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**BLAB**

# HANDOUTS

## UNDERSTANDING CONSUMER -MODULE 1-

WRITTEN BY

**CAMILLA BASTIA**



TEACHING DIVISION



# UNDERSTANDING CONSUMER - MODULE 1

URI BARNEA

## Introduction to the course - overview

We'll talk about how consumer process informations, how they allocate their attention and how to catch it (colours, design..), about knowledge and memory in the sense that consumer will be effected in their experience with the good by the iconic and historical memories (such as old and iconic trends). We'll talk about consumers' emotions and attitudes toward the good (such as films). We'll talk about heterogeneity, differences among consumers and what companies can do to deal with that (how age, gender.. can effect the experience) with different products or communication. We'll talk about branding and co-branding for different products through different marketing campaigns (such as the campaign for Barbie and Oppenheimer) -> the contrast or similarity between two brands are appealing to the customers and companies can use this. This course will be focus on two big themes: internal factors (what drives consumers' choices) and external factors (how a company can affect consumers). There are also overarching topics such as "Customer Centrism" and Customer Lifetime Value (increasing the value of products for customers), Digitisation, Data (Think in terms of testable questions, Report/visualise results), Decision complexity and tradeoffs.

The main objectives of this course are:

- Understand consumers' needs, and the *psychological* reasons behind the way consumers think, feel, and behave
- Consider how companies can affect the value consumers expect to get from products
- Learn to think about consumers in a formal and organised way
- Inform future career decisions

## What is consumer behaviour?

The totality of consumers' decisions with respect to the acquisition, consumption, and disposition of offerings (e.g., goods, services, and ideas) by decision making units over time.

This phrase can be divided into different parts:

The totality of decisions	about the consumption	of an offering	by decision making units	over time
<ul style="list-style-type: none"> <li>•Whether</li> <li>•What</li> <li>•How</li> <li>•When</li> <li>•Where</li> <li>•How much</li> <li>•How often</li> <li>•How long</li> </ul>	<ul style="list-style-type: none"> <li>•Acquisition</li> <li>•Usage</li> </ul>	<ul style="list-style-type: none"> <li>•Goods</li> <li>•Services</li> <li>•Experiences</li> <li>•Ideas</li> </ul>	<ul style="list-style-type: none"> <li>•Purchaser</li> <li>•Decider</li> <li>•Influencer</li> <li>•User</li> </ul>	<ul style="list-style-type: none"> <li>•Hours</li> <li>•Days</li> <li>•Weeks</li> <li>•Months</li> <li>•Years</li> </ul>

The single final decision depend on every single part of the sum of decisions processes and question that we have to ask ourselves. We need to decide if we want to buy something, what kind of product, if we buy it for us or for other people and many more questions. You have to



follow the path described in the totality of decisions. There are many different ways and processed that you can follow to get to the same final product (I want to buy a clothing item for a friend of mine and I know he likes football, so I get him a football team t-shirt <-> I want to buy a football team item for a friend of mine and I know he needs a new t-shirt, so I get him a football team t-shirt)

Understanding consumers matter and we can get to know why through a little history about marketing evolution. There are some fundamental stages to consider:

1. **Production orientation** -> Driven by what the product can do and manufacturing costs
2. **Competition Orientation** -> Compete on dimensions of price and quality
3. **Demand Orientation** -> Desires of customers guide firms' actions
4. **Customer Centric Orientation** -> Product development and delivery of products and services is driven by customers' current and future needs to maximise their long-term financial value to the firm

Many companies now act with a consumer centric orientation -> "The thing that drives everything is creating genuine value for customers." – Jeff Bezos, Amazon founder -> Amazon for example think that the best way to reach high revenues is to put the customers need in front of everything else. Amazon is a digital oriented company but they are not giving up the physical part because they want to let the customer think that they care not just online but also in real life.

- How is Amazon customer centric?
  - Value for the consumer
  - Understanding the customer
  - Ecosystem approach
- How is Amazon not customer centric?
  - Product orientation
  - Competition orientation



Amazon can get many data from its customers and use them to create new products that meet their needs and to get them to buy more and more.

There are different ways through which you can use consumer insights:

#### - **Segmentation and Targeting**

- Focus on happy or unhappy customers
- High- or low-income customers
- In micro-targeting, really anything

- **Optimise the interaction with consumers** -> Tailor marketing communication to segments

- **Develop, package and promote products to maximise value**



The value of understanding consumer is different for different actors in the market:

- **Managers** -> Inform marketing strategy
- **Policy makers** -> Benefit society -> Improve nutrition and Increase donations (opt-in versus out)
- **Consumers** -> Informed decision making

**Consumption** -> Process by which goods, services or ideas are used and transformed into **value**

**Companies** try to make maximise the positive value for themselves -> Reducing costs and Increasing revenues by selling more or at a higher price

**Humans** (consumers) try to make choices that minimise the negative value and maximise the positive value for them -> Invest less money, time and effort, Get more attributes (phone that is also a camera), Get better attributes (a better camera)

*Value = positive attributes (functional, psychological) - negative attributes (price, psychological)*

The same attributes (e.g., comfort, beauty) may have different impact for different products and contexts -> if you consider

*Value = Weighted evaluation of the positive and negative attributes*

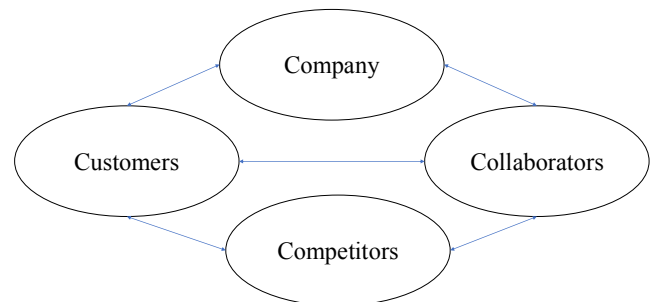
**Expected value** depends on different things:

- we are not *certain* about the value, but we can form expectations, A big part of marketing is improving these expectations
- What can reduce uncertainty about the value?
  - Past consumption
  - Brand familiarity
  - Trustworthy recommendations
  - Messages from the company

Sometime is hard to calculate the value of a product: there are many information that you can get but sometimes those are too many and it's difficult to understand on what you need to focus. Most people are not willing to spend a lot of time focusing on every single part of information in the amount of money needed is low.

**References** -> one fundamental tactic is to compare a stimulus (e.g., a products) to other stimuli -> i.e knowing that there is a smaller/bigger product, can help me compare the options and decide which is the best one for me

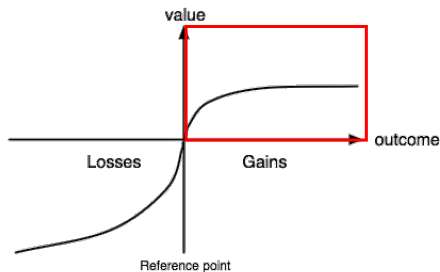
### Value Creation / Exchange





**Prospect theory** -> people use their existing condition as a reference point to evaluate gains and losses -> Kahneman & Tversky (1979) observed a value function that is inconsistent with standard “rational” economics -> Diminishing utility for both gains and losses and Loss aversion

## Prospect Theory



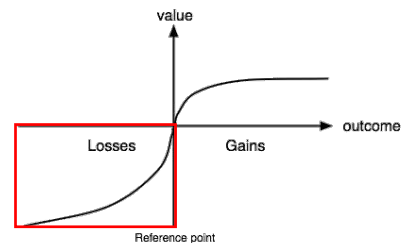
### Diminishing utility for gains (function is concave)

Getting a bonus of 1000 Euros is more fun than 100 Euros  
 BUT  
 Less than 10 times more fun

The value depends on how good or bad I feel about something, while the outcomes depends on possible gains or losses that I can get. The curve is not linear but it becomes more and more flat -> this depends on the fact that people are more excited to go from zero to x instead of going from x to y -> the excitement diminish as the amount increase (the first slice of pizza taste better than the last one)

Prospect theory assumes that losses and gains are valued differently, and thus individuals make decisions based on perceived gains instead of perceived losses. Also known as **loss aversion** theory, the general concept is that if two choices are put before an individual, both equal, with one presented in terms of potential gains and the other in terms of potential losses, the former option will be chosen

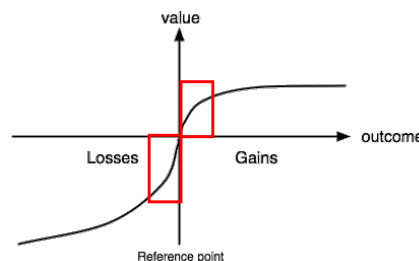
## Prospect Theory



### Diminishing (negative) utility for losses (function is convex)

Losing a 1000 Euros feels worse than losing 100  
 BUT  
 Less than 10 times worse

## Prospect Theory

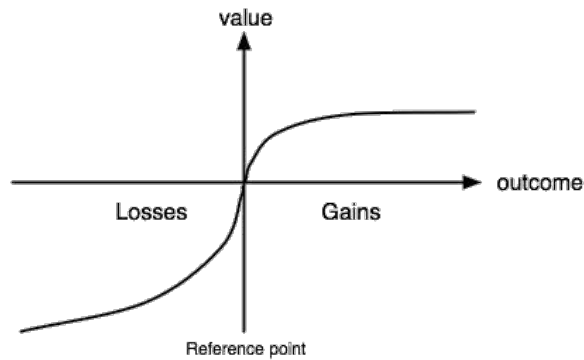


### Loss aversion: losses have a stronger impact than equal gains

Losing 100 Euros is more impactful than winning 100 Euros



# Prospect Theory



## Two main observations

- The impact of changes diminishes ( $0 \rightarrow 1 > 1 \rightarrow 2$ ;  $0 \rightarrow -1 > -1 \rightarrow -2$ )
- Loss aversion: the slope is steeper for losses ( $0 \rightarrow -1 > 0 \rightarrow 1$ )

## Research (methods)

The main goals of research are:

- **Built knowledge** -> Collect new information and Validate existing / new beliefs -> we want to learn things about consumers that we didn't know or for which we have some kind of intuitions and we want to learn more
- **Support decision making** -> Inform choices, reduce uncertainty, Reduce responsibility for negative outcomes
- **Justify existing decisions** -> Persuade others to accept our beliefs, Reduce responsibility for unpopular decisions

In general we should believe research because usually is better than guessing but findings are rarely “truths” due to misperception of causal relationships and limitations of statistical inference.

## Causality

- “Correlation does not infer causality”



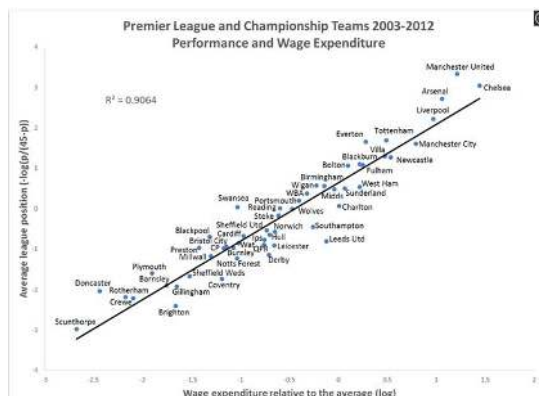


It's not always easy to interpret correlation -> Correlations often reflect one-directional or bi-directional causal relationships

Sometimes correlation do reflect casual relationship.

It's not always easy to interpret correlations because often they reflect one-directional or bi-directional causal relationships. When not, usually either:

- A third factor that affects both variables: (1) number of schools and (2) crime rate are correlated because of (3) population size
- Random error (noise)



Statistically control for other related variables and argue that there is no other good explanation

- **Demographics:** People in Milan buy more luxury cars than in Napoli. Is it because of the quality of the roads? The location of the city? Wealth?
- **Circumstantial:** People buy more ice cream in the summer. Is it because of the weather? The vacation? Both?

When we have data, we can't know for sure that X have and impact on Y.

Another statistical approach is to randomly assign people to different conditions -> **"A/B testing"** (aka "split test") = assignment of consumers to different conditions -> we usually consider just two conditions but this is not mandatory. The important thing is to see how the behaviour change with respect to the benchmark condition. It's difficult to do in physically because many things and external factors can have an impact (which branch to use, in which time..) while it's easier to do on digital platforms -> Users see a version of a picture, video, text, etc.

Random assignment can be a issue due to different conditions:

- Can still have have sampling errors, especially in small samples
- Can still have demand effects (attitudes towards minorities, embarrassing consumption)
- Misused because of limited statistics knowledge (e.g., stop prematurely)
- Assignment may not be truly random because of the algorithm

Should marketers always care about causality? As researchers, we should consider this causality because this will informed our decisions.

**Marketing research** -> Systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation

1. **Defining the problem and objectives:**

- **Diagnostic analysis** -> How do customers perceive my offerings? How do I compare to competitors? How do these perceptions explain current performance?



- **Opportunity analysis** -> Does the market present unexploited opportunities for growth? How can I exploit these opportunities?

## 2. Collecting data

- **Secondary (existing) data** -> Internal database, Commercial database, Relatively cheap but usually doesn't fit perfectly, Usually correlational
- **Primary data** -> The company conducts (or pay a contractor to conduct) new research to achieve the specific objective and for that reason they will be more focused on what we want to discover, the "problem" is that we need to decide in which way we want to get the data (Qualitative versus Quantitative, Direct versus indirect elicitation)

**Qualitative data** -> focus groups, In-depth interviews, Observational ->

- **Good for generating ideas and hypotheses** -> Unstructured discussion, Dynamic discussion (the moderator can respond), Interaction between different people
- **Low validity** -> very small samples (hard to generalise), Experimenter (interviewer) effects, Social dynamics between participants in focus groups

**Quantitative data** -> surveys, Experiments, Database analysis

- **High validity** -> Directly measures what we're interested in, More sophisticated and accurate analysis, Large (and even representative) samples
- **Restricted compared to qualitative methods** -> The researcher can only ask about what they know and think (no dynamic interaction with people), Hard to update measures during the study

**Direct elicitation** -> Ask consumers explicitly -> i.e. On a scale of 1 to 7 [1=totally disagree, 7=totally agree]

- Respondents may be inaccurate
- Respondents may be reluctant/unable to reveal them
- Especially true for: Infrequently made decisions, Sensitive "soft" attributes, New attributes/technologies
- Ideal offering may not be a simple sum of its parts -> i.e. even if we know what people feel, is not always trivial to create something based on this, because we are not sure that is something that the value

**Indirect elicitation** -> infer consumers' attitudes and preferences from their behavior, Big data, Conjoint analysis -> People's attitudes are gauged through a series of choices from a set of products with varying attributes -> you ask people to make set of choices and for each option you have different prompts and at the end you deduce the rank of the attributes based on which they value the most and to what extent moving one attribute can effect people choices





Marketing research can help decision making, but it does not guarantee a correct decision; it merely **reduces uncertainty** -> Many techniques overlap, but each offers unique strengths and weaknesses -> Researchers often use multiple methods to try to achieve “convergent validity” In order to understand if something is statistically significant, we should check the **p value of significance** -> Formal definition: “The probability, under the null hypothesis, of obtaining a result equal to or more extreme than what was actually observed” -> Simplified definition: “The probability that the effect is due to chance” -> probability that what we found is due to chance, what we found could exist in reality. The closer the p-value is to zero, the higher the probability that the effect will be present

Common *misinterpretation*

- $p < .05$  -> the effect is real
- $p > .05$  -> the effect is not real

This is a misinterpretation because it's not precise. The problem is that the difference between .049 and 0.051 is really small and for that reason we can't state for sure that one is real and the other not.

**Replication crisis** -> Replicating a finding increases our confidence in it -> Multiple failed replications of famous research -> Psychological, Many other fields, including medicine -> Doesn't require faking data -> this is not the case of faking data, it's just a problem of replication.

**P-hacking** -> we try to hack the p-value to make it significant even if the effect won't replicate if you try it again :

- **Cherry picking** -> Choose the significant result, ignore the rest
- **Data exclusion** -> Remove participants for some reason and keep the ones that yield a significant effect
- **Analysis** -> Transform data or Use multiple methods

p-hacking can happen unintentionally

In the industry there are some things that make it different from academia: there is less knowledge of research methods, Less critical evaluations of findings, (maybe) more pressure to get “a finding” -> p-hacking is more prevalent in the industry than in academia.

Some solutions from the point of view of the researchers to this problem could be to understand the difference between exploratory analysis and confirmatory analysis (i.e., hypothesis testing) -> In “exploratory analysis” you can do whatever but then replicate. When testing hypotheses don't do anything to “get it” -> Preregistration approach: record your a-priori hypothesis, analysis plan, exclusion criterion, etc.

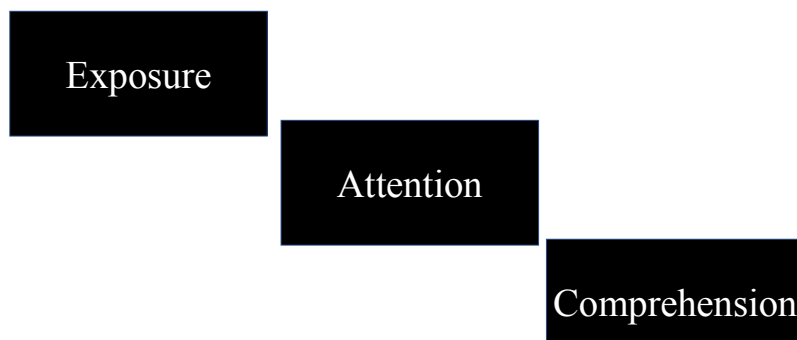
Some solutions with the clients (manager) could be to be skeptic, ask questions about the analysis, don't be too impressed by  $p < .05$ , ask for measures of effect size (how meaningful the effect is), encourage full transparency, do not incentivise or pressure the researcher to produce significant results

## Attention and comprehension

In this part of the course we'll:

- Discuss why marketers are concerned with consumers' exposure to marketing stimuli and what tactics they use to enhance it
- Explain the characteristics of attention and how marketers can try to attract and sustain consumers' attention with products and marketing messages
- Discuss the process of comprehension, and outline how marketers can affect consumer inferences about products and brands

### Information Processing



**Exposure** -> Having contact with a stimulus and being able to process it (Note: some definitions would call this “attention”. This class (and the book) define attention differently) -> Marketing stimuli (Products, Information about offerings such as adv)

The characteristics of the stimulus affect consumers' exposure to it -> Position, Size

What the stimulus means for the consumer also affects exposure -> Value / Relevance

It's important to understand how people are affected by those stimuli -> people should see and being able to interact with the stimuli in order to understand how they react to it. The reaction depend on the position (for texts, people concentrate more on the left part and to the higher part -> on a newspaper) and on other characteristics of the consumer (gender, age...). In adv it's important to get the people to look at your product/brand and to focus on that other then on other things (i.e. it not good for a brand if people focus on a celebrity endorser than on the brand)

In a supermarket it's important to understand which is the best place to position different brands: for cereals for example it's better to put “adults” cereal on the higher shelf and “kids” cereal down to the level of children in order to expose the right customers to the right product and to increase the possible revenues you can get.

The same concept is true not only for physical stores, but also for online stores -> the place where you put the products matter. Consumers choose which websites or stores to visit. The challenge for marketers is to maximise exposure (of the right segment) without creating an aversive experience



The IKEA maze  
 “IKEA’s store layout is a psychological weapon used to confuse and disorientate shoppers into spending more”

Can this be done online?

Ikea store -> use a special kind of layout in their store to increase the number of products that consumer are exposed to and for that reason they can try to increase the possibility for consumers to purchase also things that they didn't think they needed.

Walmart website -> no real products as soon as you click on the website, you'll get the products only if you click on a different section -> no immediate exposure to products but you need to search for them

**Attention** -> The amount of mental activity/effort that a consumer devotes to a stimulus -> Exposure and attention are intertwined. The brain's way to prioritise allocation of cognitive resources. Attention is limited, selective, and divisible.

- **Focal stimulus** -> consumers consciously and often intentionally direct attention to it
- **Non-focal stimuli** -> other stimuli that consumers are exposed to -> we are able to process them even if we don't pay particular attention to it
- **Pre-attentive processing** -> non-conscious processing
- **The cocktail party effect** -> People process stimuli automatically, and are able to shift from subconscious to conscious processing when the stimulus is relevant -> Imagine chatting with someone at a party. When someone else mentions your name you might notice it, turn your head, and actively listen to what they say. When they mention another random name, you may not consciously notice it -> we pay more attention to things that are known to us
- **Peripheral vision** -> part of your vision that occurs outside the direct line of sight. It enables you to detect movement, see objects, and perceive the environment to the side of where you're directly looking. This type of vision is essential for spatial awareness, balance, and detecting motion, especially in low-light conditions.

There are different factors that might affect the level of attention:

- **Physical characteristics of the stimuli** -> Size/Shape/Color/Volume/Scent/Novelty and difference from other stimuli
- **Inferences about the value** -> Marketers can signal consumers information about the value, explicitly or implicitly (i.e. best seller, five stars, order of things...)



- **Personal relevance** -> The value of products for consumers depends on their preferences (do I like coffee?) and needs (did I already have coffee?) -> Targeting is about offering the product to people who will find the proposition relevant
- **Fluency – ease of processing** -> how easy is for a person to understand something? People prefer to focus on stimuli that they can process easily -> They can extract information more efficiently (Font style, sharpness and spacing), Stimulus-background contrast (light vs. dark mode), Familiarity, fluency, and liking are correlated -> But given that the information needs to be encoded, it makes sense to pay more attention to the hard-to-process stimulus
- **Pleasantness** -> We pay more attention to attractive people for social and evolutionary reasons -> Positive attitudes towards one stimulus (e.g., music) can increase engagement with another (e.g., product)
- **Novelty/Surprise** -> Violating consumers' existing expectations increases their attention -> Physical, Social, Advertising norms

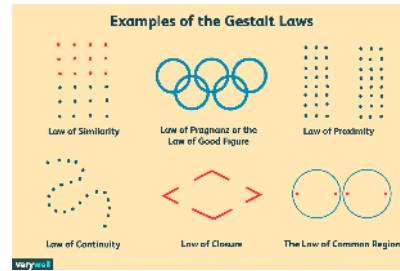
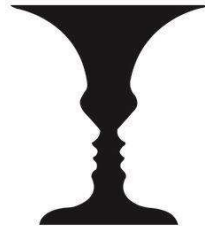
**Comprehension** -> there are different parts that we need to consider:

- **Perception** -> Thresholds for perceiving a stimulus -> Determining the properties of stimuli using vision, hearing, taste, smell, and touch
  - *Absolute thresholds*. Minimal level of stimulus intensity needed to detect stimulus
  - *Differential thresholds* (just noticeable difference). The difference in intensity between two stimuli that is needed to perceive them as different
  - *Noticeable difference*
    - Sometime marketers want consumers to notice the difference -> improved product, Discounts, Comparison between products
    - Sometimes marketers want consumers to miss the change -> Price increase, Worse terms of service

**Consumers may fail to perceive certain changes or perceive them as bigger or smaller than they are** -> Price increase: \$1.95 -> \$2 > \$2 -> \$2.05 or Discount: \$2 -> \$1.95 > \$2.05 -> \$2

People may perceive the same stimuli differently:

- Physically (e.g., tolerance for spicy food)
- Socially (e.g., norms regarding what's appropriate)
- Psychologically (e.g., perceive a sale as better because one "loves sales")
- **Perceptual organisation** -> How stimuli is perceived -> Stimuli is organised into meaningful units and it is interpreted in the context of a background -> in stores, what you buy depends on where you stop, Where you stop depends on how you define the category, How you define the category depends on how you visually group items together



- **Comprehension** -> Objective and subjective, Miscomprehension

*Objective comprehension.* The extent to which the consumer accurately understands the message that the sender intends to communicate

*Subjective comprehension.* What the consumer understands from the message, regardless of whether it is accurate

*Miscomprehension* -> difference between objective and subjective comprehension-> depends on many things such as Complexity of the message, Limited opportunity (e.g., time) or resources (e.g., attention) to process the message, Motivation (Low motivation to comprehend correctly, High motivation to comprehend incorrectly)

For that reason, it's better to keep the message simple, to repeat the message, to print the information in different forms and to design a message that is consistent with consumer's prior knowledge. Building on people existing knowledge makes their understanding easier.

**Knowledge and memory**

In this part we are going to focus on explain how and why knowledge of content and structure, including associative networks, categories, schemas, scripts, and prototypically are relevant to marketers, distinguish between types of memory and discuss memory retrieval and the ways in which marketers can try to affect it.

Marketers can leverage consumers' subjective comprehension -> Prior knowledge, Associations and Inferences and assumptions

- Brand names and symbols



- Product features and packaging



There are some shortcuts that people use in order to make their choices in a faster way -> Consumers infer quality from many signals, including:

- **High prices**



- *High effort invested by the producer*
- *Scarcity* (low supply -> high demand -> high quality) -> Scarcity = limited availability of goods or resources -> Low supply suggests high demand -> This inference does not have to be conscious -> The term “Scarcity” is also used for marketing actions that don’t rely on supply and demand inferences (Exploding offers, Limited edition)

**Consumer memory** -> Persistence of learning over time, via storage and retrieval of information, either consciously or unconsciously -> *Retrieval*: Process of remembering or accessing what was previously stored in memory

- *Working memory* -> Incoming information that is encoded or interpreted with existing knowledge or kept available for more processing -> Limited and short lived
- *Long-term memory* -> Information is stored for later use
- *Episodic (autobiographical) memory* -> Knowledge about oneself and his or her personal, past experiences (i.e. how it feels to eat Pizza)
- *Semantic memory* -> General knowledge about an entity, detached from specific episodes (i.e. How healthy it is to eat pizza)

There are effective uses of episodic memory -> Promoting empathy and identification, cueing and preserving episodic memories, reinterpreting past consumption experiences

- *Explicit memory* -> Consumers are consciously aware that they remember something and can report it -> recognition ( Identifying whether individuals have previously encountered a stimulus when re-exposed to the stimulus, Do you know these brands: Pepsi, JBL, Guttiau) (*Free Recall* (Ability to retrieve information about a stimulus from memory without being re-exposed to the stimulus again))
- *Implicit memory* -> Consumers are not consciously aware that they remember something, Can facilitate processing fluency, Can lead to better consumption experiences (e.g., choose a favorable table in a restaurant)

**Top of mind** -> When I say, shout the **first** brand that comes to your mind when you think about the following products -> this doesn’t mean that you necessarily like the brand, but that you are at the top of the mind of most customers

Failures of memory retrieval since we can’t remember everything (we don’t have the capacity to do that):

- *Decay* -> Weakening of memory strength over time
- *Interference* -> Strength of a memory deteriorates over time because of competing memories

Memory can be subject to:

- *Selection* – memory of only some information (e.g., remember the good things, forget the bad)
- *Confusion* – misremembering a specific piece of information (e.g., mix up two different stores)
- *Distortion* – remembering things that did not happen



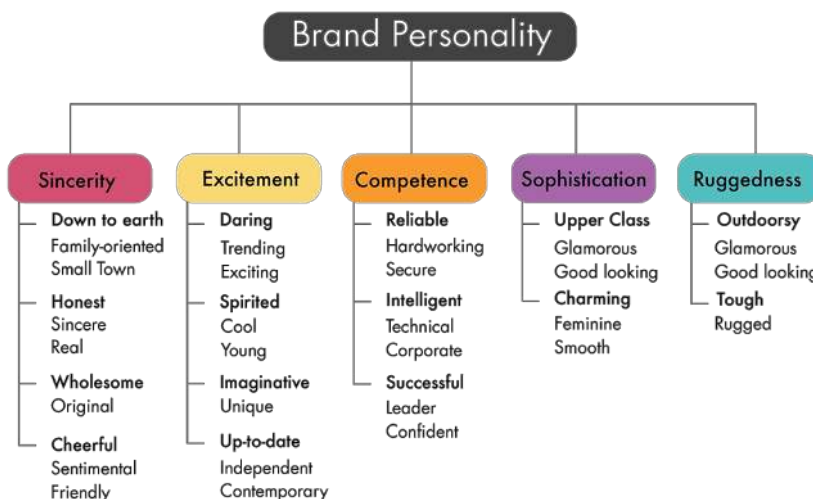
Techniques to enhance memory:

- **Chunking** - Group of items that are processed as a unit
- **Rehearsal** - Active and conscious interaction with the material one is trying to remember
- **Recirculation** - Encountering information repeatedly
- **Elaboration** - Transferring information to long term memory by processing at deeper levels

**Schemas** -> set of associations or associative networks linked to a concept in memory (i.e. University <-> Bocconi <-> success) -> we think about association that we have in mind and not just the thing we should think about -> sometime association are not as good as a company can hope (when we think about Napoli, we can think about pizza or about danger -> both positive and negative associations) -> schemas are dynamic and can change based on people experiences and emotions people feel

**Brand image** -> Captures what a brand stands for and how favourably consumers view it

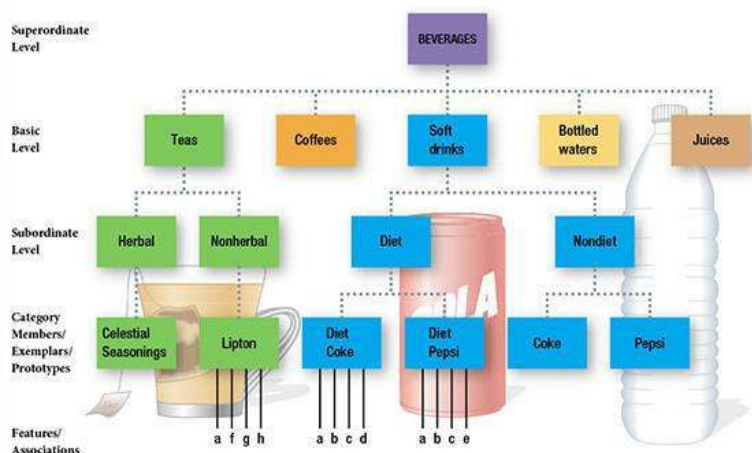
**Brand personality** -> Set of associations that reflect a brand's personification



**Taxonomic categorisation** -> Classification of objects in memory in an orderly way based on their similarity

**Prototypically** -> the extent to which an object is characteristic of its category (e.g., iPhone is highly typical of smartphones)

**Hierarchical structure** -> sub-categories (Electrical appliances -> Communication devices -> Smartphones -> iPhone)





Underlying appraisals -> people's interpretation of the stimulus affects the emotion:

- Anger and fear are negative emotional responses
- **Anger** is caused by a *certain* someone else
- **Fear** is caused by an *uncertain* something else
- We are afraid that someone will break into our Gmail account. We're angry that someone did

	Good for me (consistent with my goals)		Bad for me (inconsistent with my goals)	
	Certain	Uncertain	Certain	Uncertain
Self	Pride Happiness	Hope Excitement	Guilt Shame	Anxiety
Other	Gratitude Love	Hope Excitement	Anger Resentment	Fear

Companies can affect attitudes by producing good products that generate value for the consumer. That is difficult and costly -> companies can focus on **communication** in order to try to convince them about the greatness of their products-> Directly tell us what to feel and think, Reviews, WOM, Signal something about the product

- Directly telling consumers what to think/feel



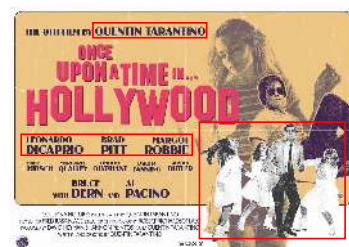
- Product reviews, WOM

**BEST GELATO IN MILAN, ITALY: 5 AMAZING LOCAL ICE CREAM PARLORS**

- Show us (e.g., in ads) how people react to the product



- Use things consumers already know as informational cues





**Source credibility** -> consumers evaluate the source as well as the message itself, they can have various attitudes towards the source. These may correlate with attitudes towards the message and the product -> Credibility is particularly important because it affects the extent to which consumers believe the message

We can't force someone to believe in what we say, we should make our words credible and for that reason the source that deliver the message should be credible and trustworthy in order to let the consumer be more in a position of acceptance of the message. Credibility is not the only thing to consider: you could prefer an influencer to a online blog because the influencer has more followers and can reach a higher number of possible consumers.

People are critical on informations they get -> **Persuasion knowledge / skepticism / suspicion**  
 -> Consumers understand that marketers want to persuade them (to buy the product) -> possible solutions to this problem could be to hide the marketer identification (e.g., native ads; later session) and communicate through other (independent?) Sources.

**Message** -> Good arguments are generally more persuasive -> Other ways to increase message credibility and persuasiveness (more on that in the persuasion session) could be:

- **Comparative messages** -> Argue that the product is different (and better) relative to another product -> we are not talking just about our product, but also we are comparing it with other brands with the same product -> this help people to actually evaluate the product and not the brand (I.e. pepsi challenge could not be don in Italy because there are regulations)
- **2-sided messages** -> Acknowledge that the offer is imperfect -> make fun of your brand acknowledging the fact that you are imperfect but, at the same time, try to enhance other characteristics

### Comparative messages



How can advertisers do that here in Italy?

### 2-sided messages



Attitudes during consumption depends on the quality of the consumption experience; mostly, the product is what it is and we need to understand if it is possible to affect the experience without affecting the product attributes -> it's difficult to change the product but we can change the experience that consumers have while consuming the product. It's important to understand how some behaviours can change the experience we have: What other people think and feel has an ongoing effect on consumers' attitude formation

All depends on the experience relative to initial expectations:

- **Confirmation**
- **Disconfirmation**
  - Disappointed (should we say the product is “the best”?) -> this has a higher impact
  - Pleasantly surprised

Marketers should try to manage the information in the best way possible -> sometimes it's better not to create too high expectations, in order not to disappoint people and not let them criticise the product too much -> it's easier to see people comment on something that actually disappointed them other than seeing them comment something that pleasantly surprised -> prospect theory says that losses are more impactful than gains (we consider more a loss of 500 euros than a gain of the same amount)

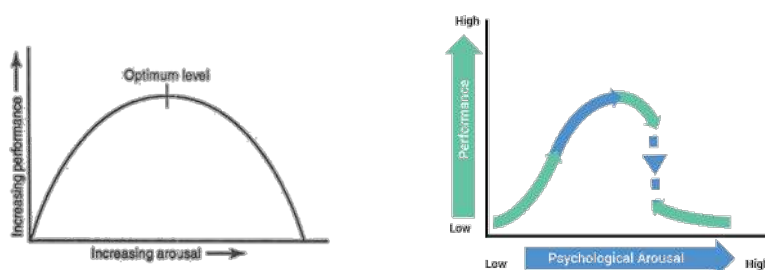
**Identifiable victim effect** -> Seeing an individual victim leads to larger support (e.g., donations) than learning information (e.g., statistics) about the cause -> Food shortage affects x millions of people have a smaller impact than a picture of a starving boy

**Emotional appeals** -> Trigger an emotional response increases engagement -> Through its associations, the affect “spills over” to the evaluation of the object

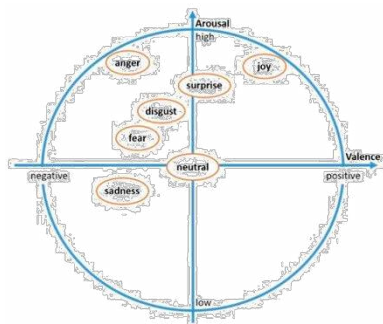
**Valence** -> The positive or negative value of the emotion -> The extent to which a feeling is positive or negative -> We usually want consumers to feel more positive, People are hedonic and can lead to positive attitudes (“I'm enjoying so this must be a high quality experience”), Emotions from separate experiences can spillover to the product

Sometimes the product is made not to generate positive feelings (i.e. film on Dahmen) because they focus on other emotions -> people don't want always to feel happy and positive, they might need also to feel and try other stuff

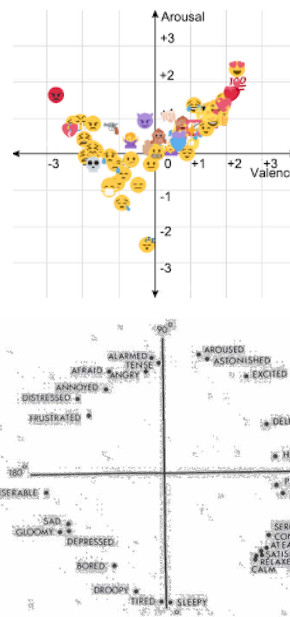
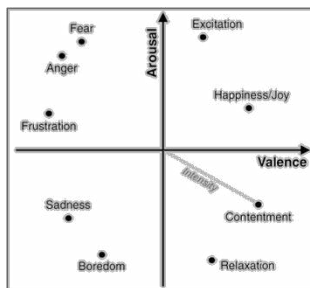
**Arousal** -> The intensity of the emotion -> Performance decreases past some point of arousal



When people do more engaging things, usually they perform better because they have higher incentives -> the same thing can happen with emotions, if something is positive but just super soft, you get less engaged and the feeling is not so impactful



AROUSAL		VALENCE	
Low	High	Negative	Positive
sad	happy	sad	happy
ashamed	angry	angry	surprised
calm	surprised	afraid	proud
neutral	afraid	ashamed	calm
	proud		neutral



**Peak-end rule** -> People judge an experience largely based on how they felt at its peak (i.e., its most intense point) and at its end, rather than based on the total sum or average of every moment of the experience -> Ending with a negative emotion can be difficult because this might affect how we feel about something in general (we can change our perspective based on the last emotion that we felt) -> People seek catharsis -> we can use the negative feeling as a way for a call to action (I.e. adv on quit smoking)

There are different ways through which we can measure emotions:

- **Brain activity**
- **Ask them** (not easy to make people say really what they thing)
- **Pupil dilatation** (eye-tracking)
- **Galvanic skin response** -> measures skin conductance, which increases with sweat levels as a response to emotional arousal or stress. Controlled by the sympathetic nervous system, GSR is used to monitor

stress, excitement, and anxiety, making it valuable in lie detection, psychological research, user experience testing, and biofeedback therapy. Sensors detect these changes in the skin's electrical conductance, providing insight into physiological and emotional states.

## Measure emotions

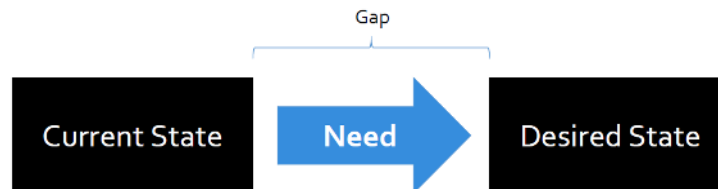
PANAS: Positive Affect Negative Affect Scale

1	2	3	4	5
Very Slightly or Not at all	A Little	Moderately	Quite a Bit	Extremely
_____ 1. Interested				_____ 11. Irritable
_____ 2. Distressed				_____ 12. Alert
_____ 3. Excited				_____ 13. Ashamed
_____ 4. Upset				_____ 14. Inspired
_____ 5. Strong				_____ 15. Nervous
_____ 6. Guilty				_____ 16. Determined
_____ 7. Scared				_____ 17. Attentive
_____ 8. Hostile				_____ 18. Jittery
_____ 9. Enthusiastic				_____ 19. Active
_____ 10. Proud				_____ 20. Afraid

## Motivation and goals

**Motivation** -> the inner reasons or driving forces that cause a behavior:

- Recognise a *need* (or want)
- Set the goal of meeting that need
- Understand the gap between the current and the desired states
- If the motivation is sufficient, act to achieve the goal



People have a needs, inherent or learned through time -> Products can answer those needs or marketers can convince consumers to use their product to satisfy an existing need. Companies don't want to wait for consumers to independently develop a need for their product -> companies can actively do something to trigger the need and make us feel as we need something that we weren't actually thinking about. They can also:

- *Activate the need*
- *Highlight the gap*
- *Offer to resolve the gap*

## Maslow's hierarchy of needs



Consider whether the product objectively answers the need

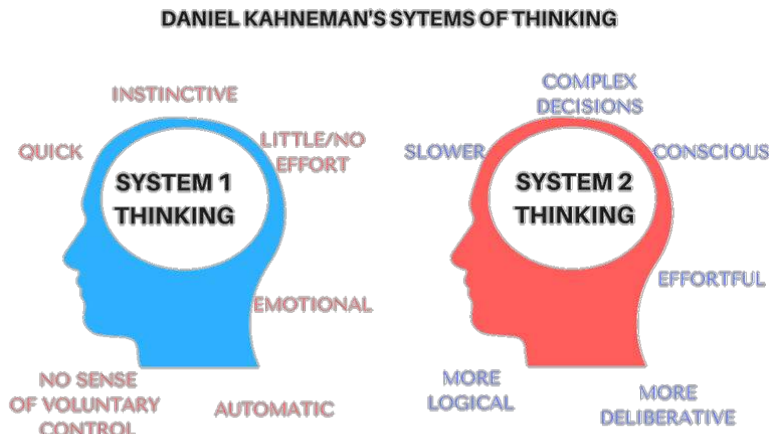
The same product can serve different need, different products in the same category can compete by serving different needs (i.e Kombucha -> Physiological (thirst), Safety (healthy bacteria), Belonging (connect to nature), Esteem (sophisticated), Self-actualisation)

**Utilitarian motivation** -> Functional, Usually more basic needs



**Hedonic motivation** -> Pleasurable, Experience something gratifying

People are more likely to spend windfalls (i.e., unexpected income) on hedonic products than on utilitarian products -> if something surprising happens, there is more probability that you would something more hedonic related (shopping, coffee...)



**High motivation** -> system 2 (central route) -> Evaluate information critically, The consumer is persuaded by:

- Facts, and evidence
- Strong arguments
- Reviews
- Expert salespeople
- Product descriptions

**Low motivation** -> system 1 (peripheral route) -> Evaluate information quickly/automatically, The consumer is persuaded by:

- Source attractiveness
- Mood
- Message length
- Number of features
- Number of arguments

Strong arguments

Many arguments

The left one is more impactful for system 1, while the one of the right is more impactful for system 2



Experts agree that being overweight or obese is a major risk factor for Type 2 diabetes. Eating or drinking too many kilojoules, including from soft drinks, can contribute to weight gain, which in turn increases the risk of diabetes.



## Information

Information rich



Image rich



## Message complexity

Complex



Simple



## Spokespeople

Credible



Appealing

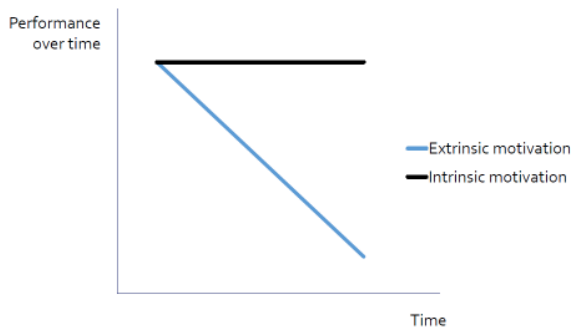


It's important to understand how to reach people and on which part of the brain to focus (either system 1 or system 2) -> it's better to segment people based on how motivated people are.

**Extrinsic motivation** -> Behavior is driven by the expectation of an outside reward (or consequence), such as money or praise (or punishment)

**Intrinsic motivation** -> Behavior is driven by an internal incentive; based on the expectation of enjoyment, pleasure, or curiosity satisfaction

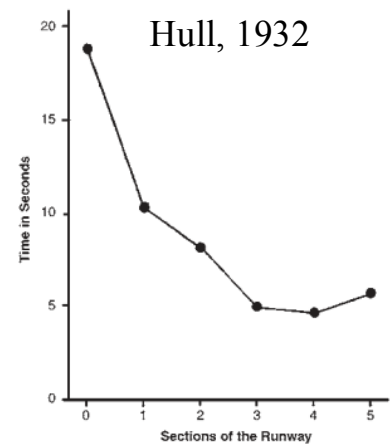
## Extrinsic versus Intrinsic motivation



When we do things for extrinsic reasons, it's hard to maintain the motivation -> you need to keep being motivated by the environment. Viceversa if you are intrinsic motivated, it's easier that you will commit more. The same thing happens with products.

Goals are important because they motivate people to go on with an activity in order to fulfill.

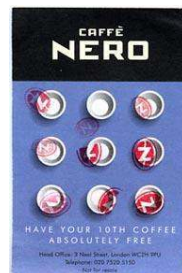
**Goal gradient hypothesis** -> More effort is expended to satisfy a goal the closer one gets to achieving it -> people's motivation intensifies as they near a goal. As individuals get closer to completing a task or reaching a reward, they work harder and persist more. This concept is often applied in areas like loyalty programs, where progress tracking encourages people to keep going by making the goal seem within reach.



### More effort towards the goal. But what happens after the goal is achieved?

Kivetz, Urminsky & Zheng, 2006

- Customers buy coffee more frequently when they get closer to the goal
- Then they “reset” and may even buy less frequently



After having achieved the goal, people tend to drop or reduce the activity because they don't have the extrinsic motivation anymore

**Motivational conflict** occurs when a person faces opposing motivations, especially between approach and avoidance goals.

- **Approach Goals** -> These are positive goals that individuals actively want to achieve, such as earning a promotion, building relationships, or improving health. Approach goals drive us toward desired outcomes
- **Avoidance Goals** -> These are negative outcomes that individuals want to avoid, like preventing failure, avoiding embarrassment, or staying out of debt. Avoidance goals motivate us to steer clear of undesirable situations.



Types of Motivational Conflicts:

- **Approach-Approach Conflict** -> Choosing between two desirable options, such as deciding between two job offers
- **Avoidance-Avoidance Conflict** -> Choosing between two undesirable options, like deciding whether to do a disliked task or face the consequences of not doing it.
- **Approach-Avoidance Conflict** -> When a goal has both positive and negative aspects, such as wanting a promotion for the salary but fearing the added stress.
- **Double Approach-Avoidance Conflict** -> Facing two options, each with pros and cons, like choosing between two jobs that have both appealing and unappealing features.

Balancing these conflicts can be challenging, as approach goals pull us toward rewards, while avoidance goals push us to steer clear of risks. The stronger motivation often depends on personal values and perceived consequences.

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### *Heterogeneity, values, personality*

**Heterogeneity** -> There are very *general characteristics of consumers*. For example:

- Economic: Prefer to pay less
- Physical: Enjoy sweet food
- Psychological: Like enjoyable experiences

But there are many ways in which *consumers differ*. We will discuss in depth:

- Values
- Personality
- Lifestyle
- Age and Gender

**Values** -> Enduring beliefs about abstract outcomes and behaviours that are good or bad ->

Values serve as standards that guide behaviours across situations and over time, Our total set of values and their relative importance constitutes our value system:

- *Global values*. A person's most enduring, strongly held, and abstract values that hold in many situations (e.g., justice)
- *Terminal values*. Highly desired end states (e.g., pleasure)
- *Instrumental values*. The values needed to achieve goals (e.g., ambition)

Common values in Western culture:

- *Materialism*
- *Work hard play hard*
- *Work-life balance*
- *Dolce far niente* -> is this sensation when you sit at a bar in an Italian village while you drink coffee and watch the passerby. Time slows and for half a second you admire life in its simplicity, and you only want to smile



- *Family / house*
- *Youth / health / fitness*
- *Hedonism / Authenticity*
- *Environment / Technology*
- *Individualism*

It's important to understand if those values are actually values of the western culture or if it's not completely true. We also need to ask ourselves how are our generation's values different from those of our parents and grandparents. There are general differences between the cultures and values of nations

- *Collectivism-Individualism*
- *Uncertainty avoidance* ("tolerance of ambiguity")
- *Masculinity-Femininity*
- *Long-Short term orientation*
- *Power distance index* ("the extent to which the less powerful members accept that power is distributed unequally")
- *Indulgence-Restraint* ("...allows gratification")

**Personality** -> General enduring differences between people in terms of behavior patterns, feeling and thinking -> Leads to consistent responses to environmental stimuli. Personality is a combination of:

- *Thoughts (cognitive)*
- *Emotions (affective)*
- *Intentions (motivational)*
- *Tendencies and Behaviours (behavioural)*

Personality is unique to the individual, stable but interacts with situations, behaviours vary across time -> The big five personality traits. Agreeableness, openness to experiences, neuroticism, conscientiousness, and extroversion. These distinguishable characteristics describe one's tendency to act in a consistent manner. So these are things that we carry with us as a personality. So think about these five things. Openness to experiences, how curious we are, how organized, how responsible, how like an adult we are, how extroverted, how assertive, and how comfortable we are in interacting with others and in doing things in public. Agreeableness, how much empathy, how much trust we have in others. And last one, neuroticism, how anxious we are, how not self-confident we are.

- **Openness to experience** -> Curiosity, Creativity
- **Conscientiousness** -> Organisation, Responsibility
- **Extroversion** -> Assertiveness, Sociability
- **Agreeableness** -> Empathy, Trust in others
- **Neuroticism** -> Anxiety, Self-doubt



Trait approach

Brand personality traits

Distinguishable characteristic that describe one's tendency to act in consistent manner



Should the brand's personality necessarily fit the consumer's personality?

**Lifestyle** -> the way consumers live and spend their time and money -> "...tense for action, long hair in the wind, beards and bandanas flapping, earrings, armpits, chain whips, and stripped-down Harleys flashing chrome as traffic on 101 moves over, nervous, to let the formation pass like a burst of dirty thunder..." Hunter S. Thompson -> Independent clubs with their own unique identities, Prospective members had to overcome barriers, Harley Owners Group – paid dues, social events, rides, and rallies

**Anthropologie lifestyle** -> The ideal Anthropologie consumer is an adult woman, perhaps in her late 20s or 30s, with money to spare. She is settled into her career and most likely holds a prestigious job that comes with a hefty salary. The Anthropologie consumer isn't concerned with the prices, however; she is all about the design. She is a very cultured, educated woman, with a genuine appreciation for art and aesthetics. Additionally, the ideal Anthropologie consumer is a "free spirit", a woman with an independent mind who dresses however she sees fit. She gets our references, whether it's to a town in Europe or to a book or a movie. She's urban minded. She's into cooking, gardening, and wine. She has a natural curiosity about the world. She's relatively fit.

**VALS - Values and lifestyle** -> A psychometric method that measures beliefs and other predictive attitudes in conjunction with behaviors and demographics for developing countrywide (USA) typologies -> VALS types: Innovators, Thinkers, Believers, Achievers, Strivers, Experiencers, Makers, Survivors

Demographic and Behavior Snapshots Highlight the Vibrancy of Using VALS™

Primary Motivation								
	Innovators	Thinkers	Believers	Achievers	Strivers	Experiencers	Makers	Survivors
Psychological Descriptors	Lifestyle Changers Information Ready Future Oriented	Conservative Mature Reflective	Economical Neighborhoodly Me-Too Followers	Aspirational Hardworking Moderate	Fun Loving Up to Date Overwhelmed	Assertive Energetic Optimistic	Hands-On Practical Self-Reliant	Cautious Loyal Traditional
Median age	42	62	62	38	31	25	47	68
Median HH	\$126K	\$115K	\$60K	\$116K	\$39K	\$95K	\$69K	\$25K
	Percent of Innovators	Percent of Thinkers	Percent of Believers	Percent of Achievers	Percent of Strivers	Percent of Experiencers	Percent of Makers	Percent of Survivors
Women	49	62	78	51	43	46	30	59
Married	46	78	57	82	28	25	68	38
Employed Full Time	54	45	49	78	45	52	60	10
Live with Parent(s)	12	<1	4	4	19	43	4	3
Have a Student Loan (Personal or Joint)	17	7	4	12	4	9	3	<1
Work Full Time	67	51	42	65	40	41	55	13
Political Outlook: Vary Conservative	3	18	19	12	12	11	18	23
Visited a General/Family Doctor in Past 12 Months	52	55	45	41	27	36	46	47
Obtained Medical Insurance from Government Source	10	10	12	5	14	6	11	18



Characteristic Snapshots Emphasize Important Differences by VALS™



Ideals			Achievement		Self-Expression		
Innovators	Thinkers	Believers	Achievers	Strivers	Experiencers	Makers	Survivors
Are confident enough to experiment	Plan, research, consider before acting	Believe in right/wrong for a good life	Have a me-first, my-family-first attitude	Are the center of street culture	Want to stand out	Are distrustful of government	Are the quiet rank and file
Are information ready	Are the old guard	Want friendly communities	Are fully scheduled	Live in the moment	Want everything	Believe in sharp gender roles	Are cautious and risk averse
Are future oriented	Enjoy historical perspective	Not looking to change society	Are peer conscious	Wear their wealth	Are spontaneous	Protect what they think they own	Use television as a window to the world
Are receptive to new ideas and technologies	Have "ought" and "should" benchmarks for social conduct	Have no tolerance for ambiguity	Are anchors of the status quo	Desire to better their lives; have difficulty in doing so	Have a heightened sense of visual stimulation	Want to "work" on their world	Take comfort in routine and the familiar
Enjoy problem-solving challenges	Use technology in functional ways	Have strong me-too fashion attitudes	Believe money is the source of authority	Experience revolving employment	Introduce new sayings	Have strong outdoor interests; don't want to be walled in	Are loyal to products and brands
Are self-directed consumers	Are not influenced by what's hot	Want to belong	Are committed to family and job	Are looking for a fun time	See themselves as very sociable	Are not concerned with being fashionable	Are analog not digital
Are keenly aware of others' self-interests	Follow traditional intellectual pursuits	Trust traditional sources; don't question authority	Value tech that provides a productivity boost	Are impulsive	Are first in, first out of trend adoption	May appear to be anti-intellectual	Place emphasis on preservation

How will deriving personalities from behavior differ from asking survey questions? Which is better? If we know how consumers behave, do we need to identify their personalities?

**Age** -> Very young consumers are different from adults (It is harder for them to form and express attitudes, They do not make the purchasing choice, Is the consumer the child or the adult) Younger people are more open to try novel products (How can we get older consumers to adopt technologies?)

**Gender** -> Products may or may not differ by gender -> Some categories are unisex (e.g., phones), Some categories are typically consumed by men or women (e.g., nail polish) -> On aggregate, the roles men/women play may correlate with gender. Is it appropriate or not to highlight that in ads?

**Segmentation, Targeting, Positioning**

**Segmentation** -> dividing the market to groups -> Think about our conserved population as a category of different groups. We'll select the groups that we want to focus on. And we'll create a value proposition to fit this specific group. We need to figure out where we're operating and who our consumers are. So we can then maybe select this group of people and focus on them.

**Market** -> A set of actors who interact to exchange goods, services, and information -> consumers, firms, competitors, retailers (People who sell my products), regulators -> we're going



to focus on the company and the consumer -> The activities that form the basis for this interaction (e.g., transactions in which money is traded for a service)

Defining the current market is *difficult* and requires *making choices and assumptions* -> What constitutes a consumer (e.g., setting a minimum number of purchases), What is the measured outcome (units sold, revenue), What are the boundaries of the market (food, fast food, Pizza) -> defining a market is a common service of *consultancy companies* -> Figuring out what the market is is difficult. It requires making some assumptions, choices. What constitutes a consumer? When we think about the market for a pizza place, I'm considering opening a pizzeria here in the neighbourhood. I need to figure out how much money I expect to get. I'm trying to estimate how big this market is, how much money is there in this market.

i.e. What's a consumer for a pizzeria? Consumers are students who buy pizza once a week or a couple of days, are tourists who walk past here or your parents who visit here once a year maybe? Should we consider them in our estimation of what this market is? What is the measured outcome?

I want to think in terms of the amount being sold or the revenues being generated. And again, what are the boundaries of this market? And this is part of what consultancy companies can help you (i.e. McKinsey).

**Mass marketing** -> Same product and marketing mix for everyone -> Undifferentiated, one-for-all strategy, simple and efficient from the supply side -> Mass Marketing is a strategy aimed at appealing to the largest possible audience by promoting a single product or message universally, rather than targeting specific customer segments. It focuses on broad appeal, standardised products, high sales volume, and simple, generic messaging to maximise reach and efficiency. Examples include brands like Coca-Cola or McDonald's, which use universal themes and economies of scale to attract diverse consumers -> *mass marketing not focus on the differences between people* -> in an ideal world we would tailor the proposition what we offer to each individual consumer because each of us is like a snowflake we're just a little different from each other but stuff, right? you can't do it with products you can't take a car and make it perfect for an individual that individual can pay a ton of money maybe and have it tailored but then it's super expensive maybe with some digital products you can do micro, nano targeting and also change what the product is not really, that's not really feasible but you can think in terms of groups to change what kind of products you offer

**Segmentation** -> Consumers are heterogenous. They have different preferences and different ideal value propositions -> Can there be one perfect pizza? Of course not (Toppings, dough, crust, etc., Price, Brand (e.g., the vibe of the restaurant) -> It's hard to tailor value proposition to each consumer due to costs of production and marketing costs -> it's difficult to identifying the ideal value propositions but it's feasible for groups

History of segmentation of *Marriott Hotels* a courtyard by Marriott -> in the 80s in the US the leader of the hotels market was Holiday Inn and they had a less marketing approach: this is the



hotel you have you want it, come you don't want it, figure it out go stay with your cousins: Then there was an important external shock -> the government decided to invest billions in connecting cities better to build highways and make it easier for people to travel themselves from one city to another, but that had an implication for a specific type of people: sales people. To made it easier for them to go in the car start driving and now go to 3 different states in 1-2 weeks and then go back to headquarters so Marriott said we're going to try to leverage this target this specific group, businessmen and that affected how they designed the hotels -> they designed in a way that fits the needs of the businessmen: very efficient, located close to the highway so you don't have to get into the old center of the city, get to the town maybe their meetings are not even in the center of the city maybe they're around a lot of these headquarters and factories are around the town -> very efficient, very consistent in how it's designed you get to the hotel, you know exactly where the reception is and that makes it easier for them and it's a particularly profitable segment to focus on. The hotels were similar but not identical -> Respect sub-segments (e.g., businessmen in different regions), Unrelated variables (e.g., weather) -> Similar pricing, similar design against similar locations. Not identical, some are good for design. Think about, a lot of these hotels will have a pool, but it can be indoor or outdoor based on the location.

**Effective segmentation** -> helps the organisation design specific and sustainable value propositions for each segment -> Identifying and choosing segmentation criteria and then creating the segments -> Traditionally, segments are defined by demographic characteristics because of accessible data (e.g., zip codes) and the fact that it is relatively easy to define who belongs to each group -> Rich data helps segmenting by Behavior (e.g., purchase frequency), The value for the consumer (e.g., satisfaction), Post-purchase behavior (e.g., social media activity)

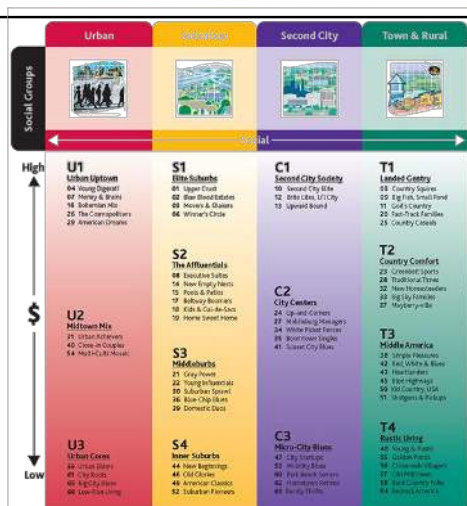
### Segment Criteria

	Consumer	Business
<b>Geographic</b>	Zip code Region Country	Zip code Region Country
<b>Demographic</b>	Age, gender, income Family size Education	Industry (SIC code) Assets, sales R&D budget
<b>Psychographic</b>	Personality Lifestyle Media habits	Corporate culture Power structure
<b>Attitudinal</b>	Benefits sought Price sensitivity Brand loyalty	Benefits sought Price sensitivity Supplier loyalty
<b>Behavioral</b>	Usage occasion Usage rate Repeat purchasing	Applications Size of order Existing relationships

### Segment Criteria

#### Claritas PRIZM system

- Geo-demographic segmentation





**Building segments** -> Grouping customers together into different segments according to the criteria established in the previous step -> We want consumers who are within the segment that we have defined to be as similar to each other as possible. Just always see the differences between people. But in theory, it would be best if we would have replicas of the same person. They're all kind of the same, this way, we're going to design the offer that would fit that person the best. We want to be as similar as possible. -> Consumers in different segments are different from each other. Again, this is in theory. But in the ideal world, we'd be able to say this is the population of consumers. - > principles for creating effective segments

- **Homogeneous within** -> consumers within a segment are similar
- **Heterogeneous between** -> consumers in different segments are different from each other
- **Mutually exclusive** -> every consumer belongs only to one segment
- **Collectively exhaustive** -> all of the consumers belong to some segment
- **Measurable** -> identify who belongs to the segment
- **Large enough** -> needs to generate sufficient revenue -> in general we need a segment to be large enough, sometimes that is not necessary (if we are selling houses for millions of dollars, even few buyers could be enough)
- **Stable** -> it takes resources to adapt and adjust segments

**Cluster analysis** -> Identifies groups of participants who provided similar patterns of answers -> This would be the same approach and principle of collecting your own data and inferring something from this -> survey (i.e. "To what extent do you want to see on social media photos that are funny and serious?" ) -> We're going to use statistics to identify groups of people who answer questions in a survey. Provide data that is similar through the pattern of answers. People who answer similarly -> And then I can think about the *implications* of this. What do I do with my advertising? If I'm able to identify and communicate with this group, I'm going to get these people and not these people.

**Targeting** -> selecting groups within the market -> The firm needs to decide which segments to serve:

- **Cost-benefit considerations** -> Segment size (in number of consumers and value), Difficulty identifying and serving the members of the segment, Competition, Barriers to entry (e.g., regulation)
- **Targeting strategies** -> Niche marketing (focusing on one small segment), Segment specialisation (focus on one large segment), Multi-segment (different value propositions to multiple segments)



You might have to create different offers for different consumers -> i.e. Disneyland make different offers for families and just adults that want to relax.

**Creating a value proposition** -> After choosing the segment and targeting strategy, the firm needs to create an actual offer for consumers to evaluate -> Define the value proposition by the marketing mix (e.g., 4 P's):

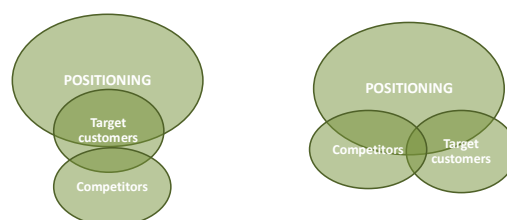
- **Product** -> Marketers can highlight or reframe specific features, but the attributes are mostly final -> there is a limit to what marketers can do with a product but they can frame the product in different ways, advertise different aspects of it, create different associations. The product is what it is.
- **Price** -> WTP, Price discrimination (e.g., student discount)
- **Placement** ->
- **Promotion** ->

We want to reach the maximum consumers within the segment. We want to get to the most people within the segment and we want to reach minimum consumers from other segments -> if you're going to pay the ad for reactions, you maybe don't want consumers who are not really your ideal consumers to be exposed, right? Imagine something like telemarketing. You don't actually talk with the people. You don't want to waste your time communicating to consumers who are less likely to purchase.

Digital platforms have all that data so they're able to use them to define their audience -> allow more specific targeting -> Can be demographic, behavioural, attitudinal

**Bad consumers** -> in what cases would we want to avoid consumers? Slow deciders, high customer service users, reputation effects -> How can the firm reduce the likelihood that certain consumers will become its customers? Selective communication of offers and promotions, limiting access (e.g., bouncers in clubs, hosts in restaurants), pricing, positioning

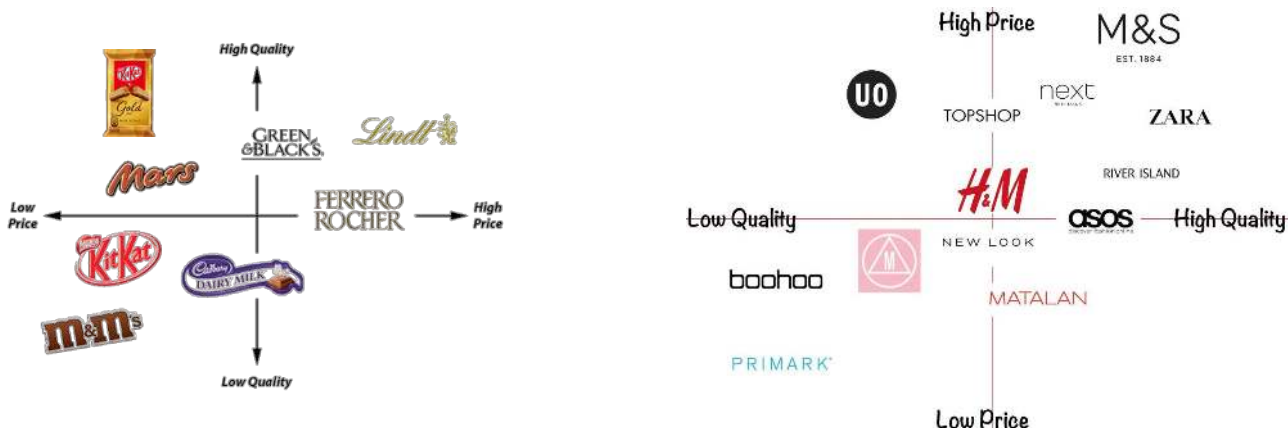
**Positioning** -> create a unique value proposition to accommodate the selected groups -> *Differentiate* the value proposition: make customers recognise something different about the value proposition when they measure it up against competitors' offerings



**Positioning statement** -> To (target segment and need) our (brand) is the (concept) that (point to difference)



**Positioning analysis** -> how we are positioned in people’s mind -> Ask consumers for their brand perceptions (Quality: fast, safe, reliable, accurate, enjoyable, etc, Price -> Can people judge the price independently from other attributes?), Conduct statistical analysis or plot and analyse qualitatively, Perceptual maps are popular because they highlight the comparison between competitors



**Brands**

**Brand** -> A mark made to attest manufacture or quality or to designate ownership:

- **Legal importance** -> A proprietary trademark for a specific product or service -> if a company owns a logo, you can’t use it
- **Marketing importance** -> A “contract” between the company and its customers; A promise of specific benefits, quality, value, experiences, and emotions

Some products have a specific packaging that makes them unique and recognisable from consumers. A brand is a unique promise kept over time-> It takes a long time to build (and sustain) a brand, once established, it is not easy to change brand perception -> once people have a perception and a positioning for a brand, it’s really hard to change what they think about it

**Consider the competition** -> brands are often perceived in relation to competitors

**Brand value** -> a brand creates **value for consumers** because it reduces risk (reduce uncertainty about what the product is), adds meaning (people can pay a premium price because of the brand and simplifies decision making but it also creates **value for firms** because adds sales, extends product life, increases brand equity and facilitates brand extensions

**The brand gives power** -> Identified versus Blind Tests (No difference in blind tests, Higher willingness to pay in identified tests) -> fMRI studies (Coke -> Activation of areas related to emotions and memory retrieval) -> The brand impacts the experience

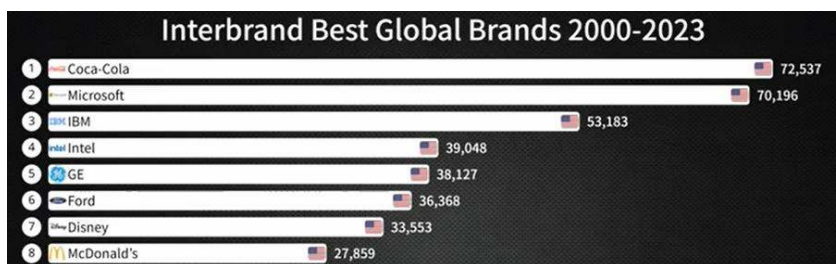


**Brand equity** -> value a brand holds in the market, driven by consumer perception, recognition, and emotional connection. It encompasses the intangible benefits a brand brings to a company, such as trust, loyalty, and the ability to charge premium prices.

Strong brand equity is built through:

- **Brand Awareness** – How well consumers recognise and recall the brand
- **Perceived Quality** – The customer's belief in the product's excellence.
- **Brand Associations** – Emotional connections or mental images linked to the brand.
- **Brand Loyalty** – Repeat purchases and advocacy by loyal customers.

High brand equity boosts competitive advantage, improves customer retention, and enhances overall market performance -> you can check the value of brand on the website interbrand



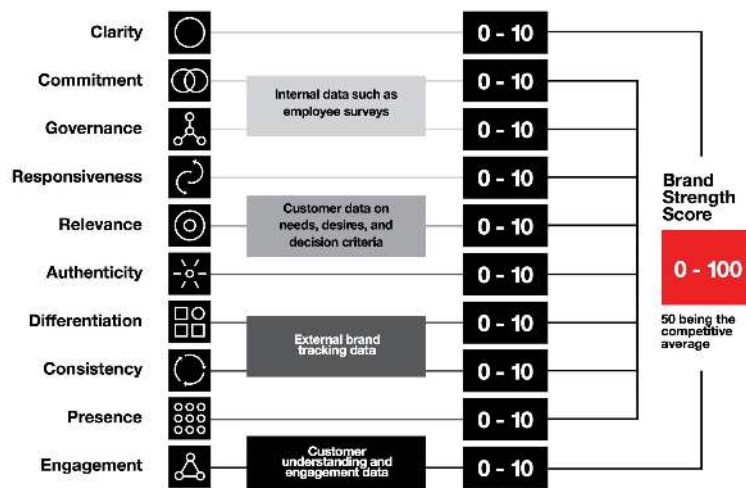
**Interbrand equity calculation** -> Interbrand, a leading brand consultancy, calculates brand equity by evaluating its brand Value, which reflects the financial worth of a brand. Their methodology combines financial performance, brand strength, and the brand's role in purchasing decisions.

**Financial Performance.** The benefit to shareholders generated through Economic Value Added (EVA) analysis. Considers future earnings and the assets required to generate those earnings.

**Role of brand.** The percentage of the purchase decision due to the brand. This allows calculation of the amount of earnings due to the brand alone

**Brand strength.** The level of risk associated with the financial forecast. The stronger the brand, the lower the risk

**Brand value.** The value of the brand in terms of net present value, assuming the brand will exist over a long period of time.





**Branding impact on marketing actions** -> The positive associations and reduced risk facilitate: Customer loyalty, Premium pricing, Market acceptance for new products, Brand extensions

**Brand loyals** -> consumers who have deep connections to brands are: Very loyal, Willing to pay more, Actively promote the brand, mostly via word of mouth -> fans of Taylor Swift might also change their political view and base their vote on what she says, just because they trust her

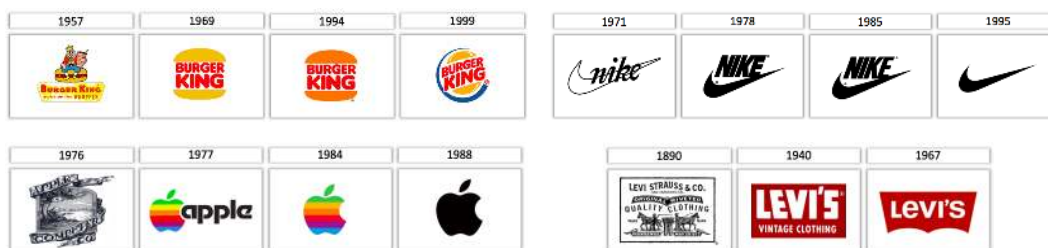
## Brand elements

**Name** -> needs to be easy to:

- Say
- Spell
- Read
- Remember -> should enhance the concept and the goal of the company -> Holiday Inn
- Fit -> based on target market and culture -> you can change the name depending on the nation and the language used in a particular place (Mastro Lindo, Don Limpio, Mr. Proper...)

**Logo** -> need to be:

- easy to identify
- Memorable
- Can have the brand name



Having an effective logo it's important also for the packaging (if its too large, you will need a lot of space on the product)

**Color** -> Consistent across all marketing communications





**Slogan** -> (not necessary) should be:

- Catchy
- Short
- Easy to use in multiple channels (package, ads)
- Consider how general vs. specific it should be

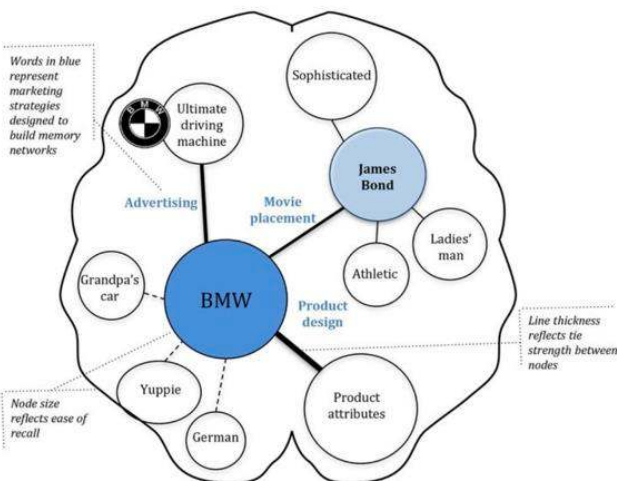


**Package** -> should be:

- **functional** -> How long the package will be visible (if a product is sell in a mall, the brand should be visible in order for other people to see it and let them think that they should go to the store too, while if the product is delivered at home you don't need all of that, you can still have a good packaging for the consumer to appreciate it, but it's not as necessary as offline), Will other consumers see it



**Associations** -> Our brains interpret and experience the world with a dynamic network of connections -> In the context of brands, the most relevant associations are between attitudes -> i.e. omega watches and James Bond



**Margot Robbie**

- Talented
- Cool
- Sexy
- Funny



**Calvin Klein**

- Elegant
- Cool
- Sexy
- Smells good



**Zendaya**

- Talented
- Fun
- Beautiful
- Relatable



**Squarespace**

- Effective
- Modern
- Aesthetic
- Easy-to-use

**David Beckham**

- Beautiful
- Clean
- Pro-sport



**Qatar 2022**

- Corrupt
- Inhumane
- Anti-sport



- Burberry
  - British
  - High quality
  - Traditional (iconic design)
- Lottery
  - Harmless
  - Family-oriented
- Drugs
  - Avoid negative inferences
  - → Change the name



Associations must be consistent with the brand and to reflect the values of the brand. And if there's one brand that did this bigger and better than any brand in the last 15 years, it's Red Bull: this is just caffeine and calories. You can easily think about a commercial where someone drinks this and they're super energetic. But they took this idea with their slogan, gives you wings, way further than that. It really went all in. They brought multiple football motifs, which can be profitable by itself and also buys them free advertising space. To give this idea that Red Bull is something that gives you strength, superiority, speed, they do really creative PR stuff and used to have festivals where people beat boats, airplanes, planes, and then drive off a stage, fly for a little bit, and then crash. They had this guy, this stuntman, Felix, and they put him in space and jump back to earth. Tesla did something a little similar. They put a car in space. But this, in a sense, is better because they were first and also because this is more consistent with the brand values.

**Brand personality** -> refers to the set of human traits or characteristics associated with a brand. It shapes how consumers perceive the brand and creates emotional connections. These traits make a brand relatable and differentiate it from competitors. Brand personality goes beyond the image of the brand. It describes the brand as if it were a person.

Five Personality Dimensions:

- **Sincerity** (honest, cheerful)
- **Excitement** (new, daring, spirited)
- **Competence** (secure, reliable)

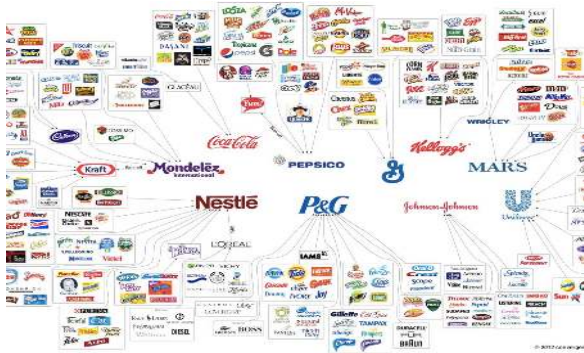


- **Sophistication** (glamorous, luxurious)
- **Ruggedness** (strong, tough, outdoorsy)

Companies, especially big corporations can have a lot of businesses, manufacture a lot of products and target many different segments with their separate brands. You can think of a range from individual branding to umbrella branding or from what we call house of brands to branded house. Let's see these differences.



### House of Brands



**House of brands** -> brand architecture strategy where a company owns and manages a portfolio of distinct and independent brands. Each brand has its own identity, target audience, and positioning, separate from the parent company -> works best for companies with diverse product lines and markets that require specialised branding -> You've got these giant companies. Nestle and Procter & Gamble and Unilever and PepsiCo. Each of them own many different brands. Each one of

these brands is branded differently. If you think about the brand elements there's no similarity between Tide and Gillette. Each one of these gets its own separate branding but P&G owns all of them -> The benefit is that it allows them to tailor the branding product to that product

**Branded house** -> (Virgin) -> brand architecture strategy where a single, overarching brand is used to represent all products or services within a company. The parent brand name is prominent and drives the identity and reputation of all offerings -> works well for companies focusing on synergy, brand equity, and consistent consumer experiences. It's ideal when offerings share similar values or target audiences

**Brand Extension** -> marketing strategy where a company uses an established brand name to launch new products or enter new markets. It leverages the existing brand's reputation and customer base to reduce risks and costs associated with introducing something new -> powerful tools for growth when aligned with the parent brand's values and consumer expectations -> One thing we can do is build on that brand and leverage the fact that our consumers perceive this brand in certain ways to introduce extensions.

brand extension can be divided in:

- **Line extension** -> New versions of the same product, Perceived similarly to original (I.e. coca-cola, diet coke...)



- **Category extension** -> A significantly different product, Ideally carries “deep” attributes (strong) but not the technical attributes (fast) (i.e. Ferrari car and Ferrari perfume)

**Co-branding** -> usually the brands are congruent, ideally would be mutually beneficial -> One fun thing that brands can do is co-branding campaigns. Usually, not always, usually these brands are going to be congruent in the sense that they go well together and the associations that you make with either of them are going to be consistent. Ideally they'll be mutually beneficial. The congruent is not necessary, one company can pay another company or if both brands are owned by the same company they can just use it and benefit only one side. This is the kind of thing with endorsements.

-> co-branding is a marketing strategy where two or more brands collaborate to create a joint product or service that leverages the strengths, audiences, and reputations of both. It aims to enhance value for customers and drive mutual brand benefits -> works best when brands share compatible values and audiences, creating synergy that enhances the appeal and value of both.



In the case of Barbie and Oppenheimer, this co-branding activity is very incongruent. These are opposite types of movies. But that was kind of the point to make this interesting combination between two very different things -> One could argue that on a deep level they are congruent. High quality movies -> I don't think that's why people responded positively to it. Because it was an original, interesting way to take two things that don't naturally fit together. It was mutually beneficial. It benefited both of these movies. Firms can use co-branding in order to get the attention of different targets (such as Taylor Swift and Post Malone fans) -> Now you're communicating with two different segments. Maybe it's a way to get people who are less exposed to the artist. Or maybe the deep attributes are similar



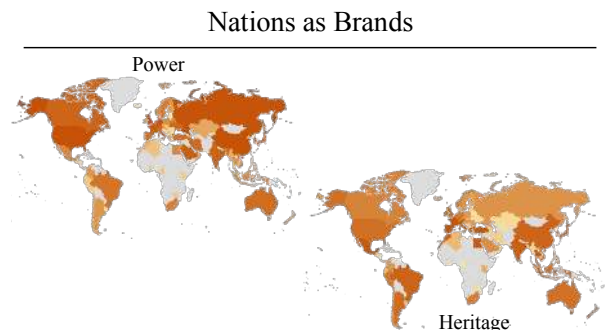


Co-branding is easier to do if the different brands are owned by the same company

**People as brands** -> Social media provides tangible tools to articulate and signal one's personality, values, and attitudes -> Avatar, Pictures, Pinned post -> this applies to influencers and maybe content creator -> Influencers mix personal and professional branding, authenticity is highly valued and that's the reason why it's important that they demonstrate that they are human, that they are real and just regular people -> it's important not to seem fake if you don't want to lose your credibility -> When we have a social media account on any platform, we choose some pictures to put on the profile. We can choose what to do with our pinned posts. The first thing that someone sees when they go to our TikTok, Instagram, Twitter page. What kind of pictures we use. If you think about influencers, this is my impression. They can use these elements to signal who they are. If you think about influencers compared to regular brands, it's more important for them to signal authenticity. To signal that they are regular people. Because that's part of the power of influencers. We treat them to some extent, not as paid professionals, but as real people.

**Nations as brands** -> Yearly ranking of nations on various brand dimensions -> Citizenship (human rights, environment, equality), Entrepreneurship (education, innovation, tech), Quality of life (economic stability, affordability), Power (economically / politically influential) and more -> Mostly based on perceptions got by surveys or other metrics

	<p><b>Switzerland</b></p> <p>#1 in Best Countries Overall</p> <p>Switzerland, officially called the Swiss Confederation, is a small country in Central Europe made up of 16,000 sq. <a href="#">READ MORE</a></p>	<p>GDP: \$885 billion</p> <p>GDP PER CAPITA, PPP: \$92,980</p> <p>POPULATION: 8.85 million</p>
	<p><b>Italy</b></p> <p>#15 in Best Countries Overall</p> <p>Italy is a south-central European country, whose boot-shaped borders extend into the Mediterranean Sea. The <a href="#">READ MORE</a></p>	<p>GDP: \$2.25 trillion</p> <p>GDP PER CAPITA, PPP: \$58,755</p> <p>POPULATION: 58.8 million</p>



It's interesting to try to apply these principles of branding to various contexts, not just traditional products. Brands are important because it's build on what we said about positioning. Figuring out what a brand is and communicating that to consumers is part of telling them what this product is and positioning it with respect to competitors.

### Influence

Social influence -> Conformity and Authority, Group dynamics

Persuasion -> Persuasion tactics, Persuasion knowledge (suspicion)

Choice architecture and nudges



Social influence -> Humans are social creatures. We are constantly affected by other people's behaviours and opinions -> So we are very social creatures. We are constantly looking at what other people do. Seeking information from other people. And that affects what we believe, what we feel, our attitudes, and how we behave.

Key facilitators of social influence:

- **Social proof / Conformity** -> People tend to behave similarly to the behavior of others -> Other people's behavior is informative, Behaving consistently with others can be socially rewarding -> People tend to conform. They tend to behave similarly to how others behave. Two main reasons for that are that people's behavior it's an informative signal that we can learn from. And behaving consistently with others can be rewarding. So you go to a music festival and you want to get a sandwich, so you go to the food trucks. There's a line at the food trucks and you see three of them: they're kind of similar, they all look the same. (Equally clean, Similar options. One doesn't have a line at all. One has five people standing, waiting. And one has 20 people standing there. Where are you going to get your sandwich? Why do you prefer five people over none? Thank you for helping me make this point that is intuitive and possibly obvious to you guys. You inferred that this is a good place. There must be a reason that these five people went there. Not only that they went there. They are willing to wait behind one, two, three, four people in order to get their sandwich from there. So there must be a reason for that. Some people might be patient but not all, it depends on the conditions. The thing is that other people's behavior is perceived as genuine. It's a very credible sign, so this is not the food truck telling us that the sandwiches here are great. It's not even a consumer posting something on TikTok saying "best sandwiches ever", this is people willing to stand in line and then spend money for this. It's a very credible signal. And marketers want to get our money, use this in various ways.

For example, street artists who put money in a box themselves to signal to other people that this is something that you can do. People put money in there so you can follow that and do that. Or guys who play with the cups, you need to know where the ball is or where's the queen, the cards. They would often have a collaborator agreeing to play. Sometimes that collaborator would even win to show other people that you can play. "This is not a scam. You have a chance to win, Here, this guy won" And that signals that this is something that people do.

Or in more common traditional marketing context, an online retailer can tell you, these are frequently bought together or many other consumers looked at that product. It's a way to tell us what people do. And they can ask us to ourselves, use us as the communicator and tell other consumers that we went to this shop, we bought this product. To make it more visible for others that we have purchased it.

There is a study that explores how hotels encourage guests to reuse towels and linens, a practice beneficial for the environment and cost-saving for hotels. Traditionally, hotels changed linens and towels daily by default, but the norm has shifted, often accompanied by signs urging reuse.

Experiment Details -> Two Messages Tested



1. "Help save the environment, reuse your towels," explaining environmental benefits
2. The same message, but adding that "over 75% of guests reuse their towels."

**Findings:** Guests were more likely to reuse towels when informed that others (75%) were already doing so. This highlights the influence of social norms on behavior.

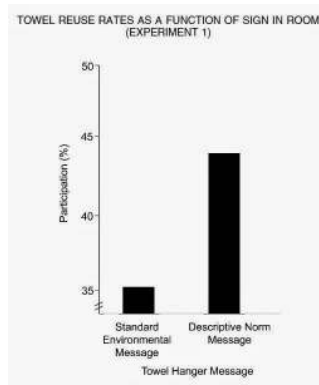
**Social Norms Influence:** People are more likely to adopt behaviours perceived as normative, which fosters positive social attitudes and relationships.

**Individuality vs. Norms:** While marketers often emphasise uniqueness, this study shows that aligning with norms can also drive behavior.

The study emphasises the powerful role of social proof in shaping environmentally friendly practices and consumer behavior.

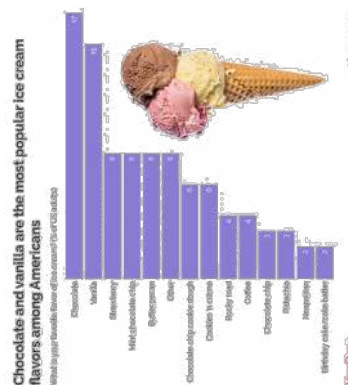
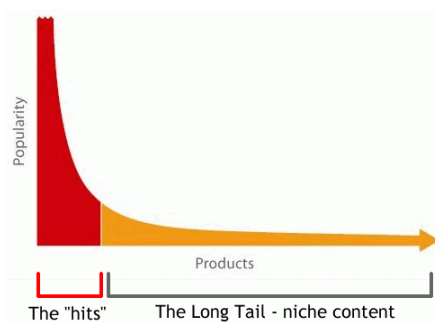
In one study (Goldstein, Cialdini & Griskevicius, 2008) hotel guests read one of two messages:

- "Help save the environment"
- "Over 75% of guests reuse their towels. Join them in saving the environment"



The results of this study was that people tend to follow what other people do if you tell them that other people are doing this thing

**Conformity is rewarding** -> Behaving *similarly* to others generally help with generating more positive attitudes and facilitating better relationships or, behaving *differently* often (but not always) leads to negative social outcomes -> Uniqueness and individualism are desired attributes, but still most behaviours conform to strong norms -> It's generally easier and safer to conform. And one application of that, or one thing that this facilitates, is this pattern of products that we see a lot at the market.



We have a few products that are best sellers, that are hits, that a ton of people buy and consume. Then we have many, many products that a few people consume. If you look at Spotify's streaming



data, you have few artists that get billions of streamings, and then you have all these hundreds, thousands of artists that get hundreds, dozens, maybe just single-digit number of streams. And part of this is driven by how we do what other people do.

Which segments and which products would be more relevant for this idea of conformity, right?

What kind of consumers would be more sensitive to acting similar to their peers, similar to other consumers? This could come into play with how you design the ad -> The ad could somehow show that other people also consume that. You can tell the ad agency, "I want to see many other consumers using the product to signal to your customer that this is the norm". Which kind of segments and which products would be more sensitive to that? Teenagers -> They want to fit in, they need to put a bigger weight on that and social implications of being popular or being unpopular because they're in the shaping process of their personality. They haven't formed stable preferences about what is kind of separate from the social rewards or punishments, but relate to how seeing what others do is informative

- **In-group out-group dynamics** -> we are all part of different groups -> we are all members of multiple groups. We have other people who are in this group with us.
  - **In group** -> the individual is a member -> Positive attitudes, Loyalty, Conformity
  - **Outgroup** -> the individual is not a member -> Possible indifference, Possible animosity, Desire to differentiate

And people form strong attitudes towards members of your groups. Even if you don't know them personally. "I like the people in my group, I'm loyal to them, I tend to conform with them, as opposed to people from the out group, that are part of groups that are not my group. Which maybe I'm going to be indifferent to them, maybe I don't care, but maybe I'm going to be a little hostile to them. Maybe I'm going to be negative to them, especially if I perceive them as competition". And I'm going to think of them as different from me, and try to differentiate myself from them. So, let's think of how brands do that -> Apple -> The best way the world works is everybody in, nobody out. This is an extremely inclusive statement. There's no out group, we're all together in one group -> They can target these different segments with different value propositions, but they do consider a lot of these people as their potential customers. The thing is that their marketing strategy also emphasises how Apple users are distinct, how they're different, right? The ecosystem approach is part of that.

- 
- Apple's branding emphasizes diversity and inclusion
    - They indeed target many segments/groups
  - BUT the marketing strategy emphasizes the distinction between being an Apple user or not
    - Ecosystem approach can increase loyalty and value
    - Facilitates strong relationship with the brand



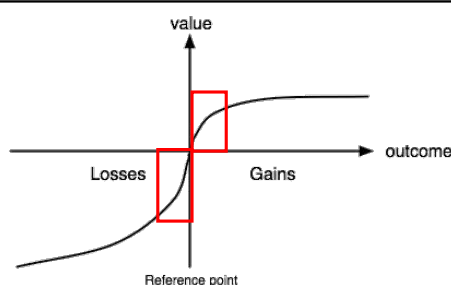


There is a strength in negativity -> companies A and B make shoes, comparable shoes, but company A manufactures in sweatshops, this used to be a very common practice. What would be more effective for company B to say? They can say something positive like “Buy brand B because we're great” or they can say, “don't buy brand A, They produce in sweatshops” -> So you should buy brand B. And this would be especially effective if brand B is one of the two main options.

- **Reciprocation** -> responding to a gesture or action with a corresponding or complementary gesture or action -> Responding to a gesture or action with a corresponding or complementary gesture or action. When someone does something nice to us, we do something nice in return
- **Can foster mutually beneficial long-term relationships** -> this can foster these mutually beneficial long-term relationships. I'm going to do something nice for you because I know you're going to be nice to me tomorrow and then I'm going to keep doing it the day after and we'll have this
- **a strong norm that extends to “one-shot” situations** -> When someone does something nice for us, we do something nice in return. So it can extend to one-shot situations where there is no back and forth -> And that's one way to think about free products if you get one. We get freebies or free trials -> It's a way for us to evaluate this product and form attitudes about it **without the risk**, only with the positive, you don't have to pay and maybe then you decide to purchase it. In addition, they're doing something nice for us. They're giving us a product for free -> we kind of **feel committed** -> Maybe you're going to be more likely to buy this or some other product next to it.

**Endowment effect** -> psychological bias where individuals value an item more highly simply because they own it. This phenomenon reflects the emotional attachment people form with possessions, leading to an increased perceived value of those items -> People are more like to keep a product than initially buy it -> They have a risk less opportunity to experience it. The endowment effect: psychologically, we value more things that we own -> Willingness To Accept > Willingness To Pay -> people assign more value to it once they hold it. People think about this in terms of when I give away something, I'm losing it. That has a large psychological effect on me. So I need to compensate for that loss with getting more money as opposed to acquiring something and buying it. So that's another perspective on why free trials can be effective.

## Prospect Theory's Loss Aversion





- **Authority** -> People do what authority figures tell them since they have power over them -> This tendency extends to authoritative figures who do not have real power -> It's about capturing people's attention too, but also about just telling them authoritatively (since they are professionals and they can do it) "you need to do this". And there are ways for marketers to try to do that. There are different ways to establish authority:

- Physical appearance/clothes
- Voice, character
- Position (e.g., distance from the customer)

**Persuasion** -> The act of getting someone else to do something or believe in something -> Get consumers to: Think that an offer is valuable, Think that an offer is better than its alternatives and worth to let go resources -> Ideally, the market will have many products that generate significant value for consumers. In reality not all products have functions that are truly valuable, consumers are reluctant to spend resources -> global spending on ads ~ \$900 billion

You want to get consumers to think that the offer gives them value, and even better than the competitors, than the alternatives, and get them to let go of resources -> Not all products are truly valuable. You need to convince people to spend money on them. There's also competition. You need to get them to spend money on this and all of that, which is why companies spend that much money on advertising.

**Processing depth matters** -> Whether the consumer is trying to reevaluate the message, rethink about the products, and make an informed decision, or are they doing this more automatically in a more cognitively efficient way? System one, automatic, shallow processing, also called the peripheral route, or system two, thinking about this more deep processing, central route. And there are different factors that affect depth:

- **The relevance of the product** -> How much money, how expensive this product is. Is this product more likely to think about this deeply?
- **How important the decision is** -> How important is for me?
- **Consumers' available resources** -> How much time I have to sit down and think about this offer?

Tying to communicate with people with system one or system two, the different states of mind, and the different factors that could fit people using this deep or shallow processing. Marketers can try to fit the message to the route consumers choose:

- Number of arguments
- Argument strength
- Message complexity
- Relevance of contextual cues

**Anchoring** -> people are strongly affected by the starting point, even if they know it is incorrect -> Assumptions about the agent: "even if they lie, they will lie reasonably"



How can one identify segments of consumers who would react most positively to either type of appeal?

- Survey asking about how much they care
- Past consumption behavior (e.g., time reading about the products) -> Maybe you can infer from that that they looked for reviews, right, independent reviews to evaluate this product. And that means they really care. As opposed to someone who makes decisions very quickly.

Can consumers be nudged to adopt one route instead of the other?

- Increase processing depth: “read carefully!!!”
- Reduce processing depth: create cognitive effort (tough)

## **Persuasion techniques** (Cialdini - The psychology influence of Persuasion)

**Foot in the door** -> Agreeing to a small request increases the likelihood of agreeing to a larger request -> Why does that work? People pay consistency. They like to be consistent themselves. They like other people to behave in a consistent manner. The initial agreement tells the person something about their own preferences and we set a different reference point -> The request is “smaller”

**Door in the face** -> Refusing a large request increases the likelihood of agreeing to a smaller request -> Why does it work? Guilt. Saying no twice makes us seem worse (not just for charity appeals) and we set a different reference point -> The request is “smaller (Because you asked me to go from here to here at some giant request, and then I didn't do it, and now you ask me to go from here to here). It works also for reciprocity -> We reward the agent for agreeing to make the request smaller

**Persuasion knowledge / Suspicion** -> consumers are not naive. They know that the seller wants to sell them stuff, and this leads to perceived credibility and rejection of appeals. Like we said, independent agents would be perceived as more credible. Maybe the company can even try to get these reviewers, get these influencers to say positive things about the product for them -> In a sense, the company faces this trade-off between how much control they have over the contents of the message (which usually means how positive it is) and how credible it is to consumers. So on one website, they can say whatever they want. An influencer that they paid may feel obligated to say something positive. A completely independent consumer, an independent reviewer will be completely free, and thus more credible, but we won't have any control over them. So what can the company do to try to maximise the positivity of these independent communications -> try to work these longer-term relationships with these agents. Maybe they can pay them (not always) also with free gifts, free invitations to events and not just money. They can also be selective in requests for independent reviews (need to recognize the weaknesses of the product)-> Experience in the market and understanding of sellers' motivation can lead to suspicion -> Suspicion is associated with low perceived credibility and hence rejection of appeals





Consumers don't like ads. They spawn negative with them because they don't like that someone's trying to convince them. So maybe the marketer is trying to hide the fact that they are selling using negative ads and product placement. But what if consumers see that and now they feel that the marketer is trying to manipulate them, or that their celebrity or their show, the movie that they like, is a sellout? Either they're doing product placement instead of pure art. Like that is really bad, because now they're angry, and then they might go on social media and trash that brand or that movie, right? Maybe this, which is so blunt, but it's so clearly cool, maybe that is inappropriate. Maybe if it is integrated better with the plot, is better, as someone using a computer that has the label on it, maybe that's too blunt. Probably not, it's not used too often. But it's more salient than someone just wearing Nike and walking around the scene. -> The anger might lead consumers to try to actively punish the agent (e.g., negative wom) -> There is no ideal strategy. The marketer needs to understand their customers

**Choice architecture** -> Value maximising “computer-like” decision making -> Every alternative is assigned a value based on how the decision maker perceives it and the weights they assign to its attributes -> Can be very costly for humans

## Choice Models

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(Attribute 1: Rating X Importance) + (Attribute 2: Rating X Importance)...

	Cocktail #A	Cocktail #B	Cocktail #C	Importance
Price	2	5	9	<b>0.3</b>
Taste	7	6	6	<b>0.4</b>
Look	5	5	8	<b>0.1</b>
Strength	6	10	6	<b>0.2</b>
Weighted expected value	<b>5.1</b>	<b>6.4</b>	<b>7.1</b>	

Value//effort optimising decision making -> As discussed, we try to do the best given our limited cognitive resources -> More efficient (but less accurate) strategies

**Heuristics** -> mental shortcuts that are based on reasonable assumptions and make the judgment process more efficient

**Satisficing** -> Stop when there is a good enough option (e.g., the bar is “6”)

**Lexicographic** -> Choose based on the most important attribute

Consumers could try to assign a value to each option, and doing this weighted calculation, and attributes, how much you care about each attribute, and give scores, give alternatives, or they can take a shortcut, do it a little more efficiently, maybe set a bar, and say “this is good enough, so I'm



going to stop searching”, or maybe focus on the most important attribute. In this way, they can choose by reducing the time and effort required to make that decision.

Marketers can affect choice by leveraging consumers’ tendencies to reduce effort, make inferences, and evaluate alternatives compared to reference points.

**Nudge** -> popular idea in the last 1’-15 years -> the idea is to affect how people behave not with very strong incentives, rewards or punishments, which is the economist way to do it, but in more subtle ways. Design the conditions and context of the decision, of the choice, to implicitly or in a subtle way systematically affect how people choose -> design the conditions and context of consumers’ decision making to implicitly or subtly affect their choice in a consistent way -> affect how people behave in a more subtle way, implicit way -> there is an ethical discussion because you are influencing people’s mind, they don't understand that we are affecting them. They don't understand that we're using this format.

**Full information** -> Consumers should be able to evaluate the alternatives. This is not about hiding the undesired options -> We want people to make an informed decision, but we still want to affect it systematically

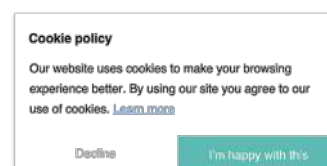
**Clear and simple** -> The consumer should be able to evaluate and choose quickly and possibly automatically -> system 1 thinking

**Meaningful** -> The behavior being affected should matter for consumers, it should not be completely inconsequential

**Display order** -> consumer may infer value from the order in which alternatives are displayed -> Being on the top of the Google/Amazon page will likely be perceived as a quality signal -> Order may matter even more when there are many options (e.g., online retail) -> I can certainly infer value from the order of the alternatives. We don't control the order in which items are presented to us. The seller controls that, the retailer. Think about the product that is on top of the Amazon list of results that we get when we search for a product. You're going to see this thing because it's first, and we're going to pay more attention to it, like we saw with the heat maps, because this is how we read text from top to bottom, and in most countries, from left to right. But also, we can infer something about the value. When the result is on top of the Google page, the results we get, we don't think that the Google algorithm thought this is a better result. We should go there. The implication of this will be **more significant the longer the list is**. In a list of five items, perhaps we're going to go through it and make our own decision.

**Default** -> For a single choice offer, the simplest decision is between acceptance and rejection -> The agent has three main options:

- Leave both options unchecked (leave the decision to the consumer)
- Have the “no” option already checked (**opt-in**) -> explicitly consent
- Have the “yes” option already checked (**opt-out**) -> implicit consent



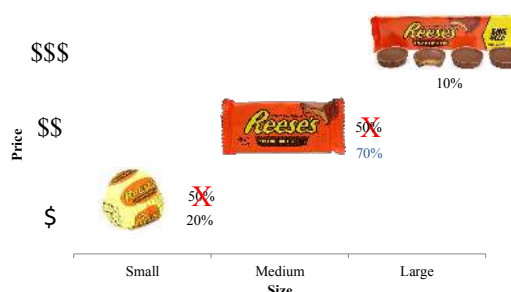


People have a **very strong preference for default options** and, if you place an option in a particular visual way, the rate of accepting will increase because they prefer to put the bare minimum effort

- **Choosing is effortful** -> it requires to evaluate the options, figuring out the values, does it work, or how positive, how negative
- **The default is informative**, it sets a norm, it's a way for the agent to tell us what we should do, what's the norm, so we can make that inference.
- **Actions are associated with more responsibility than non-actions** -> choosing the default is justifiable -> actions are perceived as something that justifies more responsibility for the outcome than non-actions -> I feel more responsible if I make a specific choice instead of others -> I would feel more responsible and worse about it if I made an active choice compared to the kind of choices that were chosen for me and it didn't choose.
- Robust to important and meaningful decisions like organ donation -> some countries have a opt-in policy and other opt-out policy -> we could have a problem of not random assignment of samples (i.e. maybe people in Austria donate more than people in Denmark for different reasons, such as religion, culture... and you are not considering this if you do a policy of opt-in or opt-out)
- Netflix, by default, assumes that you're going to watch the next episode. You can change the settings, so it won't be like that, but the settings, by default, have that. When you're done watching a story on Instagram, it's going to automatically move on to the next one. You don't choose to do it. You need to actively choose to stop. Doing the menu of the day, today's special in a restaurant, that's a way to signal to consumers for the house wine in a restaurant, you have all these options on the menu, but you have the house wine -> default option

**Irrelevant alternative in a set** -> Consumers usually choose from a set of alternatives, in rational choice models each alternative gets a subjective value and the one with the highest value is chosen -> Consumers may in fact consider the *relative* value of alternatives. Two examples of how adding alternatives to a set affects preferences even though rationally it should not:

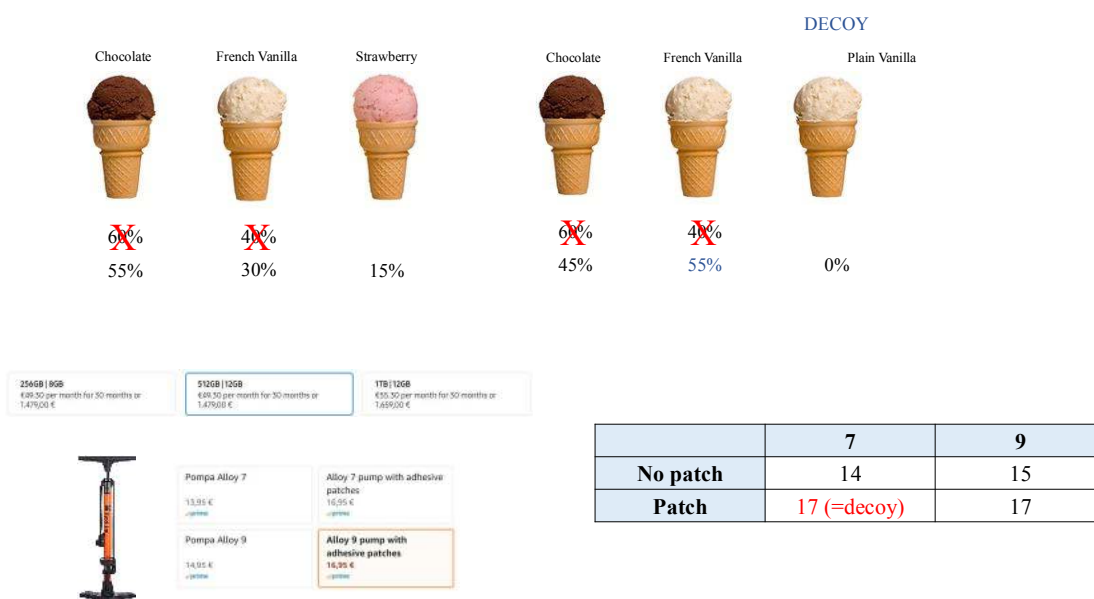
- **The compromise effect** -> refers to a phenomenon where consumers are more likely to choose a middle option when presented with three or more alternatives, perceiving it as a balanced or "safe" choice. This effect leverages human preference for avoiding extremes and seeking a compromise, making the middle option appear more appealing -> The compromise effect encourages most customers to select the medium, as it feels like a good balance of price and quantity. By strategically arranging product offerings, businesses can nudge customers toward specific options that align with profitability goals -> People prefer middle options because they





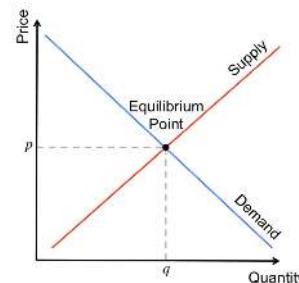
are a compromise between different attributes, between different considerations. It's similar to the default, it is a way to make the decision easier and more justifiable.

- **The decoy effect** -> psychological phenomenon where the introduction of a third, less-attractive option (the "decoy") influences consumers to choose a specific option among the remaining two. The decoy is designed to make one of the other options appear more appealing by comparison, steering consumers toward the marketer's preferred choice -> helps businesses maximise profits by increasing the sales of higher-value or higher-margin products. By carefully crafting choices, marketers can subtly steer customers toward decisions that align with their business objectives.



## Price

**The micro-economics view of price** -> basic assumption is that people prefer to pay as little as possible, when something cost less, more people will buy it -> Demand is negatively correlated with price -> Micro-Economics deals with the dynamics of supply, demand, and price. We will not discuss that here



**A behavioural view of price** -> consumers are effected by inferences about prices (higher price is perceived as a signal of quality) and reference prices -> There is also a implication of various pricing schemes, such as price discrimination, unlimited use (e.g., subscriptions), freemium and pay-what-you-wish



**Inference** -> process by which consumers deduce the value, quality, or competitiveness of a product or service based on its price and the context in which it is presented. This can significantly influence consumer decision-making, even without explicit information about the product's features or benefits.

- **Expensive - Positive perceptions** -> Higher price is perceived as a signal of higher quality -> Reasonable but costly for consumers given identical functional quality and no symbolic value (e.g., brand connection, social signaling) -> sometimes people can't differentiate the brand in a blind test, but people can infer that the quality of one product is higher just because it costs more
- **Expensive - Negative perceptions** -> In some cases, consumers may value consumption of less expensive products -> Bargain / thrift mindset -> Perception of luxury as less genuine -> we shouldn't spend that much money on products. We should be thrifty or at least modest in how we spend money. We shouldn't be wasteful (depends on the segment chosen)

**Reference points in pricing** -> Price is evaluated in the context of reference points:

- The original price (e.g., pre-discount)
- Expectations based on typical prices for a given product
- The price of other products within the category
- The price of other products outside of the category (e.g., if a table costs only 30 Euros, a 200 Euros dinner is expensive)

**Discount** -> psychological and behavioural impact discounts have on consumer purchasing decisions. Discounts are a form of pricing strategy designed to lower the perceived cost of a product or service, encouraging immediate purchases or increased sales volume -> Consumers feel they are getting more value for their money, making discounted items appear more attractive, Discounts create a sense of urgency, as customers fear missing out on a "good deal" if they delay their purchase. The original (higher) price serves as a reference point, making the discounted price seem like a significant bargain. Discounts often trigger unplanned purchases, as customers are drawn to the perceived savings -> There's some regulation on this to limit how sellers play with prices, but stores can still play with it

**Expectations** -> refer to beliefs or assumptions about what is likely to happen in the future or how people, situations, or outcomes should behave or unfold. These can be shaped by past experiences, cultural norms, or personal aspirations -> When pricing aligns or exceeds these expectations, it can influence purchasing behavior and satisfaction.

**Considering the Prospect Theory** -> Prospect Theory's value function is usually applied on gains and losses. There is research arguing that it does not apply to payments, there are mixed researches, because when you buy something you are losing money but gaining something else. We will still think about how the psychology behind it may apply to pricing.



### Price changes:

- *discounts* -> if consumers perceive the price reduction as a gain, a 130 euros jacket sold for 100 is psychologically better than a 100 euros jacket
- *Price increases pose a potential risk* -> increasing the price is aversive. Furthermore, it can be more aversive than the positive effect of an equal discount (losses are more impactful than the gains)

**Grouping payments** -> when we use credit cards, we don't pay for each product but we pay all at the end of the month -> this is less salient than taking out the money and pay (its perceived as something less impactful in the moment, but worst at the end of the month)

- The reference point is constantly updated
- Thus, paying few times a lot can be less aversive than paying many times a little

People may not follow the value function in *expectations* -> The actual payment may not be daily

**The peanuts effect** -> low sums may feel inconsequential -> consumers downplay the cost or significance of small expenses or payments, particularly when compared to larger overall expenditures or benefits. This psychological effect encourages purchases by framing costs as negligible or insignificant -> It's possible that people don't follow this value function in decisions, but maybe they're unable to be forward-looking and understand that this is how they would feel. So when you're thinking about what you're going to do, you may not be able to apply the notion, the idea that it will be aversive to keep paying every day.

**Customer lifetime value** -> The total amount of value a consumer generates for the firm throughout their lifetime -> For some products, the company extracts value **just once or few times** such real estate (houses, events (e.g., wedding), "Tourist traps" (exception of word of mouth) , Age dependent products (e.g., a crib) -> The consumer can still get repeated benefits, but that does not affect their value for the company

For many products, the company extracts value repeatedly -> **Additional purchases** (e.g., accessories) or **Repeated purchase**

*Which customer is more valuable to a coffee shop?* The one that buys expensive coffee and cake once a week, the one that buys regular coffee every morning -> you can estimate how much a type of customer is worth for the company and that's the reason why companies spend a lot of money to get new customers -> You can figure out, okay, what is worth to me to bring in a new customer given some estimation that this person will remain a customer for X years now.

What cost is worth paying to acquire new customers? Young customers? To have years to extract value from that customer.

In the marketing contexts with high CLV impact:

- **Subscriptions**
- "Free" (i.e., ad based) **media**
- **Habitual consumption** (e.g., coffee)
- **Brand-driven consumption** (e.g., clothes)



Understanding the CLV is important for product development, targeting, positioning, and more -> **The firm learns more with repeated consumption.**

Netflix tracks each current customer and analyses how often they are canceling their subscription. This is known as the company's churn. In 2017, the average Netflix customer continued their subscription for 25 months, which meant a lifetime value of \$290. So imagine a customer really liked a particular director, actor, or genre. This means Netflix has approximately \$290 minus marketing and overheads to spend on acquiring or making content with those factors. At first glance, this doesn't seem like much, but when their data shows that 10,000 other people have similar tastes, it explains how Netflix justifies spending millions on original content. Ultimately, knowing the lifetime value of your customers helps guide the appropriate acquisition and retention strategy for your business. I put this here because it's easier to think about, okay, I know how much that customer is worth, so I'm going to give them a discount. This goes beyond it and say I'm going to design the product, I'm going to develop a TV show to fit certain customers who are not valuable to me.

Netflix and other platforms decided to stop the password sharing on their platforms. This can have two possible outcomes:

- **Increase in subscriptions** -> Old users stay and new users join
- **Decrease in subscriptions** -> Old users leave because they can't share, and possibly can't share the cost

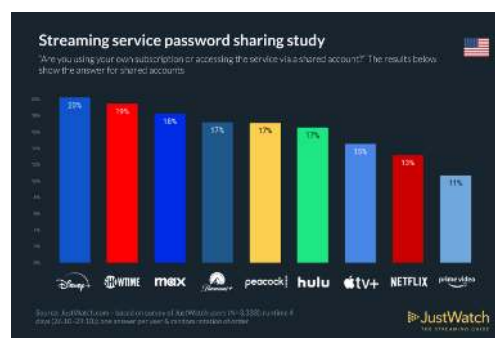
For that reason it's important to consider the different possible outcomes that you can have. For now, the action made by Netflix seems to be successful and Netflix it's going to continue this way and other streaming services are moving in that direction.

- $CLV = \text{subscription} * \text{users}$
- **Different pricing models** -> i.e. Standard: 13.99€ (extra member slots for 4.99€ each) or Standard with ads: 6.99€
- $CLV = \text{subscription} * \text{users} * \text{ad-revenue}$  -> Ads can extract value from non-paying users

Consumer satisfaction is critical because it can lead to repeated consumption and purchases and habit formation, as well as word of mouth -> *What cost is worth paying to make customers satisfied?* Effective customer service and generous return policy

There are many reasons that a company would choose one pricing model over others. We will consider the following pricing schemes

- **Price discrimination** -> Charging more from specific group of consumers would be perceived negatively. However, charging less is completely acceptable -> Need to be well defined groups.



TechRadar

#### Netflix password-sharing: how the crackdown works and what it costs

Under Netflix's updated password-sharing rules, it's fine for multiple people to use and share one account, provided they all live together. So...



Usually demographic or behavioural criteria (Students, Retirees, Loyal customers, fans) -> A way to create multiple value propositions -> as a society, we think that making some people pay more is discriminative, but if we make somebody pay less this is acceptable (even if this is the say thing since, if someone has to pay more, others are going to pay less compared to them -> it's a different way to frame the same thing economically speaking. But as a society, we see this as inappropriate) -> usually is for the more price sensitive segment -> it's a way to create multiple value propositions

- **Unlimited use: subscriptions and “all inclusive”** -> The consumer pays a predetermined amount and can use the product as much as they want -> Common in subscriptions to communication and digital services (phone, internet, streaming services), also all-inclusive resorts, all-you-can-eat restaurants -> When everything is included, it saves you the trouble of dealing with the decision-making process, which is one reason that these formats are popular among families -> **Payment decoupling**: Consumers like these formats because they separate consumption from payment (perceived as a smaller loss compared to having to pay every time) removing the payment from the consumption helps because now we don't have to experience the aversiveness and possibly the psychological loss of paying whenever we do something -> Imagine how it would feel to pay something whenever you text
- **Freemium** -> pricing strategy in which a basic version of a product or service is offered for free, while additional features, premium content, or enhanced functionality are available for a fee. It is commonly used in software, digital services, and mobile applications -> another way to create multiple value propositions without price discrimination -> “free” option that may include ads and may miss certain features while the premium option usually does not include ads and has additional features or improved existing features -> this creates multiple value propositions without price discrimination
- **Pay-What-You-Wish** -> Consumers decide whether to pay, and how much -> why do people pay? Being cheap” is normatively bad, supporting the seller, they don't perceive zero as an acceptable option -> it's easier to do with high willingness to pay consumers (not so sensitive to price) and to the segment that has norms of benevolence (norms of paying for things) -> the type of product needs to be high quality, mistral experiential and it's especially effective for non-profits

If I'm a student I can pay \$5 a month and I'm going to get Spotify premium with Showtime, a TV streaming service with no ads. So I'm going to get this and it costs \$11 to get it independently. And with Hulu they have multiple



plans. It's also for TV. And I'm going to get the ad supported model that usually costs \$6 a month. So that bundle brings in multiple things. We have price discrimination -> Students get a different price than non-students.

We have a premium model and we've now asked people to get the premium options. This offer increases the chance you're going to get the premium option. We have this. We have Hulu with ads. If you try to think about this in terms of customer lifetime value, if the point is that people would have gotten all of these separately we're leaving so much money on the table. The estimation is that they're not going to do that. They're not going to get all of them separately, at least some people will get the bundle. These are students, so they're going to do this for one, two maybe four years, then they're going to be done. When they're done being students, their price sensitivity is going to go down, they're going to have way more disposable income, so the price increase will be perhaps less meaningful for them, and they're going to become more likely to keep these products. We talked about how it is harder for us to give away things than pay to get them, we talked about the endowment effect. So now we're done and we graduated and we have free time for three years now and we like it, am I going to give this away just for \$11 a month? No, I have a job. I can defer this, so it also integrates this tendency for people to **not want to let go of products**. Then you think about the ads, so we now have all this data on how our customers use Showtime, use Spotify, the kind of podcasts they listen to, the shows they like to watch. Possibly this can help us target them more effectively with ads when they go on Hulu and watch shows there. Under the assumption that these platforms share data, which may not be true. It depends on the relationship between them. It's not the same owners, but it could be. It probably do to some extent. So all these things go on at the same time. For the consumer, this is amazing. You're a student, you pay \$5 a month and get all these things.

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## Creativity

Marketers often work based on intuitions -> Even when the decision making process is reasoned, they often don't bother thinking things through and be precise -> efficient and imprecision can be costly -> We tried to think about marketing and consumers in a formal and organised manner

**Creativity** -> is usually a positive thing -> It is hard to formally define creativity ("you know it when you see it") -> a narrow interpretation of creativity and approach it systematically:

- **Thinking inside box** -> Be creative within the boundaries of the product

Templates for creations that people perceive as creative:

- **Subtraction**
- **Replacement**

Templates for messages that people perceive as creative:

- **Extreme consequences**
- **Absurd alternative**
- **Activation**

This is an applied approach. Not all templates are always applicable, but the idea is that these principles generalise

**Subtraction** -> Taking out an element of the creation while maintaining its function or essence -> I.e. Sin City film, John Cage 4'33 (four minutes of silence instead of music)



**Replacement** -> Taking out an element from the creation and replacing it with an external element



**Extreme consequences** -> The function or effect of the item is exaggerated



**Absurd alternative** -> a ridiculous action due to not consuming the product emphasises its function and value

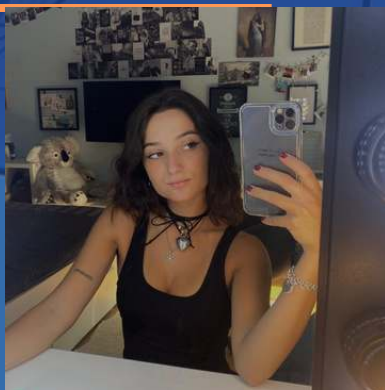


**Activation** -> The target is prompt to take an action, physically or mentally



Most of the ads we see are no interactive but there are companies such as eco and Stornaway that actually do interactive adv

## FOR DOUBTS OR SUGGESTIONS ON THE HANDOUTS



**CAMILLA BASTIA**

camilla.bastia@studbocconi.it

@camiibastia

+39 3457148300

## FOR INFO ON THE TEACHING DIVISION



**MARCO FORMISANO**

marco.formisano@studbocconi.it

@marco\_formisano\_\_

+39 3313433934



**ELENA CACIOLI**

elena.cacioli@studbocconi.it

@elenacacioli\_

+39 3928931605



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