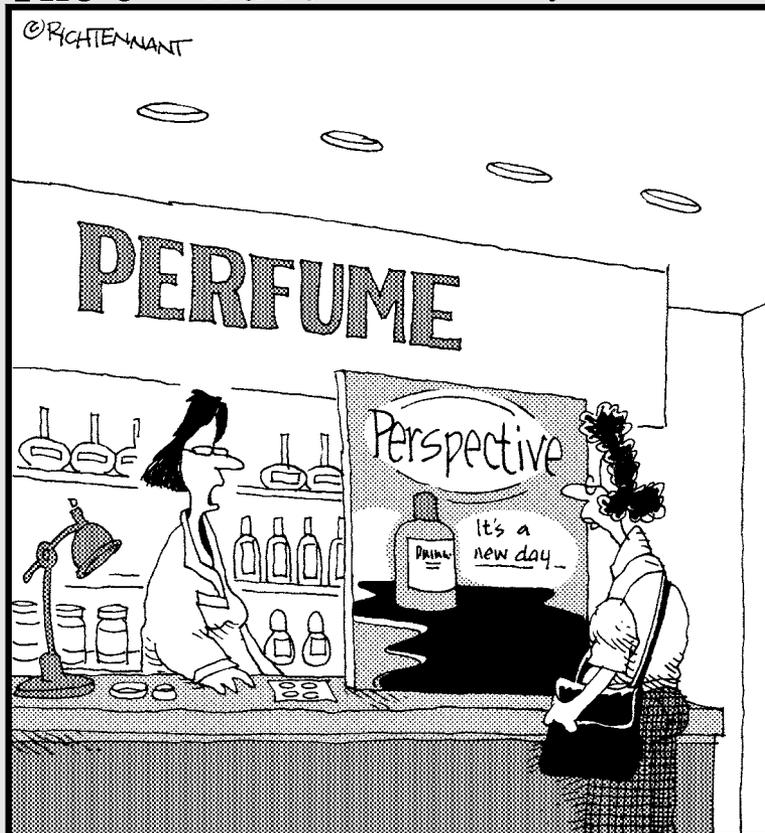


Part I

Introduction to Consumer Behavior

The 5th Wave

By Rich Tennant



"It's for people who have been using
'Obsession' too long."

In this part . . .

Here I uncover the mystery behind consumer behavior and why it's important for you to understand. Consumer behavior is no longer just for the sophisticated corporations and multimillion-dollar businesses. Small- to medium-sized businesses will find the knowledge in this part just as useful.

By understanding consumer behavior, you can better understand your customers and gain insight into how they make decisions to purchase products. In this part, I give you an overview of the many variables involved in the study of consumer behavior. Then I walk you step-by-step through the consumer's decision-making process and show you how to help customers if they become stalled. If you can help your customers this way, you're more than one step ahead of most of your competition.

In this part, you also discover why incorporating the knowledge of consumer behavior is important to your marketing strategy. I discuss the different pieces of product strategy, placement strategy, pricing strategy, and promotion strategy. Adding the knowledge of consumer behavior to your marketing strategy sets your business up for success.

Chapter 1

Consumer Behavior: The Basics

In This Chapter

- ▶ Understanding the basics of consumer behavior
 - ▶ Considering the decision-making process and the influences that can affect it
 - ▶ Examining your marketing strategy and crafting a marketing plan
 - ▶ Testing your knowledge of consumer behavior
-

Consumer behavior is often misconceived as only useful to the sophisticated and bigger corporations. Nothing could be farther from the truth. After all, consumer behavior can teach companies of all sizes about the consumption patterns of their consumers as well as the internal and external influences that affect those customers.

When you understand the behavior of consumers, you can create products and services that provide the consumers with more value. And then you can market those products and services in ways that the consumers understand. The whole point of studying consumer behavior is to motivate customers to purchase.

In this chapter, I explain the basics of consumer behavior and show you how you can use it to better your marketability, explain your value, and increase your sales.

What Is Consumer Behavior, and Why Is It Important?

Consumer behavior represents the study of individuals and the activities that take place to satisfy their realized needs. That satisfaction comes from the processes used in selecting, securing, and using products or services when the benefits received from those processes meet or exceed consumers' expectations. In other words, when an individual realizes that he has a need, the psychological process starts the consumer decision process. Through this process, the individual sets out to find ways to fulfill the need he has

identified. That process includes the individual's thoughts, feelings, and behavior. When the process is complete, the consumer is faced with the task of analyzing and digesting all the information, which determines the actions he will take to fulfill the need.



To simplify the explanation even further, you can think of consumer behavior as the process that determines the why, what, who, when, and how of what a consumer purchases. Consumer behavior answers the following questions:

- ✔ **Why do consumers buy?** Consumers make purchases for a variety of reasons. These reasons include the following:
 - To reinforce self-concepts
 - To maintain their lifestyles
 - To become part of a group or gain acceptance in a group they already belong to
 - To express their cultural identity
- ✔ **What internal and external factors influence their purchases?** Each consumer is influenced internally by his own attitudes, personality, perceptions, self-concepts, and emotions. He also must deal with external influences, such as household structure, group association, and cultural beliefs.
- ✔ **Who do they buy from?** Consumers purchase from businesses that fulfill their psychological needs by making them feel welcome, understood, important, and comfortable.
- ✔ **When do they buy?** Consumers buy based on their consumption patterns, which are determined by their family life cycles and household structures.
- ✔ **How do they purchase?** Consumers go through a decision-making process that guides them in their purchases. This process takes into account both internal and external influences of the consumer.

Consumer behavior provides a wealth of information about the individuals that purchase your products and services. When you understand a consumer, you can speak directly to him and his needs. This special communication not only increases the consumer's ability to understand the value in your product, but it also increases sales. Consumers buy what they understand and what they see value in. Consumer behavior also provides you with insight on how to create an effective marketing strategy. After all, if you don't understand your consumers, how can you market to them?



Companies often fail to gain an understanding of what their consumers want and need before they actually create their marketing strategies. They lack knowledge of what influences their consumers. So remember that evaluation and understanding of consumer behavior should always come before the development of a marketing strategy or plan.

Today consumers are faced with an array of product selection, and competition is fierce among companies. This is why your understanding of consumer behavior is vital to the success of your business. When you understand your consumers better than your competition, you have a greater chance of winning their business.

When you're equipped to speak and market directly to consumers and the needs they're facing, you can help walk them through the decision-making processes and counteract any negative influences they may encounter in the process. Throughout this chapter, I explain both the processes and the influences that affect individuals when it comes to consumer behavior.

Getting a Glimpse of the Consumer's Decision-Making Process

The consumer decision-making process consists of five steps. I focus on this process in detail in Chapter 2, but I want to give you a brief overview here. This overview will help you understand how consumer behavior impacts the decision a consumer makes on purchasing a product or service. Here are the steps in a nutshell:

- 1. A consumer becomes aware of a need.** This need is triggered either internally or externally.
- 2. After the need is identified, the consumer goes through a process to search for solutions that will fulfill that need.** This search involves identifying criteria that's important to her. Then she begins to search for a location where she can find her solution.
- 3. The consumer evaluates the alternatives or options.** She takes the information she collected in Step 2 and processes that information in order to evaluate her options and arrive at a decision.
- 4. The consumer makes the purchase based on the information processed in Step 3.** In this step, the consumer determines where to purchase and how to purchase as well as when she should purchase.
- 5. The consumer evaluates the purchase.** This step focuses on the psychological response of the buyer regarding the purchase. It's in this phase that buyer's remorse often pops up.



Many factors can influence the individual throughout this process. But by understanding consumer behavior, you can help a consumer move through this process smoothly. You can even assist the consumer if for some reason a step keeps her from making a decision. As a business owner or marketer, you can influence the entire process and not just the purchasing decision.

Recognizing Factors that Influence the Purchase Decision

Consumer behavior is subjective. Even though you won't find many absolutes, one thing always remains true: When it comes to the consumer decision-making process, many factors play a part. There are two categories of personal influence regarding the purchase decision. They include the following:

- ✓ **Internal influences:** These influences include perceptions, attitude, lifestyle, and roles.
- ✓ **External influences:** These influences include cultures, subcultures, household structures, and groups that have an effect on the individual.



Every situation and influence is different. You can change some influences and others you can only deal with as they happen. Sometimes you'll even find that you can counteract the way the influences affect a consumer. It's important to understand that while you can categorize internal and external influences of consumers into two groups, they're actually interconnected and work together to assist the consumer in making a purchasing decision.

Throughout this book, I dig deep into how consumers are influenced, why they behave the ways that they do, and how you can use these influences to work to your advantage. For now, in the following sections, I give you a peek at each category and show you how they can affect your consumer.

Internal influences

Internal influences come from inside the consumer. They're the personal thoughts and feelings, including perception, self-concepts, lifestyle, motivation, emotion, attitudes, and intentions. You could call these the *psychological influences*. These influences describe the ways consumers interact with the world around them, recognize their feelings, gather and analyze information, formulate thoughts and opinions, and take action. You can use consumer internal influences to better understand the why and how of specific behaviors. The following sections help you gain a better understanding of each of these influences.

Motivation and emotion

Motivation and emotions serve as the emerging forces within consumers that activate certain behaviors. *Motivation* is the persistent need that stirs up and stimulates long-term goals within a consumer. *Emotions* are temporary states that reflect current changes in motivation. They also often trigger changes in behavior.

Motivation and emotion often work together to impact consumer behavior. Motivation drives a consumer through the consumer buying process, and emotion drives that motivation. You can apply your knowledge of motivation and emotion to your marketing strategy by finding ways to stimulate consumers' emotions and motivate consumers to fill the need aroused by those emotions.

Perception

Perception is representative of how a consumer processes and interprets information. You could describe perception as the way that consumers see the world around them — the world that includes your products and services. Perceptions are unique and determine purchasing behavior in every consumer differently.

Perception is important to you because it represents the way the consumer views your product or service. You can influence the perception of your consumer by understanding the current perception consumers have of your product and making changes so your product is recognized, interpreted, and stored in their memory (rather than simply ignored). See Chapter 5 for the basics on consumer perception.



Familiarize yourself with perception, sensory thresholds, and the process that consumers go through to construct their perception. You can then use this information to tailor your marketing stimulus — such as ads, packaging, and pricing — for each particular segment that you're trying to attract.

Perception is such an important part of getting consumers to purchase your product or service that I've dedicated Chapter 16 to explaining how you can influence perception of whatever it is that you're selling while educating consumers about your particular offering.

Attitude

Attitude is that lasting general evaluation of something. It represents how consumers feel about products, services, and companies. Attitudes can tell you a lot about your consumers and how well you're accepted in the marketplace. Just remember that consumers easily screen information that conflicts with their own attitudes.



A consumer's attitudes are learned. They're formed by direct personal experiences, and they're influenced by the individual's ideas and personality, the experiences of friends and family members, and media exposure. The good news is that you can influence attitudes. In fact, when you combine knowledge with a positive or negative attitude about a specific object or product, you drive the perception of that consumer. In Chapter 6, I share with you the attitude models and their functions and strategies. These models can help you influence and change the attitudes of your consumers.

Self-concept and lifestyle

A *self-concept* represents how an individual sees herself. Four self-concepts typically impact individuals and their consumer behavior. Here they are:

- ✓ **Actual self**, which is reflective of how the individual actually is today
- ✓ **Ideal self**, which represents how the individual would like to be
- ✓ **Private self**, which is the self that's intentionally hidden from others
- ✓ **Public self**, which is the self that's exposed to the public

Self-concepts explain why consumers wear certain fashions, purchase particular products, and drive specific cars. They determine a consumer's behavior, because they represent how a consumer sees herself and how she thinks other people see her. When you understand the roles of self-concepts, you can use them to better target your marketing message and advertising to reach potential customers. In Chapter 7, I explore self-concepts in detail.

Self-concepts often translate themselves into a person's lifestyle, which is why I discuss them together here. Technically, a person's *lifestyle* is determined by a mixture of both internal and external influences; it's a function of her motivations, learning, attitudes, behaviors, beliefs, opinions, demographic factors, and personality. Lifestyle also represents a consumer's income level, culture, social class, and buying power.

Lifestyle is reflected by the outward appearance of both internal and external influences of consumers. When you look at all the factors to gain a greater grasp of the lifestyles of your consumers, you can target promotional plans to those consumers. You also can identify market opportunities.

External influences

Consumers are faced with many external influences, including an individual's culture, subculture, household structure, and groups that he associates with. Marketers and business owners call these *external influences* because the source of the influence comes from outside the person rather than from inside (which would be internal, or psychological, influences). You also could refer to them as *sociocultural influences*, because they evolve from the formal and informal relationships the individual has with other people. In the following sections, I introduce you to each of the external influences and show you how and why they affect consumers.

Culture and subculture

The culture of an individual shapes her values, beliefs, attitudes, and opinions, which in turn shape her attitude toward products and buying decisions.

Culture also meets many of the emotional needs of individuals, so they strive to protect the beliefs and values of their cultures. This protection is reflected in their behavior as consumers.

In fact, culture can create a consumer need, influence the satisfaction of needs, and dictate how an individual meets that need. Products and services that resonate with the priorities of a specific culture have a much better chance of being accepted by consumers. Cultural values are transmitted through the family, religious organizations, and education institutions. You can use this information to gain a better understanding of the values that specific cultures teach.

Subculture represents a group of individuals within a culture that have unifying characteristics. A subculture is often representative of a particular nationality, religion, racial group, or geographic group. You can use these unifying characteristics to market directly to a subculture. You can target consumers more directly with your marketing and create messages that are more appealing and enticing when you understand the subcultures of consumers. In Chapter 8, I show you why it's possible that a subculture can create a distinctive market segment on its own.

Groups

Groups represent two or more individuals who share a set of norms, values, or beliefs. Examples include peer groups, school groups, business groups, and clubs. Individuals identify with groups to the extent that they take on the values, attitudes, and behaviors of that group. You need to understand the groups that consumers belong to because groups carry significant weight when it comes to the influence they have on consumers. You can also benefit from identifying the opinion leaders within groups and informing them of the products you offer. By gaining their support, you market to the mass of a group by using the leader's endorsement.

Chapter 10 walks you through the reasons that people are attracted to groups and tells you everything you need to know in order to market effectively to them.

Household structures

Household structure represents how many live in a home, what the ages of the occupants are, and what the household income is. Household structure is important to consumer behavior because the structure affects the consumption and purchasing patterns of the individuals within the home. Each member of the household structure also has a role in the decision-making process, and when you understand those roles, you can be more effective in helping those consumers make decisions on whether to purchase your product.

It's also important to understand the difference between traditional and non-traditional households. Doing so helps you determine each household's needs, thereby marketing to those needs in a way that's appealing to the consumers. Finally, you need to take into account family life cycles, because they too have an effect on consumers and their consumption patterns and needs.



Marketing to families isn't as easy as it used to be, because there are a variety of situations and changing roles that need to be considered. However, consideration of these issues puts you ahead of your competitors and enables you to gain sales that you may be missing out on.

Chapter 9 walks you through the various types of households as they apply to marketing strategy. I describe in depth the ways that these households affect purchasing behavior and how you can target particular individuals within a household.

Accounting for the Unpleasant: Consumer Misbehavior

Consumer misbehavior is behavior that violates laws and generally accepted norms of conduct in today's society. Examples include shoplifting, fraud, and abusive consumer behavior. Consumer misbehavior can disrupt consumption activities and can cause loss to your business both in revenue and in the loss of other consumers. All businesses are at risk of experiencing consumer misbehavior.



By being aware of consumer misbehavior, you can watch for the warning signs and be proactive at protecting your business. Just as you can use your marketing strategy to gain consumers, you can also use it to detour those consumers who are involved in misbehavior.

In Chapter 11, I discuss the effect that consumer misbehavior has on businesses. I share with you the warning signs and the reasons behind the behavior. I also provide you with ways to detour misbehavior by using proactive steps and your own marketing strategy.

Seeing How Consumer Behavior Can Guide Your Marketing Strategy

Many components come into play with consumer behavior, but the power is in knowing how to understand and influence that behavior. The knowledge of consumer behavior actually allows you to improve your marketing strategy.

It helps you understand the way your consumer thinks, feels, reasons, and selects between alternatives. You can use the knowledge you gain from studying consumer behavior to create effective marketing campaigns that speak directly to specific consumers. In this book, I show you how to do just that. By the time you're finished, you'll see the works behind a consumer's decision process, buying behaviors, and consumption patterns.

In the following sections, I outline the major steps involved in creating a marketing strategy, and I show you how to use your understanding of consumer behavior to work through each phase.

Researching the market to find commonalities

Market research is the key to understanding your consumers and their behavior. It's the systematic collection, recording, analyzing, and distributing of marketing data. It ensures that you produce what your consumers really want and need — not just what you think they need. Market research is the function that links the consumer and the public to the marketer. You use the information that you gather in research to identify marketing opportunities as well as problems.

In Chapter 12, I help you evaluate the different marketing research options and determine whether primary or secondary research is best for you. I discuss their advantages and disadvantages, and by the end of the chapter, you'll have a good grasp on where to begin your market research. I also give you an in-depth look at how market research helps you identify new trends, develop long-running marketing strategies, identify external threats and opportunities, evaluate the potential of diverse markets, select a target market, establish realistic goals, and formulate a strategic plan. Finally, I look at the process of market research from defining a problem to analyzing your findings and presenting them in a report.

Breaking the overall market into the segments you'll target

Segments are market groups within the total market that are made up of people who have similar needs. When you can recognize a segmented group, your marketing opportunities increase and you gain the highest return on your marketing. That's because segmenting enables you to focus on the customers that are most likely to purchase your products or services — those individuals that are most interested in what you have to offer.



Segmenting, which is cost-effective and makes your marketing easier, allows you to delve into the behavior of consumers. It also assists you in identifying their needs. In turn, you can position your product in a way that shows them how you fulfill an unmet need that they have. Chapter 3 covers the segmenting process and shows you how to better position your product so your offer is attractive to your determined segments.

Uncovering the untapped markets

Determining new marketing opportunities and identifying untapped markets can help you grow your business. *Untapped markets* represent markets that you haven't yet entered and that your competitors may not be aware of. When you get into untapped markets, you identify new ways to grow your business by opening up doors for consumers who may not be familiar with you yet. You can identify untapped markets by taking the time to examine your consumer base and understand your market.

In Chapter 14, I show you how to recognize untapped markets that you may be missing. I also help you identify product offerings. Finally, I also provide steps you can take to protect your current market share.

Creating a Consumer-Driven Marketing Plan

Marketing isn't just about flashy advertisements and fancy commercials. And it isn't just about creating awareness; it's about gaining new customers. The only way that you gain new customers is by creating a marketing plan that's intentionally consumer driven.

A consumer-driven marketing plan is developed and created and then practiced with integrity in mind. With a consumer-driven marketing plan, you do all the following:

- ✓ Listen and speak directly to consumers and tell them that you understand their needs.
- ✓ Position your products in a way that shows them that you fulfill their unmet needs.
- ✓ Gain their attention by providing them with the education they need to make good purchasing decisions.
- ✓ Share with them the reasons they should adopt new products and accept the changes that you make to existing products.
- ✓ Gain their committed loyalty and make them want to be a customer for life.

All of these tasks help you create a marketing plan that not only benefits your business but benefits the consumer by creating an awareness that causes them to want to purchase your product. In this section, I show you how to use your knowledge of consumer behavior to market to consumers in a way that they understand and are attracted to.

Practicing integrity

Marketing ethics impact both the consumer and your business. When it comes to marketing, you must build trust with your consumers. It's your responsibility to embrace, communicate, and practice ethical values that improve the confidence of your consumers. You need to understand the importance of marketing ethics, because deceptive marketing practices can affect consumer behavior.

Unethical marketing behavior affects the emotions, attitudes, and perceptions of consumers — whether it happens to them directly or they just hear about it. In Chapter 15, I discuss the different types of unethical marketing practices and share with you the importance of having your own code of ethics and how to go about creating one. Your integrity is not only what gains new customers; it's also what helps you keep them.

Inducing need awareness through positioning

Positioning is the act of creating a unique identity for whatever it is that you're selling and then targeting a segment of the broader market by fitting your product or service to that segment's wants and needs. In order to get consumers to recognize that your product fits their needs, you must figure out what the consumers in your target market need and want, what you have to offer them, what your benefits are, and who your competitors are (including how you're different from them). You use this information to create a positioning strategy and statement. These tools help you reach out to your targeted consumers. They communicate, identify your company, and differentiate it and its products from the competition.



When positioning your product or service, you proceed through two separate steps. First you have to differentiate your product or service from its competition, and then you address the consumer's need or desire. These steps form the basis for the articulation of what your product does, which is also known as your *positioning statement*. Within each of the two steps are three strategies you can use to reach out to your target market. I explain them all in Chapter 16, where I also guide you in creating your positioning statement.

Engaging consumers' attention and leading them to purchase

At this point in the process, you really begin working with the influence of perception in order to engage your consumers' five senses and draw their attention to your product or service. In order to do so, you must create value for your consumers to shape and cultivate their perceptions. You create value by focusing on what your consumers believe is essential.

It isn't enough to get consumers to notice whatever you're selling; you must educate them about the value and benefits of your offering in order to overcome any objections regarding the purchase of it. In Chapter 16, you discover how to effectively educate your consumers about your product or service. Successful marketing counters any objections to the prospective purchase.



The key is to present the benefits of your product in a way that consumers understand. You also need to develop a *unique selling proposition* (or USP). A *USP* is a statement that sets you apart from the competition. It paves the way for your positioning strategy and statement. When you identify your USP, you find something meaningful and unique to say about your product that competitors either can't or won't say. Several core steps help you to identify and develop your USP. After you've proceeded through the steps, you can work on drafting a marketing message that will grab their attention. (Check out Chapter 16 for more on USPs.)

Convincing customers to adopt new products and changes in terms

Do you ever wonder why so many new products fail? Well, the truth is that it's often because business owners don't understand the adoption process. They don't know what it takes for a consumer to adopt a new product.

So you aren't in the same position as those business owners, here's the scoop: Consumers go through a series of evaluation steps when adopting new products. This process often involves the give and take. In other words, they determine what they have to give up in order to take in the benefits of a new product.



Consumers are inundated with new products every day. So when trying to get consumers to adopt a new product, it helps to understand the product life cycle and to identify what phase your products are in. You also need to be able to identify characteristics of the different adopter categories that

consumers fall into. This way you can speak directly to any apprehensions they may have and gain a better understanding of their readiness to purchase. Just remember that you can influence new product adoption by simply understanding the adoption process that consumers go through.

Consumers also face a great deal of challenge when it comes to accepting changes in the terms of your existing product. Term changes can be any change that you make to your current products. Examples include a change in benefits, a change in price, or a change in distribution. You can help consumers in the transition of change. One way is to take into account how your consumers will view the change and whether they will see it as a “gain” or a “loss.” Then you can develop a marketing strategy that speaks directly to the challenges the consumer may be feeling. This strategy helps to increase the rate of adoption to the change and save you the loss of customers who otherwise may stop buying your product.

In Chapter 18, I show you what it takes to get consumers to adopt your new products and how to overcome adoption challenges. I explain the reasons that consumers are apprehensive to adopt new products and what you can do to soothe those concerns. I also take a look at the challenges that consumers face when being presented with changes to your current products and how you can help them in the transition of accepting those changes.

Encouraging customer loyalty

Success is about getting consumers to continually buy from you, because it's easier to gain loyalty from a current customer than it is to gain a new customer. You can gain consumer loyalty by understanding how consumers learn and by using techniques that help them remember you. Consumer loyalty really comes from meeting the emotional needs of consumers. Those needs include the need to be understood, feel important, feel welcomed, and feel comfortable. You can meet these needs and encourage consumer loyalty by providing consumers with expertise, attention, friendliness, flexibility, patience, and superiority in your products and your services. This is done by communicating and creating relationships with consumers.



Customers carry a great deal of value when they're loyal to you. So it's important to be able to gauge and nurture the relationship that you have with your consumers and to be able to turn satisfied customers into loyal customers. In Chapter 19, I talk about the different kinds of consumer loyalty, and I tell you how to turn your customers into repeat buyers.

Assessing Your Knowledge of Consumer Behavior: A Quick and Painless Quiz

The quiz in this section can help you gauge your current knowledge of consumer behavior. Take the quiz now and see how you do, and then after studying various part of the book come back and take it again to see if your score has improved.

The questions

- 1. Which of the following factors might influence a consumer's perception of a product, service, or company?**
 - A. Cultural beliefs
 - B. Social groups
 - C. Household structure
 - D. All of the above
- 2. One of the motivating forces a consumer might experience is**
 - A. A desire to get married.
 - B. A desire to be accepted by peers
 - C. Wanting to be more like one's boss
 - D. All of the above
- 3. The consumer misbehavior of shoplifting is often a deep-rooted problem caused by:**
 - A. Low self-esteem
 - B. Compulsive buying/overspending
 - C. A lack of funds
 - D. All of the above
- 4. Consumption factors that change when it comes to the family life cycle include:**
 - A. The number of people in the family, the ages of family members, and the number of employed adults
 - B. The number of bedrooms in the house, the variety of car models in the garage, and the rate paid to the babysitter
 - C. The shopping place, the frequency of pay raises, and the number of kids
 - D. All of the above

- 5. External influences are called external because:**
- A. They're outside influences
 - B. The consumers have no control over the influence
 - C. They're based only on outside appearance of the consumer
 - D. All of the above
- 6. When a consumer considers a purchase, he:**
- A. Calls his best friend
 - B. Texts his spouse for advice
 - C. Enters into the decision-making process
 - D. All of the above
- 7. How many strategies can you use to change the attitude of consumers?**
- A. 1
 - B. 4
 - C. 6
 - D. All of the above
- 8. A consumer's actual self refers to:**
- A. The self one would like to be
 - B. The self that isn't exposed to the public
 - C. The self that's a realistic perception of the individual at that moment
 - D. All of the above
- 9. When a consumer changes her marital status, she:**
- A. Joins different social groups
 - B. Changes her spending patterns
 - C. Quits spending money on entertainment
 - D. All of the above
- 10. You can encourage consumer loyalty and repeat buying by:**
- A. Creating an emotional connection with your customers
 - B. Changing your prices often
 - C. Changing the benefits of your product
 - D. All of the above

The answers

1. D

Cultural beliefs, social groups, and household structure are all factors that may influence a person's perception of your product, service, or company. All three of these have an external influence on the consumer and provide them with a reference point when it comes to the values and beliefs that they hold. Refer to Chapter 8 for more information on culture, Chapter 10 for social groups, and Chapter 9 for household structures.

2. B

The desire to be accepted by peers is a motivating force that a consumer might experience. Motivation comes from an emotion that a consumer may be experiencing, so an emotion to be accepted will provide a motivating force to consumers to make a purchase. See Chapter 4 for more information on motivation and emotions that affect consumers.

3. B

The consumer misbehavior of shoplifting is often a deep-rooted problem caused by compulsive buying/overspending. The need to satisfy their compulsive disorders often causes consumers to shoplift. Flip to Chapter 11 for more information on consumer misbehaviors.

4. A

Consumption factors that change when it comes to the family life cycle include the number of people in a family, the ages of the family members, and the number of employed adults. Consumption patterns change because there may be more people to buy for. Also, the different age groups need different necessity items. Finally, the number of employed adults in the home determines how much money a family has to spend. Visit Chapter 9 for more information on household structures.

5. A

External influences are called external because they're outside influences. External influences come from the outside and don't pertain to the internal or psychological influences of a consumer. Refer to Chapters 8, 9, and 10 for more information on external influences.

6. C

When a consumer considers a purchase, he enters the decision-making process. In the decision-making process, he decides to call a best friend or text his spouse, but *first* he must acknowledge that he has an unmet need (the first step in the decision-making process). Check out Chapter 2 for more information on the decision-making process of consumers.

7. C

You can use six strategies to change the attitudes of consumers. These strategies include changing the basic motivational function, associating your products with different groups, relating to a conflicting attitude, altering components in your product attributes, changing beliefs about competing brands, and using the elaboration likelihood model. Chapter 6 provides more information on changing consumer attitudes.

8. C

A consumer's actual self refers to the self that's a realistic perception of the individual at that moment. To read more information on self-concepts and their impacts on consumers, refer to Chapter 7.

9. B

When a consumer changes her marital status, she will change her spending patterns. When a consumer's consumption patterns change, her spending patterns also change. See Chapter 9 for more information on household structure and its affect on consumers.

10. A

You can encourage consumer loyalty and repeat buying by creating an emotional connection with your customers. The emotional connection is what creates committed loyalty from consumers. Chapter 19 explains how to cultivate customer loyalty.

Chapter 2

Understanding How Consumers Make Purchase Decisions

In This Chapter

- ▶ Walking through the consumer decision-making process
 - ▶ Understanding how each step works
 - ▶ Determining how to use knowledge of the process to your advantage
-

When consumers buy your products or services, they engage in a decision-making process. By taking the time to understand your customer's needs and concerns as they move through that decision-making process, you increase your chances of winning their business. Market research shows that one of the major problems businesses face is that they fail to support the customer in that process.

In this chapter, I help you understand the process of how a customer moves from looking to purchase to the actual purchase itself and thereafter. I also show you how to help customers move through that process and increase your chances of gaining their business.

Outlining the Decision-Making Process

Research shows that customers go through a five-stage decision-making process in any purchase, whether it's a product or a service. Because the decision-making process is a cognitive one, it's more psychological in nature. So you won't necessarily see the process. Instead, you infer that the decision-making process is in place by careful observation.

Here's a quick look at the five phases that a consumer goes through when making a purchase decision — Figure 2-1 lays them out for you visually:

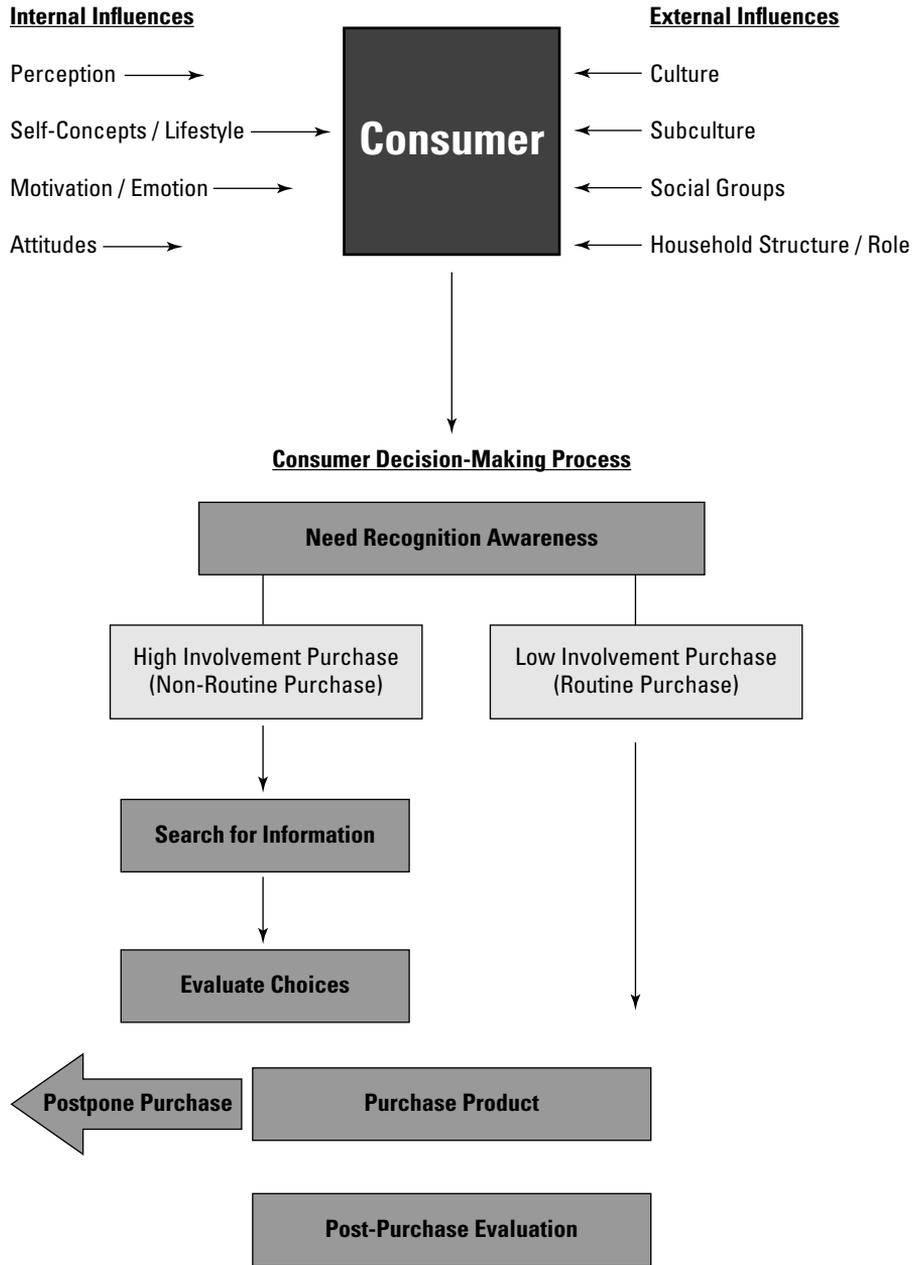


Figure 2-1:
The consumer's decision-making process follows this pattern.

Phase 1: Need recognition and awareness: In this phase, the consumer recognizes and becomes aware that she has a need.

Phase 2: Searching for information: In this phase, the consumer begins to search for information regarding a solution for the need she has identified. The intensity of the search depends on whether the purchase is a big deal to the consumer (or not so big of a deal).

Phase 3: Evaluating the alternatives: In this phase, the consumer evaluates each alternative solution to determine which one is best for her.

Phase 4: Purchase: In this phase, the consumer evaluates where and when to purchase and makes the purchase. If the need isn't great and the solutions the consumer finds aren't desirable enough to motivate a purchase, the consumer may postpone the purchase until a satisfactory opportunity presents itself.

Phase 5: Post-purchase evaluation: In this phase, the consumer evaluates her purchase and decides whether she's happy with the purchase. She may also experience buyer's remorse in this phase.



As a marketer or business owner, it's important that you understand this process. By doing so, you'll not only enhance the customer's experience, but you'll be able to walk her through the process and increase your chances of gaining business. Understanding the decision-making process can help to drive your business goals, your marketing message, and your marketing decisions.

Phase 1: Recognizing a Need or Desire

During the first phase of the decision-making process, a consumer recognizes that he has a need. The buyer recognizes and senses a gap between his actual state and his desired state. The consumer's *actual state* is his perception of his feelings and situation at the time. His *desired state* is the way he wants to feel or be at that time.

A need can be triggered by *internal stimuli* or *external stimuli*. What are these stimuli? Take a look:

- ✓ **Internal stimuli** are those things from within that get the consumer to do or buy something. For example, an internal stimulus might be feeling sleepy and wanting rest, being hungry and wanting food, or feeling your allergies kick in and wanting your allergy medicine.
- ✓ **External stimuli** are the outside influences that get you to do or buy something. For example, external stimuli include such things as seeing the sign for your favorite restaurant and feeling hunger pangs or seeing an advertisement for new shoes and remembering that your shoes are worn out and need to be replaced with a new pair.

Consumers recognize needs in the following three ways, two of which you can influence:

- ✓ Advertisements or conversation with friends that cause an awareness of a need. (These are external stimuli.)
- ✓ Consultative selling, which is the seller's ability to uncover a need. (This is an external stimulus.)
- ✓ The consumer's evaluation of his current situation, which causes him to detect an area of dissatisfaction. (This is an internal stimulus, so you can't influence it.)



In this phase, you as a marketer can cater your message to a potential need. One way to do this is to identify the need that your potential customer has and speak to that need in your advertising and marketing messages (see Chapter 16, which walks you through the process of positioning). You can't create an internal need, but you can create awareness by triggering a need with external stimuli.

An example of this type of influence would be the pizza shop that advertises by using commercial advertisements at 11 p.m. The shop is targeting its potential consumers with external stimuli (their commercial). This triggers an awareness of a need. The shop's commercial advertisements have made consumers think that they're hungry. Because the consumers are hungry and now know that the pizza shop is open late, the shop has increased its chances that consumers will call and place an order to fulfill their need.

After a consumer realizes he has a need or a problem, he must find a solution. So, in Phase 2, he begins to search for information that will fulfill his need or solve the problem he has identified. However, the need sometimes can rise so high that it becomes a driving force in the individual, and he doesn't spend much or any time searching for a solution. He never reaches Phase 2.

For example, suppose that a guy named John is watching a football game at a friend's house. All the guys have gathered to enjoy the 52-inch plasma television that John's friend has just purchased. John is envious of the television and the attention that the friend is receiving. He decides that he too needs a 52-inch plasma television in order to entertain and be more accepted by his friends. The desire is created, and he's feeling the impulse need to make the purchase. When John leaves his friend's house, he decides to stop off at the electronic store. The salesperson shows him the different models and explains the one-day sale the store is having. John's desire is so strong that instead of going home and evaluating and researching the different models and prices, he makes the purchase without spending money or time to research the solution to fulfill his desire.

Phase 2: Seeking and Researching Possible Solutions

Consumers begin the information search process by conducting an internal search of what they're looking for and what will fulfill their need and desire on a personal level. Then they follow up with an external search for information from friends, family members, salespeople, and advertisements. This phase provides consumers with criteria for assessing product alternatives and results in a set of potential choices.



It's important to understand that although Phase 2 is represented as the information-gathering phase, it isn't uncommon for anxious buyers not to search for information. If a consumer's need is so severe that her purchasing drive is strong and she sees a product that satisfies her need or solves her problem (and is close at hand), she may skip this information-gathering phase and purchase the product or service on the spot. If the drive isn't significant, the need may be filed in the consumer's memory, and then she will begin searching for information but not act so impulsively.

How this phase works

As a consumer begins to gather information, the intensity of her search is easily categorized into one of two levels. The level in which the consumer starts depends on the urgency and intensity of the need. The two levels of the search phase are as follows:

- ✓ **Heightened attention:** In this phase, the consumer is more open to *receiving* information regarding the item she has determined as a need. She will go online to search for information, look through magazines, and read advertisements to gain the information she's looking for to make a decision — but her search isn't intense; she won't *scour* for the solution just yet.
- ✓ **Active information search:** When a consumer's need becomes more intense, she enters the active search phase and really invests in the search process. The consumer will begin to gather information by reading material and asking friends.

The amount of research a consumer does depends on the strength of the need and the drive that it creates. Each consumer has a certain level of basic information stored in memory; the amount of research she does depends on the ease of acquiring new information, the value placed on that information, and the satisfaction she gets from the research.



When you understand the phase that a particular consumer is in, you can better serve her. You can use both of these scenarios to your advantage. For the consumer who's in the heightened attention phase, it's about educating her on why she needs your product. On the other hand, if you're dealing with a consumer who's actively searching, you want to focus on why you're better than your competitors and why she should choose your product over the competition's product.

For example, if you meet a consumer at a trade show and she has happened upon your product and is open to receiving information about your product, you can determine that she's in a heightened attention phase. Even though she hasn't actually sought you out, she's still receptive to the push of your information, and she's probably not aware of your competitors at this time. If another consumer at the same trade show visits your booth and has sought you out because she's been researching the service or product that you have to offer, she's probably educated about what you're offering and has knowledge regarding your competitors.

Consumers often use several sources for information, including the following:

- ✓ **Personal sources:** Family, friends, neighbors, and acquaintances
- ✓ **Commercial sources:** Advertising, salespeople, dealers, product packaging, retail displays, and the Internet
- ✓ **Public sources:** Editorial media coverage and consumer rating organizations
- ✓ **Experiential sources:** Handling, examining, and using the product — perhaps on a trial basis

How you use this knowledge in your marketing

As consumers gather more information, they increase their awareness and knowledge of available brands and features. So as a marketer or business owner, you must identify the information sources that are most important and influential to your potential buyer — and then you must make sure the information is available there. Refer to Chapter 17 for more on identifying your potential buyer and the marketing options available to you.

For example, you may find that advertising in the Sunday paper is the most influential source that your target market responds to. If so, put an ad there. Or you may find that your target market depends most on the Internet. If that's the case, make your information available there.

Phase 3: Evaluating the Alternatives

During this phase, the consumer processes information and arrives at his decision. He does so by evaluating, identifying, and assessing the value of the alternatives. The consumer looks at the features that he wants. The depth of evaluation often depends on the individual consumer and the importance attached to the specific buying situation. When it comes to purchasing, situations not only vary from consumer to consumer, but they also can vary from product to product.

For example, a consumer may be making a purchase that he has put a lot of thought into and researched thoroughly; or the purchase may be made on impulse with little or no thought. These situations can determine how much evaluation is put on the alternatives that are available.

How this phase works

If attractive alternatives are available, a consumer will work to determine which criteria to evaluate and will judge each alternative's relative importance when it comes to making the final decision. Criteria for making that decision can include one or more of the following:

✓ Color

✓ Durability

✓ Options

✓ Price

✓ Quality

✓ Safety

✓ Status

✓ Style

✓ Warranty



In some situations a consumer will use careful calculations and logical thinking. In other situations, however, a consumer may do little or no evaluating; she will rely more on impulse and intuition. Consumers use the following three types of choice processes when deciding between products and services:

✓ **Affective choice:** This choice is based on an emotional “it feels right” factor. A consumer will make a decision based not on the fact that it follows decision rules but that it feels right to make that purchase. This may mean that the consumer doesn't go through the research process or that she purchases a product or service even though it doesn't contain all the features she's looking for. The purchase just feels right or makes the consumer feel good.

✓ **Attitude-based choice:** This is a systematic, rules-based process. The consumer will go through the entire process from need to research to evaluation, and she will make sure that the product meets each and every need she has identified.

For example, a consumer may decide to purchase a new refrigerator to go with her newly remodeled kitchen. She used to own a Maytag refrigerator. Not only did the refrigerator work well, but she also liked the appearance. Her parents had a Whirlpool model that worked just as well, but she didn't think it had the same sleek appearance that the Maytag did. So, she goes to the appliance store and sees both the Maytag and the Whirlpool models and discovers that they're both the same price, so she purchases the Maytag.

- ✔ **Attribute choice:** This choice is strictly based on benefit and feature-by-feature comparisons across specific brands or products. You can imagine this consumer sitting down and going through each feature or benefit one by one and crossing a product off when one doesn't fit the bill. The product that's left is the one the consumer purchases.

The choice process that a consumer uses depends on whether she feels the purchase is extremely relevant and personally important. Take a look at the two types of purchases consumers make:

- ✔ **High-involvement purchases:** This type of purchase includes products or services that involve a high expenditure or a great deal of personal risk. Examples of high-involvement purchases are buying a car or home or making investments.

When a purchase is highly involving, a consumer goes through a more in-depth evaluation process. She puts more time, attention, and energy into the research phase of the buying process. She's making a value decision by weighing several equivalent products and trying to make the best decision she can based on her individual criteria.

- ✔ **Low-involvement purchases:** This type of purchase includes products or services that involve a lower expenditure and less personal risk. Examples of low-involvement purchases are buying a soda, choosing a hair shampoo, or deciding whether it's beef or chicken for dinner.

Low-involvement purchases are less about value and more often about convenience, which is why they require a simple evaluation process.

If after evaluating options a consumer finds what she wants, she moves on to the next step, where she decides who to buy from and when to buy. If she doesn't find what she wants, she either delays the purchase or resumes her search and returns to Phase 2.

How you use this knowledge in your marketing

If you know and understand the evaluation process your consumers go through, you can take steps to influence the buyer's decision. For instance, when it comes to high-involvement purchases, it's important to provide

your consumer with information that reaffirms the positive consequences of buying. As a marketer you want to stress the important features of your product and the advantages compared to your competitors. This emphasis is extremely important to the consumer in a high-involvement purchase, because it allows him to see value in the purchase.

On the other hand, when it comes to low-involvement purchases, you can generally provide less information and still move the consumer past the evaluation process. He spends less time and attention on research because he's making a decision that's more than likely based on impulse. This is why you often see low-involvement purchase items in checkout lines of major retail chains or on the counters at the local gas stations.

In situations where the consumer can't find acceptable alternatives, a decision to delay or not make a purchase is often made. The best way to avoid this situation is by providing the consumer with all the information he needs, including a list of features that compare your product or service with that of your competitors. This information can make the consumer feel more at ease about the purchase decision, and it often helps him to move forward in the purchase.



Purchase stalls are most common when the consumer is lacking the information that he needs to make a decision. If you find that providing additional information doesn't help, you may try asking the consumer what information he needs from you in order to make a decision today.

Phase 4: Assessing the Value of the Chosen Product or Service

After a consumer evaluates and selects the best alternative, she's ready to purchase. However, the consumer isn't done flowing through the process just yet. She must now determine whether she feels that she's buying a product or service that has value. *Buying value* is the perception of the worth the customer is getting by purchasing your product. Buying value isn't just about price; it's also about service, quality, and experience. A consumer wants the most bang for her buck.

How this phase works



The two factors that come into play when determining buying value is the quality and the customer service the consumer receives. Two questions receive the most attention during Phase 4: "Who will I buy from?" and "When will I buy?" These questions help the consumer determine what your actual buying value is.

Who will I buy from?

The consumer considers the following three things when determining who to buy from:

- ✔ **Terms of the sale:** The consumer will evaluate not only the purchase price, but the terms of the sale. For instance, if payments are involved, he has to determine whether he can afford those payments. He also has to decide whether he agrees with the length of those payments. Terms of the sale include delivery and warranties as well. All these terms can affect whether the consumer purchases a product or service from you.
- ✔ **Past experience from the seller:** If the consumer has purchased from you before, he will evaluate the service you provided in the past. If the consumer was satisfied with the past experience, your chances are high that he will be a repeat buyer because that experience built trust. However, if the consumer wasn't happy with the past service, it's easier for him to continue searching for someone else to buy from — unless, of course, you can convince him that you have improved your service level or product quality and now have the ability to meet (or exceed) expectations.
- ✔ **Return policy:** A return policy should be clear to your consumer. A concise and clear return policy gives a consumer a sense of security. It can make him feel that what he's buying is guaranteed to be what you have represented it to be. When you don't give the consumer a return policy, he has a reason to be suspicious and may avoid purchasing your product.

When will I buy?

The following factors help a consumer determine when to buy a product or service from you:

- ✔ **Store atmosphere:** Does your store provide the consumer with a “feel good” atmosphere? You better hope so, because the atmosphere that you create can move the consumer into a comfort zone that encourages her to move through the steps of purchasing. The atmosphere includes the design of your building, interior space, layout of aisles, texture of carpet and walls, scents, colors, and the shapes and sounds experienced by the consumer.
- ✔ **Presence of time pressure:** Is the consumer being pressured regarding the timing of the purchase? A consumer's availability when it comes to timing is crucial for how she forms her life and how she acts when choosing, buying, and using products in the marketplace. Your consumer is either time-rich, meaning she isn't in a time crunch; or she's time-poor, meaning she needed your product yesterday.

- ✓ **Specials or sales on products or services:** Are you running a special or a sale on the item the consumer wants to purchase? Specials and sales create a strong consumer demand and increase the consumer's urgency to purchase (so they get the item before the sale is over).
- ✓ **Pleasantness of the overall shopping experience:** How does the consumer rate the overall shopping experience? It's important to realize that the shopping experience plays a core part in the decision-making process. It's similar to the element of store atmosphere. You must always make the shopping experience rewarding to the consumer; doing so not only moves the consumer to make a purchase, but it also brings her back to your store.

How you use this knowledge in your marketing

As you can see from the previous sections, the “who” and “when” become vital in the purchasing decision. The more you can help the consumer, the better off you will be. If the consumer is satisfied with your service, experience, and shopping atmosphere, the purchase is made. If he's dissatisfied, however, he may delay the purchase or end up not buying from you at all.



Keep the following tips in mind when working with your customers in this phase:

- ✓ **Make sure the store atmosphere and experience is what your customer is looking for.** How do you do this? Survey current customers. Some stores already do this. Take, for example, the credit card terminals at the checkout lane that ask you whether your cashier was friendly or whether your shopping experience was pleasant. Retail stores survey customers in order to ensure that the customer is having a positive experience. Other questions you may want to ask include the following:
 - If you're the manager of a candle shop, you may want to ask if customers liked the scent of the candle you were burning in the store that day.
 - If you own an art gallery, you may want to ask about the lighting. For instance, you may want to find out whether it was suitable for viewing the pieces of art in the gallery.
 - If you play music in your store, you may want to ask whether the music is pleasant and whether it enhances the shopping experience.
- ✓ **Save the customer time.** If the customer is feeling time pressure, he needs to save time. You can help with this by being clear upfront with your terms of sale and return policy. Saving your customer time can increase the chances of him purchasing your product or service.

- ✔ **Have a sale.** Sales promotions and specials are effective when trying to keep existing consumers or gain new consumers. Having a sale or a special can often increase sales more than any other type of marketing.
- ✔ **Pay attention to your customer service.** Experience can be created by providing incredible customer service and competitive prices and by making the shopping process easier with consistency in service. Also, be sure to ask the consumer questions throughout the sales process to ensure that anything that may delay or stall the sale is addressed.

If you can equip yourself to ensure that the preceding items are clear to the customer and that he's in agreement with them, you'll save yourself from delaying or losing the sale.

Phase 5: Evaluating the Purchase after the Deed is Done

After the purchase is complete, your job is done, correct? Wrong. Remember that the end of the sale isn't always the end of the buying process. In fact, it could be the beginning of another sale if you follow the process through to completion and satisfaction.



This phase in the buying process focuses on the psychological response of the buyer to her purchase decision. It's at this phase that your customer will often undergo a degree of reflection about her purchase decision. She may wonder whether she made the right choice. She also may be considering the effort she put into this purchase and the worth of the initial expense. The consumer who has made a high-involvement purchase will spend the most time in this phase. When it comes to low-involvement purchases, this phase is often nonexistent. (See the section on Phase 3 earlier in the chapter for an explanation of high- and low-involvement purchases.)

How this phase works

You can categorize post-purchase outcomes in one of the following three categories:

- ✔ **Outcome 1: Purchase is below expectation.** The chances of this customer returning and asking for a refund or exchange are high. He has evaluated his purchase and he isn't happy. The purchase didn't meet his expectations. This unhappy consumer will return and expect you to make the situation right. The chances of him recommending your product to any of his friends, family, or associates are slim to none.



When a consumer doesn't return to your business because he's unsatisfied, this can spur negative word-of-mouth advertising. Here's why: even though you may not be aware of his dissatisfaction, the chances are that his friends, family, and associates *will* be.

- ✓ **Outcome 2: Purchase matches expectation.** The purchase the customer has made matches the expectation that he had. In the post-purchase phase, you probably won't hear back from this customer. You only hear from him if he begins to doubt the ability to afford the purchase or if he feels that he didn't gain value through pricing or the terms of sale.
- ✓ **Outcome 3: Purchase exceeds expectation.** If you achieve this outcome, you've reached what all businesses hope to reach: You have exceeded the expectations of your customer. Congratulations! The chances that you will hear from the customer (except for repeat business) are slim to none. Your customer feels that he has received value from the purchase and that you provided top-notch service. This customer will likely be a repeat customer and will send new buyers your way with word-of-mouth marketing. For more on encouraging repeat buying, flip to Chapter 19.

In this phase, the consumer is comparing his level of satisfaction or dissatisfaction by comparing his expectations with his perceptions of what he has received from the purchase. It isn't uncommon for consumers to experience concerns after making a purchase. These concerns arise from the concept known as *cognitive dissonance*, an uncomfortable feeling or stress caused by two contradicting ideas simultaneously. In this case, it's the battle between whether he should have or should not have purchased the product.



All purchase decisions produce some degree of conflict. If the consumer experiences cognitive dissonance, he will begin to search for more information to reinforce his purchase decision. If you haven't provided the customer with information to combat the internal struggle, he can move into a deeper guilt, which is known as *buyer's remorse*. This feeling creates regret for the purchase.

How you use this knowledge in your marketing

Why do you care how a customer reacts to a purchase? Good question. By understanding post-purchase behavior, you can understand the influence and the likelihood of whether a buyer will repurchase the product (and whether she will keep it or return it). You'll also determine whether the buyer will encourage others to purchase the product from you.

Satisfied customers can become unpaid ambassadors for your business, so customer satisfaction should be on the top of your to-do list. People tend to believe the opinions of people they know. People trust friends over advertisements any day. They know that advertisements are paid to tell the "good

side” and that they’re used to persuade them to purchase products and services. By continually monitoring your customer’s satisfaction after the sale, you have the ability to avoid negative word-of-mouth advertising.



Avoiding dissatisfaction before and during the sale

You can help your customers remain happy with their purchases by

✓ **Making sure your products and services deliver on their promises.**

Offer quality products and services, and market them in a way that will meet the expectation of the customer. For example, if you know a product isn’t meant for children, don’t market it as a product for children. If you know the product will only last 60 days, don’t market it as if it will last 90 days. And if you know a product has an unfavorable flavor, don’t fool folks and say it tastes great.

Set the expectation in the way you market as well as in your marketing message. Refer to Chapter 15 for more on drafting your marketing message.

✓ **Mitigating cognitive dissonance.** You mitigate cognitive dissonance by

- Summarizing the product’s benefits after the purchase
- Repeating to the customer why the product is better than the alternatives
- Emphasizing how satisfied the customer will be
- Providing toll-free numbers to encourage communication after the sale
- Offering liberalized return and refund policies and making your customer aware of them

Following up after the sale and handling dissatisfaction

After the sale or provision of service, it’s important as a businessperson that you help customers deal with post-purchase discomfort. As part of your customer’s purchase analysis, she’s trying to reassure herself that her choice was the wise one. The more you’re able to show her that you’re available, the less remorse she’ll feel. She’ll feel value by your attentiveness after the sale rather than just during it. This decreases the chance for buyer’s remorse and increases the chances of her recommending you to others. This situation happens even more when you’re in the business of selling high-involvement products (see the section on Phase 3, earlier in this chapter, for a discussion of high- and low-involvement purchases).

To ensure overall satisfaction and a repeat purchase, train your staff on how to deal with customer complaints, and implement a follow-up program that includes a *post-purchase evaluation*. This assessment, which is performed on customers after they’ve purchased from you, helps to gauge their satisfaction

with not only the product, but their overall shopping experience with you. The evaluation can be done electronically, by mail, or by telephone.



By developing post-purchase activities and services, you have the ability to reduce a customer's anxiety, build goodwill, and lay the groundwork for future sales. A post-purchase evaluation reduces any uncertainty or doubt within your customers by assuring them that you're there to make sure they're happy and their needs have been met by their purchases.

You conduct a post-purchase evaluation by

- ✓ Using customer-satisfaction surveys
- ✓ Making follow-up phone calls
- ✓ Mailing cards or letters
- ✓ Sending e-mail follow-ups

Sometimes a customer is dissatisfied with her purchase despite your best efforts to satisfy her, and she may ultimately return the product or demand a refund for the service you provided. What do you do in this situation? The good news is that you can turn the situation around by viewing it as an opportunity to satisfy the consumer's need rather than viewing it as a loss. Then you try to meet that need. Be grateful that the consumer brought the problem to your attention for resolution.



If your customer isn't satisfied, you must evaluate whether the product you sold her was deficient or whether the customer's expectations were too high. To do this, examine the quality of the product and how you marketed the product, and then gauge how often a customer complains about the product. Are you receiving multiple complaints? If so, tally those complaints to determine the root of the problem. If you have only received a few complaints, determine whether the complaints are the same. If they are, the problem could be with the product rather than with the customer's expectations or experience.

Chapter 3

Applying Consumer Behavior to Marketing Strategy

In This Chapter

- ▶ Getting to know your marketing objectives
 - ▶ Discovering the four Ps of marketing strategy
 - ▶ Understanding product, promotion, price, and placement strategies
-

When you understand consumer behavior, you can improve your marketing strategy. This knowledge of consumer behavior helps you understand issues such as how the consumer thinks, feels, reasons, and selects between alternatives. You can use this knowledge to create effective marketing campaigns.

A lot of components go into creating your marketing strategy. If done correctly, your marketing strategy can be used as a detailed road map that combines your consumer behavior knowledge with your marketing initiatives to achieve your business goals.

Consumer behavior allows you to understand your customers and stay close to them, and your marketing strategy helps you to effectively reach out to them. In this chapter, you explore how to apply consumer behavior to your own marketing strategy.

Knowing Where You're Going: Defining Your Marketing Objectives

Marketing objectives, which are goals that you have set to accomplish by using your marketing program, are put into place with the hopes that your marketing leads to sales. Your marketing objectives help you to identify the goals and then create the process and initiatives you put into place to achieve those goals.

It's crucial that your entire marketing strategy supports your marketing objectives, because your strategy is used to guide you step by step to the success of those objectives. Marketing objectives should be in line with your company's growth and sales goals as well. You define the growth that you want to occur and then you determine what goals you will set that correlate with the marketing of your company.



Your marketing strategy is wholly based on your predictions and assessment of your customers' behavior, so before you even start strategizing, you need to get your marketing objectives in place. Your objectives need to be

- ✔ **Clear:** Your objectives must be easy to understand and specific. Can you look at your objective with clarity? Is it clear to you what that objective means to you and your company?
- ✔ **Measurable:** You must be able to measure your objectives by percentage, quantity, or revenue. How much do you want to sell? What percentage do you want to grow?
- ✔ **Time specific:** An objective that isn't time specific will never occur, because it will always be seen as a future objective rather than a goal with a timeline.

Here are a few examples of marketing objectives that meet the previous criteria:

Increase product awareness by 20 percent in the next six months.

Educate my target audience about the benefits, features, and functionality of my product and by doing so increase my sales by 35 percent in the next year.

Increase our database by 15,000 names in the next 90 days.



If you have more than one marketing objective, it's important that they not conflict with one another. They should all be working toward the same goal. For example, you don't want to set a marketing objective to promote a product or service that you plan to phase out. If you have an objective that's in conflict with other objectives, you will likely hinder the success of your marketing strategy and plan.

As you implement your marketing strategy, consistently gauge these objectives over time to ensure that you're moving in the right direction and that your marketing is achieving your goals.

Understanding How You Get There: The Four Ps of Marketing Strategy

Before I can discuss the components of your marketing strategy and how you can use market research to form each part of your strategic marketing plan, I must first explain the four main areas of interest in marketing (called the *four Ps*) and note why each one is an important part of your overall plan.

The four Ps (product, promotion, price, placement) provide you with the foundation that your marketing plan is built around. You could almost describe them as the skeletal system that supports your plan. Your *products* represent what your target market is looking for. The *price* of the product gauges what your products will sell for in the marketplace based on your selected target market and what that market can afford. *Place* refers to how you distribute your products, and, of course, *promotion* is how you promote products to your target market.



If one of your four Ps isn't defined, it's nearly impossible to create an effective marketing strategy. Say, for example, that you have the perfect place in mind and you have terrific ideas on how to promote, but you really haven't defined the price at which you'll offer your products. In this case, you'll be able to distribute your products and promote them, but how will consumers know what they have to pay to purchase them? I know this is an extreme example, but it shows you why having all four Ps clearly defined can help in creating a successful strategy.

Take a look at this rundown of all the components that make up the four Ps of marketing strategy:

✔ **Product:** Your product strategy works to define your products and determine who they're targeted to and what benefits they offer to consumers. It also singles out the differences between your products and those of your competitors. When I speak of *product*, I'm referring to something that's marketed to consumers in exchange for money or another unit of value.

In the case of consumer packaged goods, retail, and business-to-business companies, the product is a tangible object. When it comes to a service business, however, the product takes the form of an intangible offering, such as a true benefit or future promise. All products are offerings to the consumer, but remember that there's an inherent difference between what's sold by a retailer and what's sold by a service firm, and the way you present that offering depends in part on whether it's a tangible object or an intangible service.

When selling a product that a consumer can touch and feel, you must focus on the benefits, features, and customer service that you offer surrounding that product. When selling a service, you must sell on the

perceived value because a consumer can't touch, see, or feel the product that you're offering. Instead, your strategy must be centered on testimonials or recent work you've completed. It's vital to focus on how your service can help consumers achieve their desired results. You can still find strength in focusing on the benefits of the service you offer, but you must have something to back your claims. After all, the consumers aren't walking out with something tangible, and really their purchase is only as good as your word.

- ✓ **Promotion:** The *promotion* element of your marketing mix consists of two-way communication that's used to inform, persuade, and remind consumers. Your promotion strategy outlines the promotion tools that you plan to use to accomplish your marketing goals, from advertising to public relations and everything in between.

Promotion strategy is an important part of the overall marketing mix because it defines how you'll promote your products and what methods you'll use for the different products you offer and the different market segments you're trying to reach. You could almost call it your "communication plan" because it really does define how you will communicate your product to your target market.

Many new business owners or inexperienced marketers tend to think that a promotion plan is the only plan needed in your marketing strategy. However, promotion is only one piece to the puzzle. If you haven't defined your products, prices, or placement, how can you promote what you're offering?

- ✓ **Price:** *Price* always seems to be one area that business owners struggle with. And why not? Price is one of the most important business decisions you make. You must set a price that allows your target market to afford your product and what you have to offer, but at the same time you need to produce a profit for your company.
- ✓ **Placement:** *Placement* is often known as *distribution* and refers to how you get your products or services from your hands to the hands of your customers — that is, it determines which *distribution channels* you'll use. Distribution channels fall into one of two camps: direct and indirect. *Direct channels* go straight from you to the end consumer. *Indirect channels* go from you to an agent that sells the product or service to the end consumer (or to another agent, who then sells to the end consumer).

When creating your placement market strategy, you have to define the best way for a transaction to transpire and then determine what mediums you'll use to get it done. When you look at product, price, and promotion, it's always important to consider placement, because without it you haven't defined the means in which you pass on the product. So your market strategy wouldn't be complete.



Product: Developing and Selling a Marketable Product or Service

Your *product strategy* lays the groundwork that your other Ps of marketing will work around. You can't determine price, placement, or promotion without first identifying the details around your products.

The focus of your product strategy is on the goods or services that you offer to your consumers. A thorough product strategy includes information regarding features, benefits, customer service, and warranty details. It also defines the target market for each product that you offer and who that product appeals to.

Assembling the components of your product strategy

In order to have a clear definition of your products and an understanding of who you're targeting with your products, your product strategy must do the following:

- ✓ Clearly identify and define the offering.
- ✓ Describe the offering.
- ✓ Label the offering with a memorable name.
- ✓ Describe the offering's functionality, features, and benefits.
- ✓ Evaluate the offering's *adaptability* — that is, the measurement of acceptance in the current marketplace, gauging the ease of change if the marketplace is to experience a change in demand or benefits and features

In the following sections, I give you an overview of what each of those tasks entails.

Product or product line identification and definition

Your product is the item or service you'll be offering to your customers. You need to identify and explain your product from the customer point of view in order to really focus on the benefits and features that your product offers.

You also must determine whether you're offering one product or a line of products. After you've made that decision, create a *product definition*, which explains the purpose of your product and how it serves your consumers. I know what you're thinking: "Why do I need to have a product definition?" Here's why: Most business success or failure is determined by its product definition.



Your product definition serves as the explanation of “why” behind the consumer purchase. Why should consumers choose your product? What benefits and features are you offering that they need? Your product definition should answer these questions. A clear definition also helps you with the other components in your product strategy.

Product name

Your product name helps consumers recognize your product in the marketplace. Name recognition is important to standing out from among your competitors. Keep in mind that even though your name doesn’t have to be flashy, it does need to be memorable. When naming your product, also take into consideration who your consumers are and what will appeal to them.

The name that you choose will follow your product throughout its lifetime and can impact the perception consumers have regarding your product, so this isn’t a step you want to rush through. Brainstorm, gather ideas, ask for opinions, and then test the name you’ve chosen. You want to be happy with your first choice, because it’s extremely difficult to go through a product name change and come out successful.



If you’re offering your product in foreign countries, make sure that the product name is translated correctly and that the name of your product doesn’t carry negative connotations.

Product description

Your customers obviously need to know what you want to sell them. So that’s where the product description comes in. To create a product description, you simply state what your product is in one sentence.



This step should be a little easier than the development of your definition, because your definition actually helps you in this phase. You use your product description to explain the details of why your product works to fulfill the product definition you’ve created.

For example, if your product is a dish soap, your product definition may look like this:

DW Dish Soap washes dishes.

Your product description, on the other hand, may look like this:

DW Dish Soap washes dishes in $\frac{1}{3}$ of the time when compared to other leading brands, and it leaves hands smooth at the same time.

While your product definition is the why, your description incorporates the benefits of the product and describes the product in a way that makes consumers want to purchase your product rather than a competitor’s.

Description of functionality and list of features and benefits

In order to begin to understand the product from your consumer's viewpoint, you need to list and identify the functionality, features, and benefits of your product. You want this to be a detailed description of not only current functions, benefits, and features but also of future enhancements that you're considering. The benefit of this consideration is that it helps you keep tabs on the pulse of your industry and your competitors. By the way, a *feature* represents what a product has. A *benefit*, on the other hand, is what a product does. *Functionality* describes how the product works.

When positioning your product, you'll use this list of features, benefits, and functionality extensively, so don't skip this step. You can read more about positioning in Chapter 16.

Evaluation of product adaptability

The more adaptable your product is to consumers, the easier it will be to sell in a competitive market. The point of this step is to enable you to sit down and not only evaluate the current market that you're selling your product to, but also to evaluate and anticipate change that may happen in the marketplace in the future.



Product adaptability is about forecasting the market for your product in the future and gauging your ability to meet anticipated changes when they happen. Why is this important to your marketing strategy? If you can anticipate change before your competitors and take action first, you're a step ahead of the game. If your competitors do this and you don't, you'll always be one step behind. If you find that your product or service isn't as adaptable as it needs to be, you may want to consider ways you can increase its adaptability in the marketplace.

Seeing how consumer behavior affects your product strategy

When you have an understanding of consumer behavior — specifically the behavior of your potential consumers — you can accurately determine what products your customers are looking for. You can then use that knowledge to create a product strategy that will enhance the chances of your products being successful in the marketplace. You can do this because you have an understanding of what the consumer is looking for and what benefits and features will move them to purchase from you and not from your competitors.

Companies that have a grasp on consumer behavior more often develop products that contain the features and benefits that the market demands, and they almost always come out ahead of their competition. The following sections show you how to use consumer behavior research as you craft each part of your own product strategy.

Consumer behavior and your product identification

You want to analyze and define objectively what you're selling, based on why people want to buy it. It's important to remember that consumers purchase because of needs and desires. When you can take a step into their shoes and view your product in the same way they will, you can better entice them to make a purchase.

Consumers go through a series of steps before making a purchase; you can guide them through each one of those steps by not only objectively looking at your product and pointing out features and benefits, but also by counteracting any negative feelings a consumer may have about your product. (Refer to Chapter 2 to gain a better understanding regarding the decision-making process.)



You want your product definition to be:

- ✔ **Specific:** It must be easy to understand and clearly identifiable by the consumer.
- ✔ **Marketable:** It must carry marketing value. In other words, you need to determine why consumers should pay attention to your product.
- ✔ **Profitable:** Obviously the goal of the product definition is to make a consumer want to purchase that product and provide you with a profit.
- ✔ **Achievable:** Your definition must be true and the consumer who purchases your product must be able to see the truth. For example, you don't want to say that your dish soap softens hands when it doesn't actually do so.
- ✔ **Vision matching:** Your product must meet the vision you've created in your product definition.
- ✔ **Easily understood:** Flashy or wordy definitions often only confuse consumers, so make sure yours is easily understood. Would a fifth-grade student understand your product definition? If not, it may be time to reconsider a rewrite.
- ✔ **Easily communicated:** Can your definition be easily communicated or are consumers stumbling over your message and having to review it several times to get your point? The goal is to be able to use your product definition in a way that consumers have an understanding of that product within 30 seconds.

An example of a product definition might be “one-of-a-kind, hand-crafted engagement rings for women.” You can see how this example fits each of the previous requirements:

- ✔ **Specific:** It tells the consumer exactly what the product is.
- ✔ **Marketable:** The rings are one-of-a-kind and hand-crafted.

- ✔ **Profitable:** A consumer would want to make a purchase based on this definition if she were looking for a one-of-a-kind ring.
- ✔ **Achievable:** If the consumer purchases the ring, it will be one-of-a-kind and no one else will have one like it.
- ✔ **Vision matching:** If the consumer is looking for a one-of-a-kind, hand-crafted ring (and that's what she visualizes when reading your product description), she can in fact purchase a ring that meets that visualization.
- ✔ **Easy to understand:** When a consumer reads this description, she will know exactly what she is getting.
- ✔ **Easily communicated:** You can explain what the product is in 30 seconds or less and the consumer walks away with a clear understanding.

Consumer behavior and your product name

Creating a product name is the fun phase of product strategy. However, keep in mind that when crafting your product name, it's more important to be descriptive than creative. Often people try to be so creative that their product names hide the messages of what their products do. And make sure that your name is memorable, relevant, and of course, easy to pronounce. It's important to understand that if your product name is difficult to pronounce or spell, consumers will have trouble finding your product or asking for it by name.

Consumers often purchase based on emotion, and studies have shown that product names that focus on emotions tend to sell better than those that simply focus on function. So if you really want to be creative when developing your product name, concentrate more on creating a descriptive product name that focuses on emotion rather than a function. An example of this is the fragrance put out by Clinique called Happy. Consumers have the perception that if they wear this fragrance they will be happy. So clearly this influences their decision to purchase the fragrance.

Your product name is dependent on who your target market is as well. If your target is edgy and more alternative, you need to create a name that attracts them. If you're dealing more with seniors, however, your name will be very different. You know your target market more than anyone else (or at least you should!), so choose a name that appeals to that market.

One of the best ways to determine a name for a product is to spend a few moments brainstorming. However, you need to follow these rules:

- ✔ You can't reject or criticize any idea.
- ✔ Consider this free-form brain dump. In other words, write down anything that comes to mind. Write down a few adjectives, and then grab a thesaurus and let your mind wander.

- ✔ Keep a written record of everything. Keeping your thoughts locked up in your brain isn't enough — you're human, so you'll forget things.
- ✔ When you have a list of ideas, rank them one by one.
- ✔ Evaluate pros and cons for each idea.
- ✔ Get the opinion of trusted external sources.



If your product is an extension of a product line, be sure the name fits in with brand structure of that product line and offers you the possibility for product add-ons.

Consumer behavior and your product description

When crafting a product or service description, your goal is to address your chosen consumers specifically and tell them in one sentence what the product or service can do for them. To do so, you need to determine whether your offering is a product, a service, a solution, a feature, an accessory, a tool, or some other thing. Come up with a noun that describes your item.

Now use this formula as a guideline when creating your own description, plugging the noun into the (Product) slot:

(Target Audience), (Product Name) is the type of (Product) that (Performs this Task).

If the formula doesn't fit your product, don't worry. It's just a tool you can use if you choose to.



It's critical that you explain in only one clear sentence why your product is perfect for a specific buyer and what it does best. The reason this is so important is because clarity and the ability to communicate the purpose of the product is crucial. If you're using more than one sentence, the description can become difficult to understand, and worse yet difficult to remember. The more sentences and words used, the less clarity in the description. I know it seems like a mouthful, but you can do it.

Here are a few examples of what a good product description looks like:

Kids, Icy Milk is the type of beverage that quenches your thirst in an instant.

Moms, Quicky Detergent is the type of simple laundry detergent that gets all stains out in the first wash.

As you can see, these examples aren't long. They're to the point, but they address your audience and get right to the benefits of the product.

Consumer behavior and your description of functionality, features, and benefits

The idea of consumer behavior is that you can take the knowledge of why your consumers behave the way they do and use that information to increase the chances of them purchasing from you. In order to do this, you must define the target market that you're aiming toward and single out the benefits and features that matter to that specific target market.

The following steps help you identify functionality, features, and benefits of your product:

1. Evaluate each feature, benefit, and function to determine how your consumer will see that the product has value.

List each one by one on a piece of paper. Doing so will help you recognize the consumer's need or want that you're satisfying. And remember that purchases are made based on a need or want that a consumer feels.

2. Investigate the product by asking current customers how they use it and what they like about it.

This investigation can help you identify whether you need to make any product changes to enhance the experience your consumer is having with your product. Seeing how consumers are using your product can make you aware of any unusual usages, thereby inspiring you with new product ideas.

3. Evaluate whether your product delivers true benefits, features, and functionality.

The more a product brings to the table, the more the importance of price diminishes. Consumers don't purchase based on price; they purchase based on benefits. So by evaluating the benefits, you can analyze whether your product is delivering in the way that you intended it to. It also allows you to see changes or enhancements that you need to make in order to create customer loyalty.



Keep in mind that all products and services have obvious benefits to your consumers, such as price and convenience of distribution, but there are also hidden benefits like customer service and guarantees. Don't forget these. By finding these hidden benefits and bringing them to the forefront, you have the ability to make your product more valuable in the mind of your consumers. For example, a consumer may walk into your place of business to purchase your product because of the convenience and price that you offer, but when you share with him the exceptional customer service that he will receive or the guarantee surrounding your product, he will have a higher perceived value of purchasing from you.

After you've identified each feature, function, or benefit, prioritize them according to your market segments and the target markets within that segment that you want to reach. This prioritization can help you determine development of the product going forward.

Consumer behavior and your product's adaptability

When evaluating product adaptability, you're assessing the flexibility that your product has to adjust to market demands and changes. When consumers purchase a product, they often evaluate the value of that product and whether it's adaptable to their lifestyle. Lack of adaptability can detour a consumer from the purchase.

For example, consider the VCR. This dinosaur of the electronic world is an item that few consumers purchase. That's because they can now purchase a DVD player, which provides a much better picture. Companies that manufactured VCRs began to evaluate the adaptability and realized that soon there wouldn't be a market for these electronics. Many of them moved right into manufacturing DVD players so they wouldn't lose the market share they had gained with the VCRs.

The following five factors help you measure the adaptability of your product:

- ✔ **Attractiveness:** It's important that you can entice consumers to try your product and allow them to experience it before purchasing. Samples and trials are great for this, because they allow consumers to begin the adaptation process of changing products without financial risk. It also shows that you believe so much in your product that you're willing to let consumers "try before they buy."
- ✔ **Compatibility:** You want your product to fit the usage of consumers today. If it doesn't, consumers simply won't purchase from you.
- ✔ **Complexity:** You must offer a product that consumers understand. Even though you may feel that your product is innovative and presents a new way of doing things, your consumers may not necessarily see it the same way. And then they won't make the purchase. It's vital that consumers understand not only the benefits, but the purpose behind your product.
- ✔ **Product advantage:** You want to be able to stand against your competitors and be the product that consumers choose. If you can't identify an advantage, consumers won't be able to either.
- ✔ **Visibility:** It's easier for consumers to adapt to a new product when they see others using the product successfully. You want your product to be visible to consumers, because the visibility diminishes the fear of the unknown.



By evaluating the adaptability of your product, you can see how flexible your product is and how flexible your consumers believe it to be. Consumers don't particularly embrace change, so if they can view a product as easy to use, you will decrease their anxiety about making the purchase. Evaluating adaptability helps when creating your marketing plan, because if your product proves to be adaptable in the marketplace, you can use that as a benefit to your product. If you find that your product isn't as adaptable as it needs to be, you can begin to make the necessary changes to appeal to consumers. When you attain an appropriate level of adaptability, you create a stability that allows you to adapt without shaking the core of what your product represents.

Promotion: Deciding How You'll Spread the Word

Your *promotion strategy* is the part of your marketing strategy that explains how you'll bridge the gap between the places where you're selling your product or service and the places and ways your customers gather and absorb information. A complete promotion strategy contains a description of the promotion methods you'll use in your marketing plan. The following sections highlight those methods and explain how consumer behavior knowledge affects their presence in your marketing mix.

Perusing the possibilities

You can promote your products in a variety of ways. In fact, it's always good to use a mixture of methods that can help you reach your target market. In this section, I show you the different methods of promotion. To give you an overview, here are the methods I cover:

- ✓ Advertising
- ✓ Marketing collateral
- ✓ Media relations campaigns
- ✓ Promotional activities
- ✓ Publications
- ✓ Public speaking and conferences

Advertising

Advertising is the impersonal form of promotion. It's considered impersonal because it deals with general messages that aren't directed at one specific person. Instead, it's delivered to a variety of media outlets and is directed at an entire target market. The objective of advertising is to saturate your target market with your name. You typically use advertising to reach mass amounts of people at one time.

Examples of advertising include the following:

- ✓ **Print advertising:** Programs for events, trade journals, magazines, and newspapers
- ✓ **Direct mail:** Postcards, special offer letters, and coupons
- ✓ **Outdoor advertising:** Billboards and bus boards
- ✓ **Broadcast advertising:** Radio, television, and podcast

Marketing collateral

Marketing collateral is promotional material such as a brochure, newsletter, flyer, or poster. It's a great tool for informing consumers of your products and services — even when you aren't around. Marketing collateral is that memorable piece that consumers take with them in order to remember to contact you. You can create your marketing piece in a way that answers the questions of consumers and speaks directly to them. It lasts longer than a 30-second advertisement and can be designed to explain your product or service in detail.

Media relations campaign

A *media relations campaign* is about contacting and staying in touch with targeted members of the media. This type of promotional activity is great if you think your company would benefit from being mentioned in a newspaper, magazine, or a television broadcast. A great way to get started in a media campaign is by writing press releases and developing a press kit that you can send to media outlets.



Your story must be newsworthy if you're going to be picked up by the media. They received hundreds of submissions daily, so make your pitch interesting and unique.

Promotional activities

Promotional activities generate awareness and recognition in the market. In other words, they're great for letting people know that your company exists. With these activities, consumers gain a deeper understanding of who you are and what you do. You can participate in a variety of promotional activities. Here are a few examples:

- ✓ Community projects
- ✓ Contests or sweepstakes
- ✓ Coupons and product samples
- ✓ Fairs or festivals
- ✓ Giveaways
- ✓ Sponsorships for special events
- ✓ Trade shows

You can find promotional activities to participate in no matter what your marketing budget is. The best way to find these activities is to find companies that serve the same target market as you, and then research where they're speaking, what trade shows they're attending, and which community projects they're involved in. (Refer to Chapter 12 for more information regarding market research.)

Publications

Publications are similar to public speaking and conferences, because by being published in trade publications you're projecting yourself as a credible source and expert in your industry. A publication can be anything from a newsletter or magazine to a trade journal or book.



Don't confuse publications with media relations campaigns, however. Being published in publications is about providing education without the idea of promotion behind it.

Public speaking and conferences

Making speeches at conferences, professional association meetings, and other events position you and your company as experts in the field. This form of promotion is also a fantastic way to make new contacts that can eventually lead to sales. You'll find that this activity increases your credibility within your target market, and in return, the credibility will drive your sales up. As with publications, this method is less about advertising and more about educating.

Developing a consumer-centric promotion strategy

Consumer behavior explains the "why" behind a consumer's purchase. When you understand the "why," you can create a promotion strategy that speaks directly to that consumer. In other words, understanding your consumers enables you to recognize their needs, motivations, attitudes, and intentions to buy. Then you can create a promotion strategy that supports those behaviors and moves consumers to purchase directly from you.

Knowledge of your customers' behavior affects the various components of your promotion strategy in many ways. I explain in the following list:

- ✔ **Advertising:** Advertising doesn't drive an immediate purchase. That's because customers can't quickly purchase a product when they see it advertised. Think about it this way: You post a billboard and your targeted consumer is driving 75 mph down the freeway to get to work on time (or to get home for the night). The chances of that person being able to immediately purchase your product are slim to none. However,

with that mind, remember that the billboard may trigger a need or serve as a reminder to consumers that they need to make a purchase. This reminder may then entice them to contact you when they're ready to make the purchase.

Some methods of advertising are easing the ability for consumers to quickly react to an advertisement. An example is online advertisements. Say that a consumer is browsing her favorite news portal and your ad is displayed. She can quickly (and simply) click on that ad and be immediately driven to a Web site where she can purchase your product.

✔ **Marketing collateral:** You normally won't see an immediate purchase from these promotional tools. They're created to serve as a reminder to your consumer, because typically the consumer takes the marketing collateral home to evaluate and contemplate the purchase. Your collateral can be used to identify, recognize, and speak directly to the needs of your consumers. In doing so, it also presents to them the benefits they receive when they purchase your product. If your collateral is created in an effective way, it's like sending a member of your sales team home with your consumer.

✔ **Media relations campaign:** Media relations campaigns don't carry as much credibility as public speaking, conferences, and publications, but there's something to be said for creating media campaigns that are informative and educational. Most consumers must see a message approximately seven times before making a purchase, so media relations campaigns are one way to achieve that goal.

The important thing to remember with media relations campaigns is not to make them sales oriented. Instead, give the consumers something of value — something that educates them so they walk away with a perceived value that makes you memorable to them.

✔ **Promotional activities:** Promotional activities create not only awareness about your company and products, but they also create a trust around your company. This trust eases the mind of your consumer when she's making a purchase. In other words, she won't have to fear that you're here today and gone tomorrow.

✔ **Publications:** Publications are similar to public speaking and conferences; the difference is that with publications, you can often reach a broader audience to share your knowledge with. When you have been published in a trade magazine or a journal that your target reads, you have created almost instant credibility and trust with potential consumers.

✔ **Public speaking and conferences:** Public speaking and conferences tend to carry the most weight in light of consumer behavior. That's because you're presenting to an audience that contains your target market. You're sharing with them a topic that they're interested in, and they can see your knowledge firsthand. These activities also create a level of trust and enhance your credibility as the expert in the market. This type of promotion is most beneficial if you're a company that offers more service-oriented products.



Creating a marketing budget

Business owners often ask how much they should spend on their marketing budget. You can choose from different methods to determine your budget; it really comes down to your business and what works for you. You can determine your budget by:

- ✓ Allocating a percentage of your revenue
- ✓ Allocating a percentage of your net sales
- ✓ Allocating all profits back into your business for marketing

Allocating a percentage of your revenue is one of the most popular ways to determine your budget. The formula is easy. You simply take a fixed percentage of everything that your company brings in and allocate that amount for marketing. Common percentages are anywhere from 5 to 10 percent for big businesses, approximately 20 percent for smaller businesses, and 2 to 5 percent for larger businesses that are pulling in millions of dollars worth of revenue.

Allocating a percentage of your net sales is a method that's similar to the previous one. The difference is that you're only allocating a fixed percentage of your net sales. This method isn't as aggressive as the previous method, because you'll be excluding expenses from your revenue.

Allocating all profits back into your business for marketing is a more aggressive approach, especially for small businesses. You'll find that there's a little more risk involved with this method. You take the revenue that you make, subtract the expenses that keep the business alive, and put the remainder right back into marketing. The trick to this method is having a backup source of revenue.

It's important to remember that a marketing budget is only a projection or an estimate of what you will spend in marketing. Sometimes your spending will be more or less than your estimated budget. By having a budget, you have something to work from. With no budget, you're simply setting yourself up for marketing failure.

Pricing: Offering Deals That Goldilocks Would Find Enticing

Your *price strategy* helps you determine and set the prices for your product or service. It's important to your marketing strategy because it can often mean the difference between success and failure. Your price depends a lot on who your target market is and the prices that your competitors set.

For instance, you can't succeed when you offer a product that your target market can't afford. Similarly, you won't survive if your competitors are underpricing you and your consumers can't see the value of spending more to buy your product.

An effective price strategy takes into account the cost of production, the demand, the target market, and the necessary revenue needed to keep your businesses alive and thriving.



Evaluating the factors of pricing strategy

Your pricing strategy offers a lot of flexibility. It isn't just about the price tag of your product; the perks and payment options that you offer to your consumers are also important. Here's a rundown of these factors, which I explain in more detail in the following sections:

- ✓ Your *price* is what you sell your product for. You could call this the *product price*. It's the price that your market can pay for a specific product.
- ✓ *Perks* include discounts, rebates, or incentives that you offer when a consumer purchases your product.
- ✓ *Payment options* represent the different ways a consumer can pay for your product. Those options may include cash, check, credit card, financing deferred payments, or payment plans.

Pricing (cost-based and value-based)

When deciding on pricing for your product, you have to compare the two different methods before making any solid decisions: cost-based pricing and value-based pricing. *Cost-based pricing* is a method of pricing in which you determine a fixed sum or percentage that's added to the cost of the product. This sum or percentage represents the profit your company makes when the product is purchased by a consumer. *Value-based pricing*, on the other hand, is a method of pricing that's determined by the price you believe that your consumers will pay for the product.



Which method is best for you? It depends on the type of business you run, the market influence you carry, and the competition that surrounds you. Cost-based pricing works well for companies that deal with the sale of large quantities and whose markets are saturated with competitive pricing. Value-based pricing works well for companies that have strong benefits and can prove their advantage over competitors because they carry a higher perceived value that consumers can see and are willing to pay. By understanding what your customers perceive as value, you can begin to understand the maximum price they will pay for your product or service.

Some examples of cost-based pricing strategies are as follows:

- ✓ **Initial profit strategy:** With this strategy, you establish a higher price to make a profit initially. Typically you would use this strategy to cover costs of research and development time. You may also use this method to maximize your profits before competitors hit your market.
- ✓ **Quick sales strategy:** To apply this strategy, set a low price on one or more of your products. This helps to drive in revenue by using a quick-sale method. You can then use this revenue to support other products and developments in progress.

- ✔ **Profit goal strategy:** For this strategy, you create a profit goal and then set your prices to meet that goal. For example, say you have a goal to reach a 35 percent profit per unit and you're selling your units for \$10. You can increase that unit price to \$13.50 to achieve the goal.

Here are a few strategies you can use to determine what your consumer views as value pricing:

- ✔ **Same price strategy:** When applying this strategy, you price your product the same as your competitors. However, with this strategy, you need to spend some time evaluating how you can lower your production cost in order to increase your profit margin.
- ✔ **Go low strategy:** With this strategy, you set a low price initially to capture a large number of customers in the marketplace. You can use this strategy to increase product awareness or to create an image of being the low-cost option. In order to use this strategy effectively, however, you have to maintain profitability at a lower price.
- ✔ **Prestige pricing strategy:** That's right. This strategy has you marking that price up. You can get away with this method if your product carries a certain uniqueness or if you're catering to an affluent market. By pricing your product on the high end, you create a certain "prestige" with its purchase.

This is a risky strategy, so you must stay aware and be willing to lower your price if your consumers start thinking that you're making too much of a profit.



Perks

Consumers like to know they got a deal. In fact, sometimes they'll even pay more money if they can walk away feeling like they were the ones who benefited. To give your consumers that feeling, try using the following perks:

- ✔ **Discounts:** A *discount* represents a reduction in the regular price of a product. If you aren't rewarding your customers with discounts, you're missing out. They tend to give customers a sense of loyalty and a desire to be a returning customer.
- ✔ **Bundling:** *Bundling* is a marketing strategy that combines several products as one combined product at a discounted price. Bundling enhances your offering, and it takes the thinking out of ordering. Bundling is beneficial because you can increase the initial price tag and get consumers trying more of your products — while at the same time providing them with the feeling that they're gaining value. It's often seen as the win-win from both the company's and the consumers' perspectives.

Bundling works. If you don't believe me, ask the cable companies who now provide cable, Internet, and telephone at a bundled price. I guarantee you that by bundling, companies have increased their add-on sales. And what about those fast-food restaurants that now offer you the combo or meal deal? These are other bundling techniques.

Payment options

In order for your business to be successful, you need to offer your customers convenient and easy ways to pay for your products and services. In fact, did you know that by offering several payment options, you can increase your sales?

Consider, for example, these recent statistics put out by the Federal Reserve: 34 percent of consumers use credit or debit cards and 55 percent use cash or checks. So, if you don't offer both credit and cash options, you could lose a significant amount of business. By offering several different payment options, you're showing your customers that you're flexible and willing to cater to their needs.

You can choose from many different payment options, including cash, check, credit cards, financing, deferred payment, and in-store payment plans. Choose the options that work best not only for your consumer but also for your business.

Linking consumer behavior to pricing strategy

Consumers don't base their decisions solely on price, but price obviously does play a role. If the price is too high, consumers may not even take the time to learn more about the benefits that drive the price up. If a price is too low, they may not perceive any value in the product and will go for the competitor's product instead.

Pricing is always about value. If consumers see a higher value, paying the extra few dollars may not be an issue. But if they don't see value in a product, it's easier for them to walk away. It's important to price within the value zone of consumers. In other words, if your price is higher than your competitor's price, you must be able to explain why in order for a consumer to be willing to pay the extra money. If it's less than your competition, you need to be able to explain why you're able to sell the product for less while still providing a highly valuable product.



Before you can even begin to think about how to price your product, you need to know how much it costs you to produce and sell. Your *break-even point* is the point at which you're neither making money nor losing it. Your *break-even unit* is how many units you must produce or sell to break even. The break-even point and break-even unit are important to consumer behavior, because they allow you to see the room that you have to move in order to offer discounts or free trials to potential new consumers. Check out the nearby sidebar, "Calculating your break-even point and unit," for more information.

The following sections provide information showing how consumer behavior can affect each component of your pricing strategy.

Calculating your break-even point and unit

To determine your break-even point, you need to know what your fixed costs and variable costs are. Then you can simply plug these numbers into a formula. I start off by explaining both of these costs:

- ✔ **Fixed costs:** These costs make up your overhead. They're expenses that don't vary according to production rates. Examples of fixed costs are rent, office equipment, insurance, and utilities.
- ✔ **Variable costs:** These are the expenses that do vary with the amount of service provided or goods produced. Your variable costs include costs such as hourly pay and raw materials. Other variable costs include promotion and advertising expenses.

Here's what the break-even formula looks like: $(\text{Fixed Costs}) / (1 - (\text{Variable cost per unit} / \text{Selling Price Per Unit}))$. To see how this formula works, suppose you're running a service business. Your fixed costs total \$60,000. Your variable costs total \$50 (you pay your consultant \$50 per hour). You sell consulting services

at \$125 per hour. So your formula to determine your break-even point looks like this:

$$\$60,000 / (1 - (50/125)) = \$100,000$$

If you aren't making \$100,000, you can't cover your costs. If you make more than \$100,000, you're making a profit.

After you figure out what you need when it comes to revenue for your business to survive, you need to determine how many units you must produce and sell to break even. In the previous example, your consultant makes \$50 per hour. Your company bills out \$125 per hour, so how many hours do you need to spend consulting in order to break even?

Your formula looks like this: $(\text{Fixed Costs}) / (\text{Unit Contribution Margin}) = \text{Number of Units Needed to Break Even}$. The Unit Contribution Margin is your selling price per unit minus your variable cost per unit. So here's how it looks when you plug in the numbers:

$$\$60,000 / (125 - 50) = 800 \text{ units (hours per year)}$$

Choosing your pricing method

Pricing can be considered one of the most difficult of the four Ps of marketing strategy. The reason for this is because there's no single "right" method to pricing your product. You have to consider many things when pricing your product, including your position in the marketplace, the demand for your product, and the cost to produce your product.

You also have to determine the goal you're trying to achieve in pricing. It isn't always just to sell a product. For example, your goals may be any of the following:

- ✔ You may be looking for short-term revenue.
- ✔ You may want to price in order to sell in large quantities.
- ✔ You may want to maximize your profit margin.
- ✔ You may be looking to differentiate yourself in the marketplace.

After you've considered the components of pricing and have determined the goal you're trying to achieve, you have to align your findings with the behavior of your consumers. Will they see value in the price you've chosen? How does your price compare to the prices of your competitors? Can you quantify the benefits of your product in order to show value to consumers? These questions are important to consider, because consumers don't base their purchases on price alone; they base them on the value that the products bring to their needs or wants.

Dealing with discounts

Discounts work well when enticing consumers to try your product or to gain repeat business from consumers who have already purchased your product in the past but haven't returned in a while. They're also great when you're looking for quick ways to achieve sales targets or short-term market gain.



Be careful not to overuse discounts, because overuse can diminish perceived value over time with consumers.

Say that you're a business owner who's running on a thin margin. You just don't have a lot of profit margin to spare. How can you afford to offer discounts to your consumers? Here are a few strategies that won't make you dig too deep in your profit pocket:

- ✓ **Prompt pay discount strategy:** Offer cash discounts for customers who pay promptly. This strategy helps you maintain a steady cash flow and reduce what you may end up spending in collection costs.
- ✓ **Quantity discount strategy:** Offer a discount for customers who order a large number of products at a time. Typically the cost-per-unit declines as the quantity increases.
- ✓ **'Tis the season strategy:** Offer seasonal discounts to customers who purchase items in the slow season, such as a lawn mower when it's snowing. This type of discount helps you balance your cash flow and meet your production demands.

Evaluate the previous strategies and decide which ones work best for you. Keep in mind that value is important to consumers. So no matter what discount strategy you choose, you must ensure that consumers see value in your offer.

Bundling products or services as a package deal

How can you create your own bundle? Think about the products that you offer that complement one another. Then take a look at your past sales reports, keeping consumer behavior in mind. What have your customers purchased from you in the past? What items do they typically purchase together? For example, if you're selling toothpaste, how about adding a toothbrush to it — now you have a bundle.



If you still aren't sure what bundles your customers would be interested in, ask them. You'd be surprised at what customers will tell you when you ask.

Offering various payment options

You not only want to offer the different payment options, but you also want to make sure that your customers are aware that you offer them. You can inform customers of payment options by mentioning the options in your marketing collateral or by using signage where customers make their purchases.

You can offer payment plans if you sell high-priced items. These plans allow your consumers to pay over time rather than right away. The flexibility of payment plans often increases the sales of high-ticket items that consumers have trouble paying cash for upfront.



Payment options are often seen as positive by consumers, because you're giving them options to obtain a product they need or want. Just make sure that consumers understand the terms of the payment options you offer. You don't want to them to be disgruntled and feel that you talked them into terms that they didn't agree to.

Placement: Getting Your Goods from Point A to Point Z

Your *placement strategy* defines how you distribute your product and what vehicles you use to do so. It also defines the locations where you'll make your products available. When developing your placement strategy, it's important to keep in mind that not all consumers shop the same way, so product placement is your key to getting your products in front of the right consumers at the right time.

You have several options to choose from when it comes to placements and distribution channels of your products. By *placement*, I mean how you get your products or services to your customers. You can select many methods, not just one. It simply depends on what works best for you and your placement objectives.

Methods of distribution take three different forms — direct sales, indirect sales, or both. Here's a rundown of these forms:

- ✓ **Direct sales:** When using the *direct sales method*, you're selling directly to the customer or end-user. No one facilitates the sale between you and the customer. Examples of direct sales include catalog or Internet sales.

- ✔ **Indirect sales:** With the *indirect sales method*, you're selling to someone who then sells your product or service to the end-user or distributes it to others who sell to the end-user. Indirect sales occur in two different outlets:
 - **Retail:** When using the *retail method*, you're selling to a retailer, which turns around and sells to the customer. An example of the retail method would include a farmer who sells his vegetables to the local grocery.
 - **Wholesale:** When you use the *wholesale method*, you sell to a wholesaler or an agent, who in turn sells to a retailer. Typically the wholesaler or agent represents several companies, not just one. An example of this method would include a jewelry dealer who resells your product to several jewelry stores.
- ✔ **Multilevel marketing:** With *multilevel marketing*, you sell both directly to the customer or end-user and to other people who distribute and sell your product. An example of this method would include vitamins that are sold directly to consumers and to distributing partners that sell the vitamins to their consumers.

You can use many channels to sell your product, but you want to select channels that appeal to your target market. For example, if you're selling software to teenagers, you may want to focus on the marketing channel that uses the Internet. This method would clearly target those who are interested in purchasing your product. In other words, use your placement strategy to break down the distribution channels in accordance to where your consumers shop and where they're most likely to look for your specific product offering.

Evaluating your options: Distribution channels

Most businesses find that by selecting multiple distribution channels they can make more sales and attract more consumers than when they select only one. Having multiple distribution channels allows you the opportunity to gauge what channels work best for your specific product. Here's a rundown of the different channels you can choose from:

- ✔ **Retail:** Using retail stores that sell to the final consumer. This is a direct channel because you're in touch directly with the consumer.
- ✔ **Wholesale:** Working with wholesale dealers that act as the go-between for you and retail stores. This would be considered an indirect channel, because you aren't in direct contact with your consumer; you're more than likely selling to the middleman.

- ✔ **Direct mail:** Selling directly to consumers through catalog merchants at retail prices (plus shipping). This would be considered a direct sales channel, because you're reaching out directly to the consumer with no go-between.
- ✔ **Telemarketing:** Selling directly to consumers via the telephone. This can be considered either direct or indirect marketing, depending on whether you did the telemarketing within your company or you outsourced it to another company.
- ✔ **Internet marketing:** Selling directly to consumers at retail prices or wholesales prices (plus shipping) via the Internet. This channel can be considered direct, indirect, or multilevel marketing, depending on what sources you use to sell your products online.
- ✔ **Outside sales force:** Using salaried employees or independent commission contractors who sell your products to either the consumer or to wholesale dealers. This can be considered a direct channel or an indirect channel, depending on whether your sales force was employed by you or outsourced to contractors.



Distribution channels can have significant implications on the following:

- ✔ **Product margins and profits:** The channel you use to sell your products will determine the amount of profit you make. If you choose an indirect sales method, you have to pay the middleman for selling your product.
- ✔ **Your marketing budget:** Outsourcing sales often can save on your marketing budget, because the middleman does the product marketing for you in order to meet their own sales goals.
- ✔ **Final retail pricing:** Direct and indirect sales channels will determine your final product pricing differently. If you use indirect sales channels, they're allowed to price the product at the price they choose. Otherwise, you may need to increase the price in order to cover their commission or fee.
- ✔ **Your sales management practices:** The control you have over your sales management practices is solely dependent on whether you outsource or sell directly. When outsourcing, you'll often use some percentage of that control.

Observing how consumer behavior affects your placement strategy

To determine your placement objectives, you need to get a handle on your placement strategy. By answering the following questions, you can identify the objectives in your strategy and determine the best methods to use to fulfill your placement goals:

- ✔ **What are the characteristics of your target market and how large is your market for this product?** If you carry a high-priced item that typically has a small number of buyers, you may want to focus on the direct sales approach, which provides plenty of customer service. If you're selling a lower-priced item that appeals to a large market, such as paper clips, you could apply an indirect distribution approach by using advertising and placement in retail stores so customers could easily find that item.
- ✔ **Where are your customers located?** Location is important when it comes to placement. If you have a large number of customers in your local area, you could sell through local retail outlets. If your customers are located in multiple geographic locations, you may want to consider distribution through agents, wholesalers, or Internet methods.
- ✔ **How large are the orders?** You can use the size of your average order to segment your customers according to their order size. You could sell directly to customers purchasing large orders and use an indirect method for smaller orders.



You should choose more than one distribution channel in order to evaluate the one that works best for your company and the distribution of your product.