the product is designed. Prototypes are made and tested with a small group of customers. Their feedback helps improve the product before it's made for everyone.
4. **STRATEGY DEVELOPMENT:** the company creates a clear marketing plan. This includes:
  - 4 Ps: Product, Place, Price and Promotion.
  - They also decide how to target different groups of customers and what makes their product different from others.
5. **BUSINESS ANALYSIS:** the company checks if the product will make money. It includes:
  - **Sales forecasts:** how much money do we think it will make?
  - **Cost estimates:** how much will it cost to make and sell?
  - **Profit analysis:** will the product generate enough profit?
  - **Lifecycle expectations:** how long will the product be successful in the market?
6. **PRODUCT DEVELOPMENT:** the actual product is created. The company focuses on:
  - Features and quality of the product
  - Packaging and how the product looks
  - User experience and how customers interact with it
  - Support, like customer service, warranties and delivery option are also planned.
7. **TEST MARKETING:** before the product is launched everywhere, companies test it in a smaller market (test market). This helps:
  - See how customers react to the product
  - Make adjustments to the product or marketing strategy if needed
  - This step is important for big, expensive products or when the company isn't sure how customer will respond
  - Smaller product updates or products from well-known brands may skip this step
8. **COMMERCIALIZATION:** the product is officially launched. The company decides:
  - When and where to launch: should it be in one location, across the country or worldwide?

- Consider factors like seasons (some products sell better in certain seasons), the competition, and how the new product might affect existing products the company sells.

## **New Product Success (ACCORD)**

- **Advantage:** Improves upon existing products  
**EG:** stone tools cut wood and hides, making them more durable and effective.
- **Compatibility:** Aligns with existing behaviors and needs  
**EG:** stone tools could be added to wood or fiber tools for enhancement.
- **Complexity:** Easy to understand and use  
**EG:** stone tools required no complex knowledge to operate.
- **Observability:** Benefits are obvious and easily perceived  
**EG:** effectiveness could be seen and copied without language skills.
- **Riskiness:** Concerns about failure  
**EG:** stone tools had no risk, minimal cost, and a short learning curve.
- **Divisibility:** Can be tested before full commitment  
**EG:** people could pick up and try a stone tool without investment.

**New Product Positioning:** refers to how a product is placed in the market to meet specific consumer needs and stand out against competitors. To successfully introduce a product, companies must decide how they want consumers to perceive it based on its features and benefits

**EG:** Cars: good for families vs sporty and fun to drive? These needs determine what kind of car is developed.

# Marketing/Distribution Channels

***It's is a set of intermediaries (firms or individuals) involved in flow of products from manufacturers to customers***

There could be:

- **DIRECT Channels: Producers sell directly to customers**, without involving any middlemen.  
Contact cost = cost per contact \* customers \* manufacturers  
**EG:** a company selling its products through its own website or store.
- **INDIRECT Channels:** one or more intermediaries between the producer and the customer.  
Contact cost = cost per contact \* (customers+manufacturers)
  - **Retailers:** The producer sells the product to a retailer, who then sells it to the final consumer.  
**EG:** A clothing manufacturer selling to a department store.
  - **Wholesalers (B2B):** The producer sells to wholesalers, who then sell to retailers, and finally, the retailer sells to the customer.  
**EG:** A food manufacturer selling large quantities to a wholesaler who distributes to grocery stores.
  - **Agents/brokers:** The producer sells to agents or brokers, who then sell to wholesalers. Agents or brokers act as middlemen who facilitate the sale but don't usually take ownership

## Channel Partners:

- **Upstream:** involves everything related to sourcing the raw materials, components, information, finances, and expertise needed to produce a product or service. It's the earlier part of the supply chain, including suppliers and manufacturers who provide the necessary inputs.  
**EG:** A car manufacturer sourcing steel, engine parts
- **Downstream:** This part focuses on the processes involved in distributing and delivering the finished goods or services to customers. It includes activities like retailing, distribution, and customer service.  
**EG:** A car manufacturer selling the finished cars to dealerships, which then sell them to consumers.

## Benefits of Channels

- **Trying before buying:** testing out the products gives you benefits
- **Advice and demonstration:** pharmacists that give advice to customers when buying a drug
- **Comparison** with other products
- **Customization services:** stores which take your measurement and then provide the product that fits you best
- **Convenience:**
- **Variety/assortment**

- **Immediacy of availability:**

**NEEDS TRADEOFFS:**

- **Higher convenience** often comes at the cost of **lower customization**.
- A greater number of channel partners can reduce the availability of detailed product information.
- Larger inventories may lead to increased difficulty in locating specific products.
- Discount retailers and one stop shops (Walmart) provide limited product information

## Channel Conflicts

*They happens when different members of the distribution chain disagree on goals, roles or rewards.*

This can cause tension and issues in how products are sold. There are 2 main types:

1. **VERTICAL CONFLICT:** between **different levels** of the distribution channels (often when producer and distributor incentives are at odds). Their goals might be different:

**EG:**

- McDonald's franchises may focus on cutting costs and running efficiently, while the central company wants to maintain quality and consistency across all locations.
- A similar issue can happen between Nike and retailers like Foot Locker, where both might want control over things like pricing, placement, or branding.

**Resolutions:** the **power balance** between parties is important.

- Sometimes **producers** have more power, but in other cases, retailers can influence decisions because they have a strong presence in the market.
  - Popular products like Nutella can give **retailer** more power because they are essential for the store's sales.
1. **HORIZONTAL CONFLICT:** between businesses at the **same level** of the supply chain, such as between retailers selling the same product. This can cause problems like:
    - **Price erosion:** when different retailers sell the same product at different prices, it can confuse customers and harm the brand's value
    - **Brand dilution:** premium brands might not want their products sold in discount stores at lower prices, fearing it will hurt their high end image.

A big issue now is e-commerce, like Amazon. Physical stores may lose sales to online platforms, even though they provide value by offering space, staff, and product access. This is called **showrooming**, where customers look at a product in a physical store but buy it online at a cheaper price.

**Resolution:**

- **Product differentiation:** Selling slightly different versions of a product in different stores or channels.  
**EG:** smaller sizes in boutique stores and larger sizes in warehouse retailers
- **Targeted Promotions or Price Matching:** Offering special deals in certain stores or online platforms to keep competition fair.
- **Improving service quality:** Enhancing the customer experience to stand out from competitors.
- **Charging fees** to compensate for in-store support that helps online sales.

### **Channel Member Responsibilities:**

Producers and their intermediaries must align on key aspects of their collaboration, including:

- Pricing strategies
- Terms and conditions of sale
- Territorial rights and market boundaries
- Specific services to be provided by each party

## **Channel Strategies**

### **DISTRIBUTION INTENSITY**

How large/far reaching is the distribution network?

- **INTENSIVE distribution:** The product is made available in as many retail outlets as possible to maximize exposure and convenience.  
**EG:** pasta, coca-cola, not interested in being sold exclusively in certain areas or to certain customers)
- **EXCLUSIVE distribution:** The producer grants distribution rights to a single or very limited number of dealers within a given area.
- **SELECTIVE distribution:** The product is distributed through a moderate number of carefully chosen intermediaries—not all available, but more than just one.

### **PUSH VS PULL:**

- **Push:** promotes products directly to **channel partners** (like retailers or wholesalers) through trade promotions. **Effective when:**
  - **Brand loyalty is low**
  - **Purchase decisions are made in store.**
  - **Purchase is often impulsive**

**EG:** A soda company gives supermarkets a discount to display their cans at eye level near the entrance.

- **Pull**: focuses on **targeting end consumers** with advertising and promotions to create demand for the product. **Effective when**:
  - **brand loyalty is high**
  - **Consumers decide before entering the store**
  - **consumers perceive brand differences**

**EG**: That same soda company runs a Super Bowl ad, so consumers go to the store wanting that brand.

### CHANNEL DESIGN

- Channel decisions tend to be **long-term** and **difficult to reverse**.
- **Channel members** earn almost 50% of the producer surplus (huge amount of profit away from producers).
- A good strategy creates **competitive advantage**

### ONLINE SHOPPING

- It's more common for **habitual, low involvement products**
- It's **less common for new or complex products** that require more thought or information
- Over time, people tend to spend more than they would otherwise.

### RETAIL STRATEGIES

- **Service**:
  - **Self-service**: offers minimal assistance  
**EG**: Walmart
  - **Limited service**: provides some help  
**EG**: Euronics
  - **Full service**: offers personalized in depth support  
**EG**: car dealership
- **Product lines**:
  - **Specialty**: narrow product focus  
**EG**: shoe stores
  - **Department**: broad product focus  
**EG**: COIN
  - **Supermarkets**: broad food and household product focus  
**EG**: Carrefour
  - **Discounters/superstores**: low price, high volume  
**EG**: Walmart

- **Convenience:** small selection, high-turnover items  
**EG:** small snacks, drinks
- **Category killers:** deep product assortment and competes heavily in specific category  
**EG:** Leroy Merlin

## Store Decisions and Consumer Behavior

1. **Music Tempo and Consumer Behavior:** Slow-tempo music makes shoppers move **slower**, leading to **longer browsing** and higher purchase rates, which boosts sales.
2. **Shopping Motivations:**
  - Some consumers shop **recreationally**, enjoying the experience itself.
  - Others are **task-oriented**, focusing only on buying what they need with no pleasure in the shopping process.
  - Motivations can change depending on personal traits and the type of product.
3. **Shelf Layout Strategies:**
  - Shoppers tend to focus on **eye-level items**, making this area prime real estate for products.
  - Retailers often rotate product positions to **prevent customer habituation** and keep things interesting.
  - **Scarcity cues**, such as **partially filled shelves**, can ↑ **product appeal**, making it seem more in demand.

### **EG: Tesco Case:**

- Roastworks, a specialty coffee brand, was sold in 62 Tesco stores at £5 per pack, with 3 units sold per week per store. This led to £930 weekly revenue.
- However, Tesco expected sales of 5 units per store per week, implying a 66.6% increase in sales.
- Based on the retail rule of thumb (£1 in advertising may yield £3 in sales), Tesco suggested an additional £204.60/week in advertising to meet sales targets.
- Roastworks' CEO reflected that the partnership with Tesco was premature and misaligned with the brand's goals, even though there was initial excitement about the deal.

# Pricing

The power of pricing refers to how a small change in price can lead to a large effect on profits. This happens because even a 1% price increase can lead to a much bigger profit increase, especially if there is a high margin between the selling price and the cost of production. The impact of a price change often outweighs the effect of trying to sell more units.

## CONSUMER DEMAND AND VALUE

- **Historical Data Forecasting:** using past sales and pricing data to predict future demand and set prices
- **Conjoint Analysis/Pricing Experiments:** testing customer preferences by changing product features and prices to see what they prefer.
- **Expert Judgment:** relying on the experience of industry professionals to estimate the best price for a product.
- **Anchoring:** people often base their judgments on an initial reference point (starting price) and then adjust from there.

### Auctions:

- **First price (English) auction:** highest bidder wins and pays its price
- **Descending (Dutch) auction:** the auction starts with the highest possible price and lowers it over time until the first one accepts it (eBay uses this a lot)
- **Second-price auction:** the highest bidder wins but they pay the second highest bid price

**Remark:** typical first-price auctions often lead to 'winner's curse', while true willingness to pay is reflected in second-price auction bids

**Customer Evaluation** is how consumers assess the value or worth of a product, which impacts their WTP and purchase decisions. Various factors can affect this evaluation:

- **Perceived fairness:** how reasonable the price seems
- **Contextual cues:** how the price is framed, comparisons with other products, expectations etc.

### EG:

Poetry Reading Experiment:

- Asking, "Would you pay \$2 to attend?" only got 3% approval.
- Asking, "Would you accept \$2 to attend?" made 59% say yes.
- Framing: The way the question was phrased influenced the perceived value of the same event.

Generosity Perception (Scarf vs. Coat):

- A \$55 coat was seen as less generous than a \$45 scarf, even though the coat was more expensive.

- Reason: The scarf was close to the top of its price range, making it seem like a better deal.

Dictionaries with Different Features:

- A perfect-condition dictionary with 10,000 entries was valued at \$24.
- A damaged dictionary with 20,000 entries was valued at \$20, even though it had more content.
- Reason: Small defects in a product (like damage) can make it seem less valuable, even if it offers more features.

**Positioning:** refers to how the context or comparison point affects a consumer's perception of value and their WTP. People rely on internal reference prices, mental benchmarks shaped by past experiences and context, when evaluating how much something is worth.

**EG:** you would pay less for a soda at school than at the movie theater

**EG:** your willingness to pay for a fancy NYC hotel changes if your vacation is framed as alternative to Paris (not so much cheaper than US) or if your vacation is framed as alternative to Bucharest (much cheaper than NYC).

## Basics of Pricing Strategy

### COST BASED

It determines prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

Takes into account both fixed and variable costs

Accounts for costs that consumer may not see

### COST PLUS (MARKUP) PRICING

Strategy where businesses set prices by adding a FIXED PERCENTAGE on top of the product's cost. This method is useful when sellers have a clear understanding of their costs but face uncertainty about demand. It's often seen as fair by customers, since it transparently ties price to production costs and can reduce price wars between competitors. However a major drawback is that it overlooks market conditions, specifically customer demand and competitor pricing, potentially leading to overpricing in low-demand scenarios or missed opportunities in high demand situations.

### BREAK EVEN (TARGET RETURN) PRICING

Strategy where a company sets the price of a product based on the level needed to cover its costs or achieve a specific profit goal. The core question it answers is: "What price should we charge to reach a desired revenue or profit (level X)?" This method helps businesses plan pricing around internal financial goals rather than market dynamics. However, like cost-plus pricing, it does NOT CONSIDER CUSTOMER DEMAND OR COMPETITOR PRICING, which can lead to unrealistic pricing if the market won't support it

### COMPETITION BASED PRICING

Strategy where companies set their prices by analyzing competitors' pricing, costs, and market positioning, often through benchmarking or by undercutting rivals to gain market share.

- **Perfect competition:** many buyers and sellers who are price-takers
- **Monopolistic competition:** imperfect competition in which differentiated products are sold
- **Oligopoly:** limited competition between a few sellers
- **Monopoly:** no competition (one seller)

### VALUE BASED PRICING

when a company sets the price of a product or service based on how much the customer thinks it's worth, not on how much it costs to make. Here's how it works:

- **Customer-focused:** The company first looks at the customer's needs, what they value, and what price they are willing to pay.
- **Different from cost-based pricing:** In cost-based pricing, the company figures out the cost to make the product, then adds a profit margin to set the price. With value-based pricing, the price is set based on the perceived value to the customer first, and then the company figures out how much it can spend on production.

### PRICE DISCRIMINATION

It's when a company charges different prices for the same product, but the price varies depending on who the customer is. There are two main ways it can be done

1. **Direct Price Discrimination:** The company changes the price based on something that can be easily observed, like:
  - **Where the customer is** (e.g., selling a product at different prices in different countries).
  - **How the product is sold** (e.g., cheaper online than in a store).
  - **Who the customer is** (e.g., offering discounts to students or seniors).
2. **Indirect Price Discrimination:** This lets customers choose how much they want to pay based on their choices:
  - **Usage:** Giving discounts for buying more (e.g., bulk buying) or offering special deals like product bundles.
  - **Preferences:** Offering different versions of the product, like a basic version and a premium version, to match what customers are willing to pay.
  - **Promotions:** Using coupons or rebates that are mainly used by price-sensitive customers.

### NEW PRODUCT PRICING

- **Price skimming:** A firm charges a **HIGH INTRODUCTORY PRICE**, often coupled with **HEAVY PROMOTION:** price gradually decreases

- Useful when product is perceived to have unique advantages
- Price skimming more feasible if there are barriers to market entry
- **Penetration pricing:** A firm charges a relatively **LOW PRICE** for a product initially as a way to reach the mass market
- **Predatory pricing:** Charging **THE LOWEST PRICE** to undercut competitors

## Price Adjustments and Strategies

- **Discounts and allowances:** price reductions to reward volume buying, early payment, or word-of-mouth
  - **Early bird:** A discount offered to customers who buy early, often seen in pre-sales/event tickets.
  - **Quantity:** A discount given when customers buy in bulk or larger quantities.
  - **Functional:** Discounts given to channel partners like distributors or retailers to reward them for helping to distribute the product.
  - **Trade-in:** A discount offered when customers return an old item, typically when buying a new one.
- **Promotional Pricing:** **temporary** price reductions to effect short-run response in sales
  - **Regular discounts:** Ongoing price reductions  
**EG:** seasonal sales.
  - **Special-event pricing:** Discounts given during special events or holidays  
**EG:** like Black Friday or Christmas sales.
  - **Limited-time offers:** Temporary promotions to create a sense of urgency for customers to act fast.
  - **Low-interest financing:** Offering payment plans with low or no interest to make the product more affordable over time.
  - **Extended warranties:** Offering longer-term product protection to increase the perceived value.
  - **Free/reduced maintenance:** Offering lower or no-cost repairs for a set period after purchase.
- **Participative Pricing:** This is when customers **help determine the price**. The seller can still influence the final price, but the customers' input is important.
  - **Pay-what-you-want pricing (PWYW):** **customers choose how much to pay**, even if it's \$0. It works best when the cost of providing the product is low and the seller has built trust with customers. The social norms of **fairness** and **reciprocity** can often lead to surprising profits.
    - At \$5, 64% bought, with a profit of \$3.20.
    - At \$15, 23% bought, with a profit of \$3.45.
    - Under PWYW, 55% bought, with the highest profit of \$3.50.

**EG:** a band decides to sell its album asking consumers to pay whatever they want. Musicians do so because their profits usually come from concerts, not album sales (low MC and risk of loss). This would solve the pirating problem, given that people would stop stealing if they knew they could get the product for free.

- **Pay-it-forward pricing (PIF):** customers pay to benefit someone else, creating a **sense of generosity**. For example, one visitor at a museum might pay for the next visitor's entry. This often leads to **higher payments** than when customers choose their own price.

**EG:** People paid \$2.67 on average under PIF pricing, compared to \$1.89 under PWYW.

- **Name-your-own-price pricing (NYOP):** allows buyers to suggest a price they are willing to pay, and the seller can accept or reject it. It works best when the product's cost is low and appeals to consumers who like to feel in control. It can be:

- **binding:** if the seller must accept the price
- **non-binding:** if the buyer's suggestion is just a starting point for negotiation.

- **Sliding-scale pricing:** the price is adjusted on the buyer's ability to pay.

**EG:** some universities do so to give aids; tax rates based on people's salaries (progressive taxation system)

- **Dynamic Pricing:** involves **adjusting prices in real-time** based on factors like demand, time, or availability. This is commonly used in industries like:

- **Airlines** (where flight prices change based on demand),
- **Hotels** (where room rates adjust according to booking demand),
- **Ride-sharing apps** like Uber, where prices fluctuate based on traffic or the number of available drivers.

**EG:** Case: Taylor Swift's concert tickets:

Taylor Swift reportedly rejected dynamic pricing for her concert tickets, aiming for affordability for her fans. This decision contrasts with how dynamic pricing works in the entertainment industry, where ticket prices can skyrocket based on demand.

Dynamic pricing can often cause prices to rise sharply, leaving loyal fans unable to afford tickets, even for events they have been eagerly anticipating. This leads to a situation where ticket prices reflect demand but alienate loyal customers, making them feel like they are being taken advantage of.

- **Segmented Pricing:** involves charging **different prices to different customer segments** based on their **WTP**. It allows companies to maximize revenue by catering to various segments with different price sensitivities. It can be based on:

- **Product Form**

- **PRODUCT LINE pricing:** setting different prices for various products within the same product line.

- EG:** a car manufacturer might offer a basic model, a mid-range model, and a premium model, each priced differently based on features and specifications.
- **OPTIONAL PRODUCT pricing:** when companies offer additional optional add-ons or features to the basic product, typically for an additional price.

**EG:** when you buy a smartphone, you might be offered an optional extra like a protective case or extended warranty.
- **CAPTIVE PRODUCT pricing:** applies to complementary products that are necessary for the functioning of the main product.

**EG:** razor blades for a razor handle, where the razor handle is sold cheaply but the blades (which need to be replaced regularly) are priced higher.
- **PRODUCT BUNDLE pricing:** selling a bundle of related products at a single, usually discounted price.

**EG:** a fast-food restaurant might offer a combo meal (burger, fries, and drink) at a lower price than if you bought each item individually.
- **TIERED pricing:** pricing plans (“standard”, “plus”, “flex”) for which they increase prices progressively
- **Geography and Location:** pricing can vary depending on location or geography of the customer.

**EG:** tourist price vs citizens for entering museums (citizens have lower price)

**EG:** university of California fees based on the different campuses
- **Time:** it can also depend on the **time of day** or **time of year**.

**EG:** discounts at restaurants for particular times of the day (dinner time vs lunch time) [?] people that go for a quick lunch might want to pay less than for a long dinner
- **Customer Differences:** differentiating prices based on customer segments or characteristics:

**EG:** hard cover books cost more than kindle (which usually comes later than the hard copy) => consumers who do not care to buy the physical book pay less (urban people, travelers, people who want to listen to the book instead of reading it)

**EG:** prime student (give price advantage to students to get amazon prime for a cheaper price)

**EG:** different seats cost differently on a plane
- **Subscription pricing:** Monthly fees are often perceived as more affordable than one-time yearly payments, even though the total cost is the same (e.g., a €10/month subscription vs. €120/year).

  - Less commitment is more appealing, as people often prefer to pay in smaller chunks over time
  - Annual plans often come with discounts to encourage longer commitments from customers.
- **Psychological pricing:** This method uses the psychology of numbers to influence customer perceptions of value:

  - **High-Low Pricing:** This strategy involves charging higher prices most of the time but offering frequent promotions or temporary discounts on selected items. It creates a sense of urgency and excitement around the discounts.
  - **Everyday Low Pricing:** Instead of frequent promotions, this strategy involves maintaining consistently low prices with fewer or no temporary discounts, making it a simpler, stable option for customers.

# Behavioural Pricing III

## Psychological Pricing

It's all about setting prices in a way that **influences how consumers perceive** them. This strategy takes advantage of human psychology to make prices seem more attractive and encourage purchasing behavior.

### OPPORTUNITY COST

It's the value of the next best alternative that you give up when making a choice. People tend to neglect opportunity costs, which can lead them to overlook the true cost of a decision and make purchases they might not otherwise make.

**EG:** when deciding to go on vacation, you might think the cost is €500. However, if a similar vacation is available for €350, the "real" cost of that vacation is actually only €150, because that's the opportunity cost of not choosing the cheaper option.

### SUNK COSTS

A sunk cost is **money that has already been spent and cannot be recovered**. Rational economic theory says we shouldn't factor it into future decisions. But in practice, we often do.

The sunk cost effect is when people continue investing time, money, or effort into something because they've already paid for it, even if continuing isn't the most rational choice.

**EG:** Ohio State University theater randomly assigned season ticket prices: \$15 (regular price), \$13 (discounted \$2), \$8 (discounted \$7). How many plays do people attend over the course of the season? The people that paid full price attended more plays. Because the ticket cost is already paid, it's a sunk cost. But instead of ignoring that and only going to plays they're truly interested in, people let that past payment influence their behavior. They think: "I spent \$15, I should go to more plays!". Even if they wouldn't have attended otherwise.

### THE PRICE OF ZERO

It refers to the powerful effect of offering something for **free**. When a product or service is offered for free, it becomes **extremely attractive**, often driving demand much higher than if it were priced at even a very low amount.

**EG:** A store may offer a "buy one, get one free" deal, which increases the perception of value, even though the total cost for the buyer might remain similar to a simple discount.

### PRICE FRAMING

Price framing involves presenting prices in a way that makes them seem **smaller** or **less intimidating** to consumers. This can have a strong effect on purchasing behavior. Common techniques include:

- **Fewer Syllables:** A price like \$28.10 (spoken as "twenty-eight ten") feels smaller than \$27.77 (spoken as "twenty-seven seventy-seven"), even though it's slightly more expensive. The shorter pronunciation can make the price feel easier to digest.

- **Remove Commas:** Displaying 1499 instead of 1,499 makes the number look smaller and less complex, which can reduce hesitation when purchasing.
- **Hide Currency Symbols:** Leaving out the \$ or € symbol can make the price feel less real and less intimidating, reducing the psychological barrier to spending.
- **Use Smaller Fonts:** Displaying the price in a smaller font can subtly lower the perceived cost, making it seem like the price is less significant.

## Price Perception

How people perceive prices is crucial to how they respond to them. Several concepts influence this perception:

- **Price Elasticity of Demand:**
  - **Inelastic:** Consumers don't change their purchasing behavior much even if the price increases.  
**EG:** if the price of a life-saving medication goes up, people may still buy it, as the need is constant.
  - **Elastic:** Consumers are very sensitive to price changes. A small increase in price can lead to a noticeable decrease in demand.  
**EG:** if the price of a brand of chips goes up by a small amount, people might switch to a different brand.
- **Price stickiness:** Prices can remain fixed or slow to adjust even when market conditions change. This can be due to contracts, norms, or the fear of alienating customers.  
**EG:** a restaurant might hesitate to raise its prices even if food costs increase because they fear losing regular customers.
- **Menu costs:** refer to the expenses incurred by a company when changing its prices. These include the cost of printing new menus, updating pricing systems, or communicating the changes to customers. Frequent price adjustments can be costly and impractical because of these costs.
- **Inferences About Price Reduction:** When a price is **reduced**, people often assume that the company has cut costs or that the quality has decreased, or even that the company is struggling to sell the product.  
**EG:** when a product goes on sale, customers may think it's lower quality or that it's being "desperate to sell".

### PERCEPTION OF FAIRNESS

- **Price increases** can be seen as unfair by consumers if they happen when costs have not changed. Even if substitutes are available, consumers may feel it's unjust if prices go up without a clear reason.
- **Loss-reducing price hikes** (increasing prices to cover rising costs) are often seen as more acceptable by consumers, especially if the price increase is clearly related to the specific transaction at hand (like higher fuel prices affecting shipping costs).

- **Discounted prices** are often perceived as fairer if the original price was discounted, as customers understand that the company had been offering a special deal.
- **Sellers are not expected to decrease prices** if their costs go down. Customers generally don't expect a company to lower prices when their costs decrease, which is why sales or price drops can surprise them when they happen.

### Just-noticeable difference (JND)

It refers to the **smallest change** in price that a customer can notice. If the change is smaller than the JND, customers likely won't notice it.

- For **price increases**: It's better to keep the increase **below the JND** so that customers don't notice the price rise.
- For **discounts**: To make sure customers notice and feel good about the discount, it should be above the JND.
- For **quantity reductions**: Similarly, reducing the amount of the product should be **below the JND** to avoid customers noticing and feeling dissatisfied. It's the **shrinkflation**. People prefer a change in price instead of a reduction in product quantity, because quantity changes are sneaky, meanwhile the price change is transparent.

### Weber-Fechner Law

This law says that people don't perceive price changes in absolute terms (like \$1 or \$10) but in relative terms, or as a percentage of the original price.

**EG**: a \$50 discount off a \$100 product feels much larger (a 50% discount) than a \$50 discount off a \$500 product (only a 10% discount), even though both discounts are \$50 in absolute terms.

### Ease-of-Computation Effects

How easy it is to compare prices can affect how customers perceive the difference between the regular price and the sale price.

**EG**: it's easier to compare prices when the difference between the regular and discounted price is simple to calculate, like \$429.95 to \$400.95, rather than \$426.95 to \$399.95.

People tend to perceive a larger difference when the numbers are easier to compare.

### Nine-Ending Prices

**Prices ending in 9** (like \$9.99 instead of \$10) are perceived as **cheaper**, even though the difference is very small.

About **60% of prices** end in the number **9**, because customers tend to think they're getting a good deal when they see prices like \$9.99.

### Left Ending Prices

The **left-most digit** of a price (the first number on the left) has a **bigger impact** on how customers perceive the price.

**EG:** A price of \$429.95 discounted to \$400.95 feels more appealing than \$426.95 discounted to \$399.95 because the left-most digit changes more drastically in the first example.

Even though the discount is almost the same, the way the numbers are presented affects how "cheap" or "expensive" they seem.

### **Price Precision Effects**

The **precision of a price** (how exact the number is) also affects how high or low the price seems.

**EG:** A house priced at \$390,000 seems less expensive than one priced at \$391,534, even though the difference is just \$1,534.

People tend to think rounded prices (like \$390,000) are lower than more precise prices (like \$391,534).

## FOR DOUBTS OR SUGGESTIONS ON THE HANDOUTS



**MICHELE (MIKE) ROSSINI**

michele.rossini@studbocconi.it

@mikerossinii

+39 3318814946

## FOR INFO ON THE TEACHING DIVISION



**VITTORIA NASONTE**

vittoria.nasonte@studbocconi.it

@\_vittorian\_

+39 3274441476



**ELENA CACIOLI**

elena.cacioli@studbocconi.it

@elenacaciolii\_

+39 3928931605



TEACHING DIVISION



## OUR PARTNERS

**700+**  
**CLUB**



**ETHAN**  
SUSTAINABILITY

**DELIVERY VALLEY**

NO GENDER KITCHEN

**LA PIADINERIA**

