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VISUALIZING MARKETING

From Abstract to Intuitive

S. Umit Kucuk

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To Ayten and Halim

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About the Author

S. Umit Kucuk has taught various marketing, consumer behavior and statistics courses at the Univeristy of Washington, Seattle University, Central Washington University and Eastern Washington University, USA. His works appear in *Antitrust Bulletin*, *International Journal of Retail & Distribution Management*, *International Review of Retail, Distribution & Consumer Research*, *Journal of Brand Management*, *Journal of Business Ethics*, *Journal of Business Research*, *Journal of Consumer Affairs*, *Journal of Direct Data and Digital Marketing Practice*, *Journal of Euro-Marketing*, *Journal of International Consumer Marketing*, *Journal of Research in Interactive Marketing*, *Journal of Retailing and Consumer Services*, *Journal of Research for Consumers*, *Marketing Theory* and *Technovation*. He is a winner of the 2010 Citation of Excellence award from *Emerald Management Reviews.* Some of his articles are also ranked in some of these journals' most popular and most downloaded articles lists.

CHAPTER 1

Introduction

Abstract The introduction considers the importance of discussing marketing as a whole and its mix of elements in a more visual way and introduces the idea of "visualizing" marketing data and marketing concepts. This can help eliminate some of the obstacles encountered by teachers of marketing owing to the abstract nature of marketing and consumer behavior theories.

Keywords Marketing · Big data · Visualization of data · Marketing education

For many teachers of marketing, helping students to grasp highly abstract marketing concepts can present something of a challenge. Many use simulation programs and/or marketing metrics in their courses to give students more hands-on, practical experience. The advent of the Internet, however, has made it easy to access and collect data about consumers and market players. This data-rich environment includes tools to develop graphs and figures which can provide more concrete generalizations and understanding of abstract marketing concepts. Although accessing and collecting "big data" is getting easier, many scholars and marketing practitioners find it difficult to know how to approach the enormous amount of data collected in digital spaces and make marketing sense of it. Visualizing and summarizing marketing data in a simple graphical format ultimately enables marketing scholars to make sense of it. Visualizing marketing data

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and marketing concepts can also eliminate many obstacles encountered by teachers of marketing owing to the abstract nature of marketing and consumer behavior theories. I have therefore made a collection of marketing graphics, figures and visual artifacts and analyzed ways in which they open the door to a more concrete marketing world in today's data-rich environments.

I have always found myself drawing graphics or figures on the board to provide practical examples for my students. The reason, in fact, is that marketing is more of a social than a normative science, even though nowadays, with the increasing availability of data, it is beginning to lean more in the direction of normative science. The recent trend towards developing marketing metrics to find causes and effects is a powerful indicator of these attempts to create concise and concrete information. My own solution is to put abstract issues that can become boring and dry into a graphical or visual form so that everybody in the classroom can follow and enjoy the discussion step by step. In fact, I have sometimes found myself using a single graph to explain all manner of concepts related to marketing, enabling me effectively to discuss many integrated and connected abstract subjects all at the same time. This strategy has provoked positive and interested responses from my students, with everybody enjoying discussing abstract marketing concepts in a more concrete and visualized format. The most successful aspect is that many students were able to see the big picture clearly and make the connections between the concepts and other related subjects from disciplines such as economics, psychology, statistics, and econometrics, leading to an increase in the quality of teaching and learning.

This book presents graphics, figures and various visual illustrations that help us to understand the real meaning behind abstract marketing concepts. We begin by discussing what marketing is and the essential elements of the marketing mix known as the "4Ps": product, price, place, and promotion. The elements are then explored one by one with designated graphics and figures in separate chapters. This is followed by a discussion of marketing-mix modeling, illustrating how marketing elements can be used together to create a marketing synergy. The book concludes with a look at how the Internet revolution has transformed the decades-old 4Ps marketing mix into the "4Cs" of digital markets. This final chapter, which can also be conceptualized as an "integrated e-value-creating process", is based on my original article published by professional journal in the field.

This book seeks to provide a new way of looking at marketing!

CHAPTER 2

Marketing and Marketing Mix

Abstract This chapter discusses the definition of marketing as a social science and the role played by the marketing-mix elements in a successful business. The function of marketing and the role of each element in the mix are explored from both social and normative science perspectives.

Keywords Marketing · Marketing mix · Product · Price · Place · Promotion

Although there are various definitions of marketing, the American Marketing Association (AMA) currently defines it as follows:

> *Marketing is the activity, set of institutions, and processes* ***for creating***, ***exchanging***, ***delivering***, *and* ***communicating*** *offerings that have value for customers, clients, partners, and society at large*[1] [emphasis added].

If you look at this definition closely, you will see that the formal definition of marketing basically has four major components:

1. **creating** an offering for consumers
2. **exchanging** the offering at the right value with consumers
3. **delivering** that offering to consumers
4. **communicating** that offering to consumers.

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The 4P elements (product, price, place and promotion) known as the marketing mix are discussed broadly in many marketing courses. Creating an offering is generally conceptualized as "product," exchanging is conceptualized as "pricing," delivering is conceptualized as "place distribution," and finally communicating is discussed as "promotion." Without a consumer who is willing and able to buy the product under the influence of these elements, all marketing efforts will be wasted. Thus, consumers sit at the heart of every marketing activity and marketers try to reach them by combining the elements of the marketing mix. The survival of each marketing-mix element is dependent on its ability to influence and impact the consumer's feelings, thoughts, and behaviors. As in our solar system, the elements spin around consumers for attention, seeking to transform their energy into meaningful and effective marketing responses (see Fig. 2.1). Without the light of consumer demand, the solar system of companies and their marketing cannot exist.

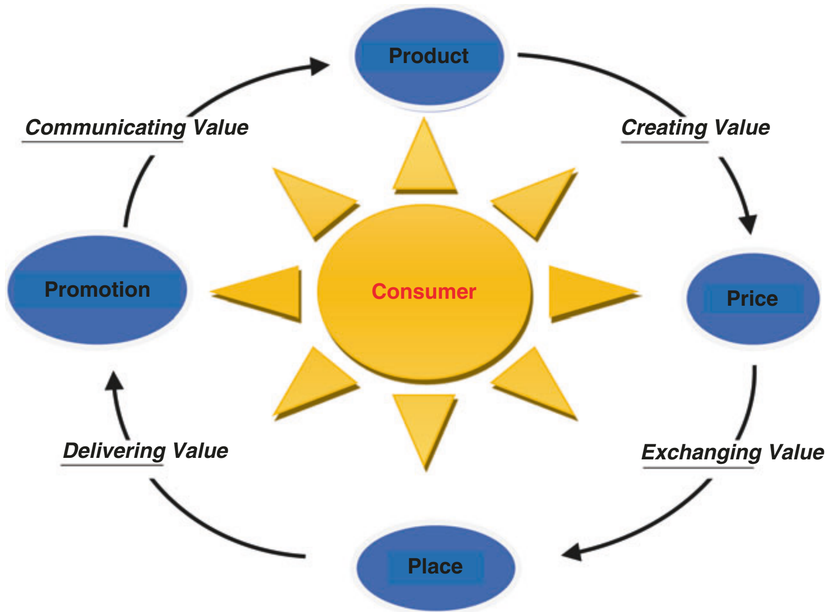

Fig. 2.1 Marketing solar system

The modern consumer-centric marketing approach is conceptualized as **SIVA** (**S**olution, **I**nformation, **V**alue and **A**ccess) by Dev and Shultz (2005) as follows:

Product » Solution
Price » Value
Place » Access
Promotion » Information

If the product or service does not provide solutions to consumers' needs, if promotion fails to convey the necessary information for consumers to make decisions, if pricing fails to give the right value to consumers, and finally if place distribution does not make the product available at the right time and place, and in the right quantity, there is no marketing interaction with consumers. These four must work together harmoniously to create a marketing synergy for long-term success.

Furthermore, although marketing can be defined as a social science, it is easy to find both artistic and scientific approaches in many marketing practices. Increasing efforts to quantify marketing and the development of marketing metrics lead to the important question: "Is marketing art or science?" Understanding the scientific and artistic origins of each element in the marketing mix helps to explain their role in the marketing solar system (see Fig. 2.2).

PRODUCT is a central element. Without a product there can be no pricing, place, or promotion. Thus, entrepreneurial focus and attention is on developing products or services that satisfy consumer needs and wants. From this perspective, scientific findings and innovations could be the starting point of products or services. Scientific or engineering methods are needed to build a product and adjust it to meet the current consumer market. On the other hand, a product also needs a soul and identity in order to better communicate with consumers. That function is carried out by branding. In other words, if the product is the body, the brand is its soul. Without these two, no product will achieve market success and consumer acceptance.

PRICE mostly involves the science of economics and uses theories of modern behavioral economics to explain pricing in different situations that deviates from traditional economic theories. All human beings act on their emotions to make spontaneous decisions once in a while. Thus, price seems more dependent on social science and its methods than on normative science.

PLACE, or the actual distribution of products and services, deals with logistics and problems of space–time optimization. Place can be defined as

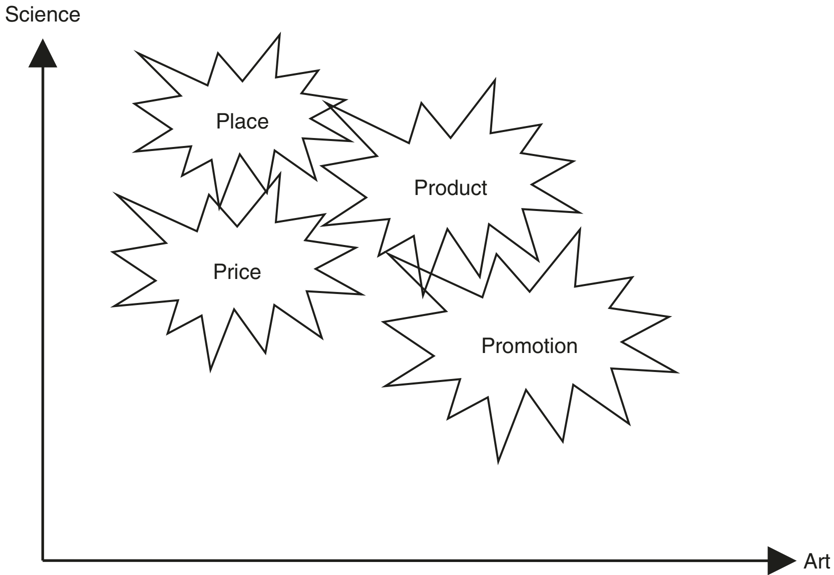

Fig. 2.2 Is marketing art or science?

the silent marketing-mix element as it is highly dependent on the ability of the other 3Ps (product, promotion, and price) to create marketing effects in markets. Previously unknown products cannot create consumer demand if they are in storage. However, place can play a very active role creating demand and market impact for especially frequently purchased products in consumer markets.

PROMOTION focuses on developing appropriate communication with consumers about the company and its products and services. Developing a brand identity that matches consumers' ideal selves can promote their psychological and social wellbeing. Creation of a successful brand identity involves a deep-seated analysis of identity using a wide variety of semiotic, ethnographic, and anthropological methods. Thus, promotion benefits from the disciplines of human psychology and sociology in its use of art and a variety of communication tools.

Although these marketing-mix classifications can help us to better understand the role of these elements in a marketing solar system, we need to discuss each marketing-mix element individually to reveal the real value they provide.

Note

1. http://www.marketingpower.com/aboutama/pages/definitionofmarketing.aspx.

Reference

Dev, C. S., & Schultz, D. E. (2005). In the mix: A customer-focused approach can bring the current marketing mix into the 21st century. *Marketing Management*, *14*(1), 16–22.

CHAPTER 3

Product

Abstract This chapter discusses the product as one of the most important elements in the marketing mix and examines visual representations that have been developed alongside the theory. Figures and graphs of new product development, product launches, product life cycle, and product diffusion and adaptation models are explored. A new perspective on product segmentation is discussed with newly developed visuals. Marketing services and its value elements are also considered along with relevant graphs.

Keywords Product launch · Penetration · Product life cycle · Product diffusion and adaptation · Segmentation and services

Product is the solution to consumers' problems provided by marketers. Product can be categorized into three groups: physical products (goods), services, and ideas. Alternatively, they can be classified as tangibles (physical goods) and intangibles (services and ideas). Every marketing organization provides a mix of tangible and intangible product elements (e.g. Starbucks sells not only coffee but also an experience—café service and atmosphere). Thus, product can provide benefits beyond its psychical appearance or function. The product concept is essential to every marketing effort and all the other marketing-mix elements are shaped with product in mind.

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A successful product results from the metamorphosis of a groundbreaking innovation. Every company is strategically dependent on innovations that have potential to change markets and consumer behaviors. Thus, developing a new product concept implies changing consumer habits. Changing behaviors is challenging, with its potential for adaptation hassle and increased uncertainty. The convenience and usefulness introduced by the innovation should be perceived by consumers as worth trying. In other words, the first priority of the innovation should be to fix consumers' problems while enjoying a competitive advantage over available alternatives in the market.

Although exploring an innovation that has the potential to satisfy consumer needs in markets is one of a company's major goals, this does not mean it should take any financial risk, so transforming a basic innovation into a marketable product requires major cost analysis. The cost of producing a product with various quality options can tie the company's hands. Every marketing manager must keep in mind the balance between three major factors—innovation, cost, and quality—when developing and marketing a new product idea. A balanced relationship between these three elements is at the heart of a strategically well-structured product idea. If the company can achieve this balance, it may be able to develop and launch a successful product.

New Product Development

Every product idea goes through different testing and planning stages: idea stage, concept stage, product development stage, test marketing stage, and commercialization stage. This is also known as the "new product development process." A company obtains product ideas from many different sources. How it screens all the possible ideas to find the right one is a measure of how good the company is at defining and determining future growth areas in the market. Once an appealing product idea is found, the company needs to develop the right product concept and a tentative business plan. If this stage is passed with promises, the company can develop a prototype for testing in the laboratory, and perhaps also with potential consumers. Once the product development stage is passed, the new product can be tested in the market to assess consumer acceptance in real markets. Finally, at the commercialization stage, the new product can be launched in a small market with a specific marketing plan. It can take many years (at least10 and sometimes as many as 30 years) to develop and

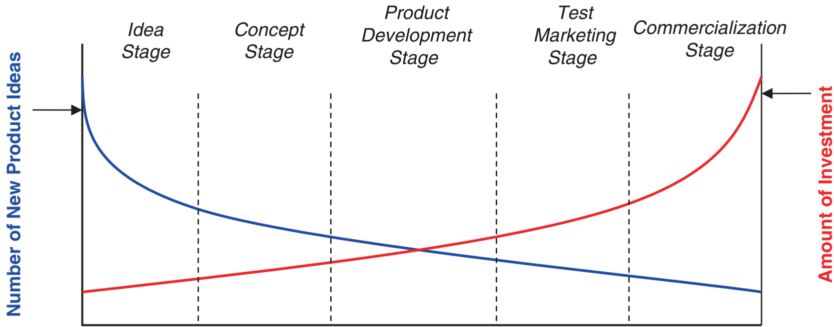


Fig. 3.1 Product development process

Source: Hisrich and Peters (1991)

test new product ideas selected from thousands. The company's investment in a single feasible product idea increases when the idea reaches commercializable marketing entity status (see Fig. 3.1).

At each stage of the new product development process, the company needs to understand the competitiveness of the ideas and innovations, their compatibility with future marketing activities, and production costs for various quality levels, screening and eliminating anything inappropriate. If the company cannot find or develop the right fit needed and demanded by markets, the new product development process ends in failure. In reality, new product failure rates are very high (80% to 90% in some industries). If marketing mistakes are made during and after the new product development stages, few ideas can be adapted by consumers, so the new product may be stillborn. The lack of marketing planning at both the product development and product launch stages can eventually shorten the life of the product.

Product Launch

The success of a new product is determined by how fast it is launched and delivered for consumption. Successful products penetrate their markets at an early stage without loss of time. In other words, market penetration ratios can be used as an early indicator of the success or failure of product deployment. Figure 3.2 shows the relationship between product launch

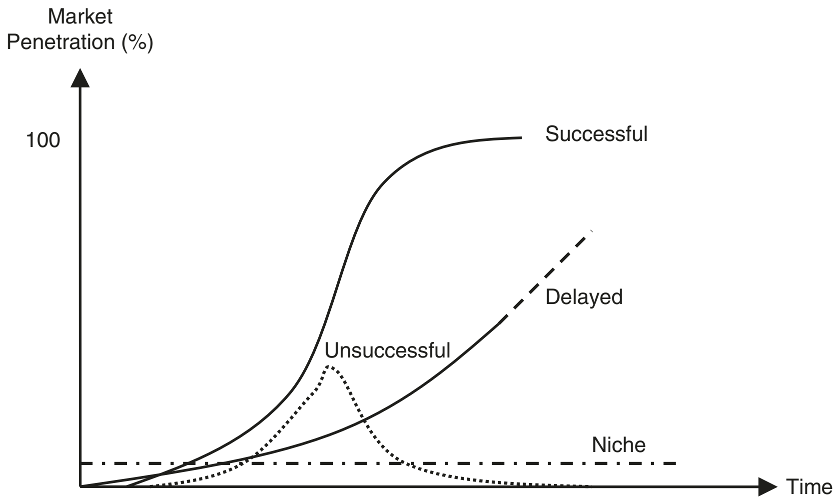


Fig. 3.2 Product launch and market penetration

Source: Schwarze and Thomas Wein (2005)

and market penetration ratios for the automobile industry. Market penetration is the percentage of the market that bought the product at least once. In other words, penetration indicates how many consumers have been reached but does not consider how many and how often those consumers have bought from you. Penetration rates are important as they provide an indication of initial consumer interest and who wants to try the product in the first instance.

If a company achieves high penetration numbers, it means that the number of consumers who have bought from the company is relatively higher than from competitors. If the product is tried by all consumers in the market, the company reaches 100% penetration and can be considered to have very successfully launched the new product (indicated by the straight "successful" line in Fig. 3.2). But this is not the case all the time. Sometimes it takes time, perhaps a decade in the automoile industry, to reach a high level of penetration. Delays in reaching high penetration rates can directly affect product life. Most unsuccessful products might reach average penetration numbers of perhaps 30% or 40%, then decrease sharply (as indicated by the dotted "unsuccessful" line in Fig. 3.2). This means that the product reached

a limited number of consumers, and most of the remaining consumers did not even give it a try. In some situations, market penetration remains very low (5% to 10%) over a long period. This is an indicator that the product is only accepted by a limited number of consumers. It can indicate a niche market, since it has not totally disappeared from the market. The idea is to reach the market in a short time once the new product development process is completed or before anybody else can corner the market. Sometimes product development and market penetration overlap if most of the marketing activities start before the product launch (Roberston 1993). Although the time to market can vary depending on many other external factors, companies do not want to waste time, especially in highly competitive and technologically challenging product markets.

Companies therefore need to develop diagnostic systems that can show penetration levels at an early stage of the product launch. "Trial and repeat" purchases are needed to secure penetration and long-term sales volumes, especially for convenience goods.

Two important factors impact product trials and hence product penetration levels: consumer awareness and attitudes. If consumers are not aware the product is available they cannot buy it. However, even if consumer awareness levels are high, there is no guarantee that consumers will buy the product. The company needs to create positive consumer attitudes towards the product, transforming product awareness into a trial or purchase decision. In the early stages of product launch, consumer awareness and positive attitudes can be established with strong advertising campaigns that stimulate consumer trials. If a company (especially in frequently purchased product markets) is unable to convert the high level of product awareness and attitudes into a product trial, its results will be unexpected.

Even if the company successfully convinces consumers to try its products, the next problem is how to convert early trials into repeat purchases to secure long-lasting sales. Even if the company reaches relatively significant awareness and trial levels but consumers are not coming back to purchase the product again, there will be fewer or no future sales, meaning the product is likely to die shortly after the launch. Thus, consumers' repeat purchases (also called "behavioral brand loyalty") will determine the company's future especially in frequently purchased product markets, once the awareness and trial successes are accomplished. However, it takes some time to develop consumer habits and hence repeat purchase behaviors. As Fig. 3.3 shows, trial and repeat purchases shape the future of a new product and its sales success.

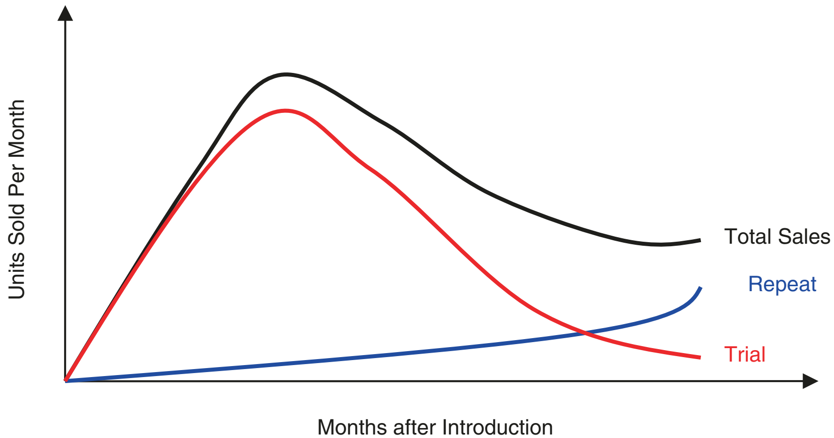


Fig. 3.3 Sales patterns for trial, repeat, and total sales
Source: Urban and Hauser (1993)

In this context, trial (or penetration) and repeat purchases are major early indicators of how the future will unfold for the new product. These two diagnostic measures also indicate if the success of the product comes from good promotion and marketing efforts (trial) or from a good product or consumer satisfaction (repeat) (Urban and Hauser 1993). The bottom line is that if the company is unable to convert these early trials into repeat purchases, the future of the product will be in jeopardy. The company should find ways of increasing trial or penetration numbers and then converting high trial and product awareness numbers into long-lasting consumer repeat purchases by providing satisfactory shopping experiences.

Product Diffusion

Buying a totally new product brings with it some risks for consumers, and not everybody wants to try new things at the outset. Every consumer has a different level of risk-taking reserves when making purchasing decisions about new products. Some consumers are more willing to try new things than others; some prefer to wait and see if the product performs well and receives good reviews from fellow consumers and third parties. Every

consumer has a different pace and way of adopting an innovation or a new or a newly developed product, and this also depends on the characteristics of the product (e.g., the perceived risks of buying a new car and buying a candy are very different). The well-known bell-shaped "diffusion models" described by Rogers (1962; 1983) define five different consumer types based on their risk-taking styles and personality features.

Early consumers who are keen to try the new product are called "*innovators.*" These consumers are generally highly educated, knowledgeable, adventurous individuals who enjoy a high income, are willing to try new things, believe in an alternative lifestyle, and are therefore willing to take high risks. (Rogers (1962; 1983) suggests 2.5% of adopters are innovators.) The success of product diffusion is highly dependent on innovators. Marketers' main challenge, in this context, is to attract innovators and differentiate between innovators and non-innovators so they can direct their marketing efforts towards those who can bring life to a struggling product in its early days. Because innovators are also sensitive and vulnerable to competing new products, it is very important to attract their attention and continuing business. This means reaching an increasing number of innovator consumers and raising repeat purchases so that the product can easily be penetrate into markets for a long-standing market presence.

However, *innovators* should not be considered the only adopters of the innovation. Once the product is accepted by innovators, "*early adopters*" who are social leaders and above-average consumers can be attracted by the product (13.5% of adopters according to Rogers 1962; 1983). Early adopters cautiously follow innovators, and once they perceive a future for the product, they want to be the first to introduce it to their social group. Early adopters are the first big crowd to try the product. Thus, they can be actively used to improve the new product on its way. Later, the product becomes attractive to consumers called the "*early majority*" who are more deliberate and have average levels of education (on average 34% of the adopters according to Rogers 1962; 1983). Innovators and early adopters are influenced by the product's performance and originality, with price a secondary consideration. The "*late majority,*" who are more skeptical and have lower than average levels of education, start to use the product mostly as a status symbol (on average 34% of adopters according to Rogers 1962; 1983). This may be the point where the product begins the maturity stage of its life cycle, meaning that it is widely available in the market and some level of positive awareness has been established through

consumer experience. With the product in widespread use in markets by the different types of consumers described above, the company can now achieve economies of scale, so prices can start to go down. Once the late majority has been attracted, the final consumer group who are called "*laggards*" start to enter the market. Laggards are generally very fearful about trying new things and only trust their close in-groups as a source of information (on average 16% of all adopters according to Rogers 1962; 1983). These consumers generally appear as the product is starting to die as its price falls dramatically, so there is less financial risk to buying it. The bell-shaped diffusion model curve is shown in the blue lines of Fig. 3.4.

The company's success in launching its product will therefore mostly depend on its ability to find and attract innovators and early adopters, crossing the chasm to reach a healthy sales growth. "Crossing the chasm"[1]

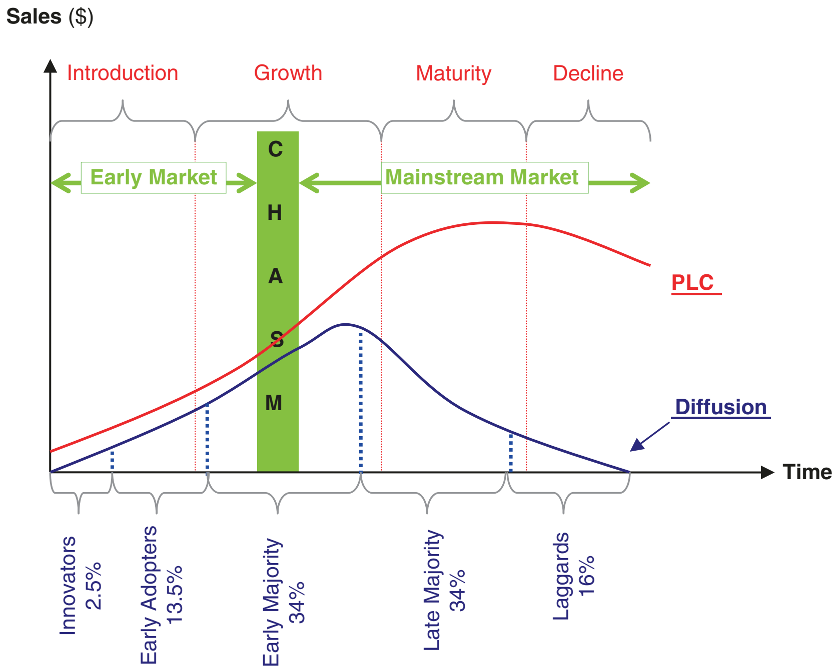


Fig. 3.4 Product diffusion and product life cycle

is highly dependent, first on the company's success in stimulating enthusiastic and visionary consumers in order to establish an "early market," and then on its ability to attract the early majority, late majority and laggards who define its "mainstream market" as indicated by the green lines in Fig. 3.4. Without the development of an early market in the early stages of the product launch and introduction, the company is unable to reach the mainstream market and cannot therefore achieve market continuity. This, in turn, shortens the product's life.

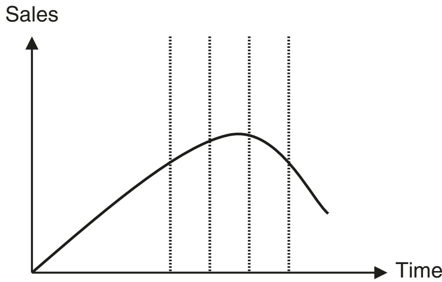
Product Life Cycle (PLC)

Products have a life: they are born, grow, reach a peak, and die. This biological concept of the life and death of organisms is well structured in product marketing applications with the product life cycle (PLC) conceptualization. Every product or service is first invented and introduced to the market (the introduction). If the product is successful, it grows by generating sales for the company (growth) and then reaches maturity (maturity). When the sales and especially profit generated by the product start to fall, the product ends its life (decline). The product's life is highly dependent on making the right marketing decisions at every stage of its life, as illustrated by the red lines in Fig. 3.4. The product's life will eventually be determined by its ability to generate more sales and hence profit, which is also related to the diffusion model described above. Companies need to focus on innovators and early adopters when first launching new products on the market. Most sales eventually come from the early majority and late majority in the growth and maturity stages as indicated in Fig. 3.4. In decline, the focus is on laggards. Product diffusion models based on consumer risk-taking and adoption behaviors provide marketers with a market segmentation approach through the PLC.

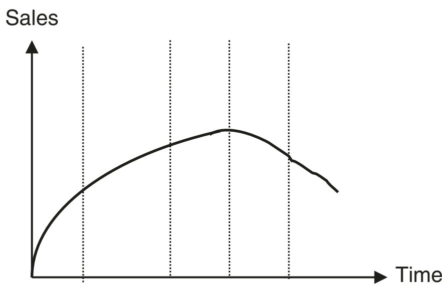
During the introduction stage, profit is negative because of the high investment costs for innovation and development (see Fig. 3.1). At this stage, however, the most important strategic marketing focus should be creating consumer awareness. Once the product starts to maximize sales capacity by reaching the early majority, it crosses the chasm to achieve growth level and the profit starts to soar. This is the stage where every product wants to stay as long as possible. Such growth will eventually attract competitors. There will always be newcomers in the product market, which can become dominated by fierce competition. At the growth

stage, therefore, the company marketing strategy should focus on product differentiation. When the product reaches the maturity stage, many other companies will be producing the same or a similar product, using the same technology, so demand eventually slows down, with a consequent reduction in sales numbers and shrinking profit margins. The company should focus on product availability in addition to product differentiation to remain ahead of the increasing competition. This also might be the right time for the company to introduce a new product in the same line to extend the life of its product. As the product is slowly approaching the end of its life, selling becomes more important. After the maturity stage, sales and profit slow down and the product moves into the decline stage (see Fig. 3.4). The product gets old as new innovations, models, and products on the market become more popular. Thus the company needs to follow innovations and new development closely to secure the long-lasting profitability of its own product. If incumbents come up with a better new technology, they eventually gain a competitive advantage over the company's product. When consumers begin to think that the company's product is not performing well compared to new products introduced by its competitors, our company's competitiveness will be limited and it will consider discontinuing its product. In this decline stage, the company should focus on providing best value by lowering price, and on getting rid of extra inventory costs created by lost sales by adjusting the dying product's price. At this stage, value adjustment is at the heart of marketing strategies. During the maturity and decline stages, the company needs to start developing the next generation of products using the feedback gained from mainstream markets (see Fig. 3.4).

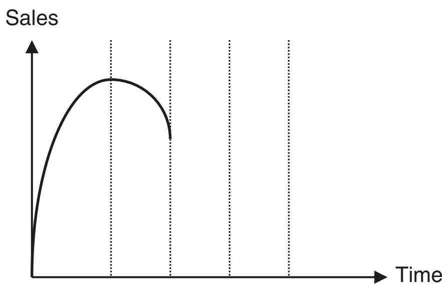
However, it is important to emphasize that every product follows a different path and has its own unique PLC. Some products stay in the market longer than others and are readily accepted by consumers; others require extra consumer learning. Technologically complex products such as consumer electronics require more sales support and consumers need more time to adapt to the new product in order to enjoy its suggested benefits, so their introduction stages last longer (see the first graph in Fig. 3.5). For new convenience or frequently purchased products, on the other hand, consumers need less help to understand their quality and value, so their introduction stage can be shorter (see the second graph in Fig. 3.5). Products that are essentially a fad, which includes many fashion items, only have an introduction and decline (see the third graph in



Technological products such as home electronics require a long period of learning how to use the product, etc. Thus, introduction generally is longer than for other products.



Frequently purchase products or daily shopping items as they dont require advance learning of the product. A short introduction period and easily adapted product such as a new shaving razor.



Fad products such as most Halloween costumes. Easily and immediately adapted by consumers but after usage product dies so quickly. Strong initial demand and then sharp drop-off in product demand.

Fig. 3.5 Various product life cycle patterns

Fig. 3.5). They grow very fast at the introduction stage and die quickly without showing any real growth and maturity stages.

Every product's life should be predicted so that the company can determine its product development and hence product line extension schedules. Once the company knows when products will start declining

and dying, they can easily determine the best time to introduce new products to extend the product's life cycle in a bid to reach sustainable sales and profitability. If this is not achieved, the company's life will be short as well.

Product Life Extension

Deciding when and how to extend the product's life is of paramount importance as it directly affects the company's competitiveness in consumer markets. The development of product technology during the growth stage of the PLC will eventually help the company to create second-generation product technology and gain more competitiveness over newcomers to the market. The ability to generate second-generation products creates continuity, sustainability, and strong presence in markets. Discontinuity creates disruption and changes consumer behaviors to the advantage of superior products. Thus, the company's presence will be directly linked to the second-generation products' performance, which itself is ultimately dependent on the company's continuous innovativeness and ability to develop new technology while older products are being consumed. This continuity and its importance are described and illustrated by Christensen (1992) as "technology S-curves."

As Fig. 3.6 shows, the company needs to pass the discontinuity stage or paradigm shift quickly without opening the door to new competitors. During this shift, the company needs to re-evaluate both its own and competitors' product competitiveness. Most products' lives are shortened if they do not maximize quality and reliability while minimizing costs during consumption. It can be suggested that the company should start planning second-generation products as early as the growth stage in order to jump ahead of potential future competition without discontinuity. The fact that it is at the growth stage that companies start implementing product differentiation strategies as a result of increasing new entrants to the market, can help companies to shape their product line. At this stage, the company can eventually enlarge its product line by adding new versions of the product to the mix. Potential product problems during the introduction stage are also fixed by the growth stage, providing the company with a clearer and better outlook for the future of the product.

The company's main concern is to find a way to extend the product's life so it can reach continuity. If the company fails to consider new product development, the experience, benefits, and market share gained as a result

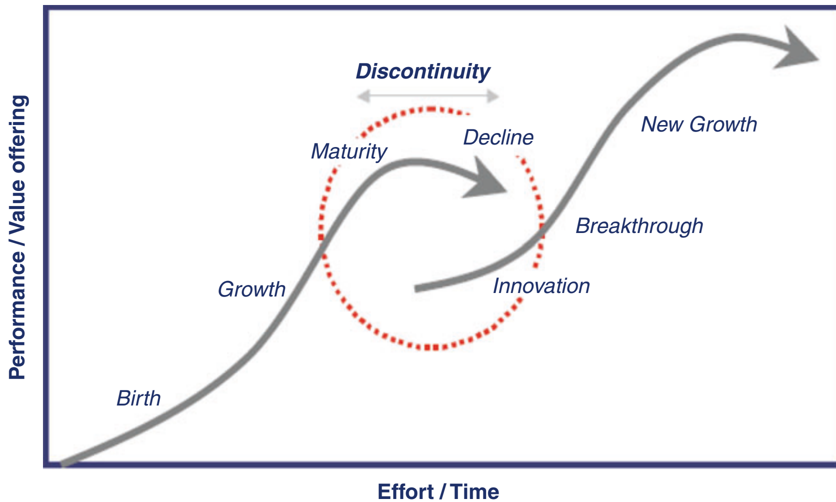


Fig. 3.6 Innovation discontinuity and competitiveness

Source: http://facadetreatments.blogspot.com/2010/11/life-cycle-of-blog.html#links

https://gongos.com/tl/how-disruptions-are-born-and-how-it-applies-to-the-market-research-discipline/

Source: http://innovisio.blogspot.com/2012/12/capturing-opportunity-indisruption.html

of previous marketing efforts will all be wasted. Continuous product modification lies at the heart of product life extension. A new version or newly developed product is introduced to the market when the old product is declining and sales numbers pick up where they left off with the old product. When the company introduces new versions of the old product in a sequential order, it can achieve a system of constant product development known as "generational replacement" (Lilien et al. 1992). The goal is to reach continuous and sustainable profitability by modifying the product in parallel with changing market needs and thus extending its life every step of the way. These kinds of product life cycles are especially common in electronic markets as new, improved versions of electronic products continue to flood the market.

Alternatively, the company might prefer to modify the market rather than the product. When the product reaches decline, the company can

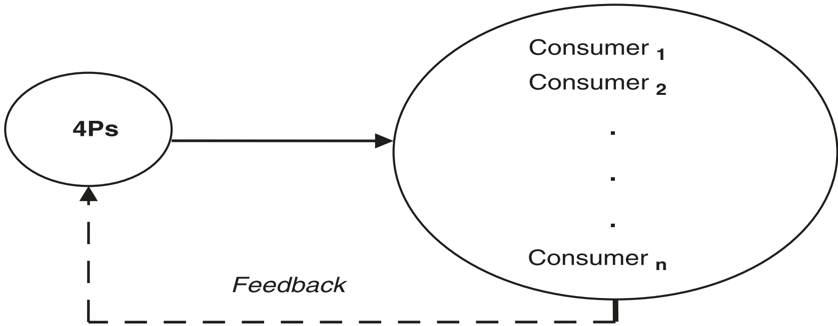
introduce the same product to a market where it is new or can be perceived as new. This is called market modification. The goal is to find a market where the product has not previously been introduced; it is still new to this market so it can go through the PLC stages, still generate a profit and continue the circle. This strategy is widely used in international markets. The product is exported to a country where it is indeed a new product or is seen as a new product. Another strategy is to find other uses of the product, creating a new market (e.g., a bicycle could be used as a recreational vehicle in tourist locations while remaining a main method of transport in big cities in another country or region). This could also be conceptualized as "usage modification." A company that can group consumers' different types of usage and expectations of the product can use these data to help reach sales and profit maximization.

Product Segmentation

The purpose of segmentation is to split consumers into similar and homogeneous groups. If there are consumption similarities among consumers, it can be assumed that they will also respond in a similar way to the 4P elements. Thus, if marketers can find similarities among consumers and develop 4P combinations appropriate for each consumer group, the company should theoretically receive similar responses to these combinations within each consumer group. This is called "product segmentation." In other words, if a group of consumers is more responsive to price changes than to promotion campaigns, the company needs to focus on pricing rather than promotion. Thus, the major advantage of segmentation is to reduce unnecessary use of marketing-mix elements by splitting consumers into homogeneous groups according to their responses to these elements. The assumption behind the product segmentation approach is that all the consumers in the product segments are equal in terms of the specific segmentation or splitting factor (see the first graph of Fig. 3.7).

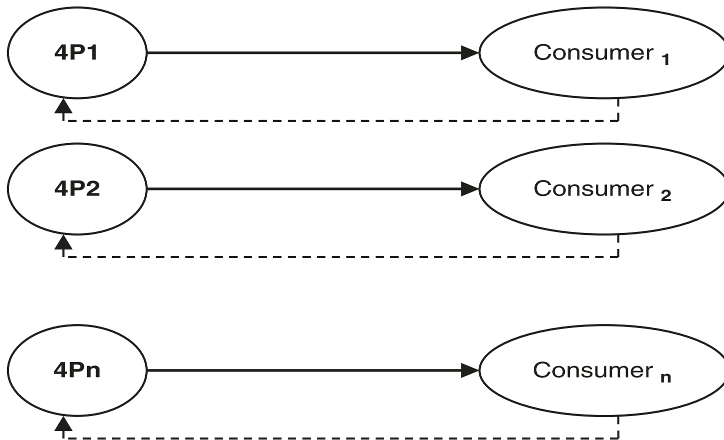
However, changes in marketing, with internet technology empowering each consumer to voice their specific tastes and needs, have shown that each consumer should, in fact, be regarded as a single segment. The major assumption is that in the digital markets, each consumer is unique in terms of any segmentation factors, and hence each consumer should be treated with a distinct mix of the marketing elements to maximize consumer engagement and response to each

Traditional Product Segmentation



Assumption: Consumer $_1$ = Consumer $_2$ = …= Consumer $_n$

New Product Segmentation



Assumption: Consumer $_1$ ≠ Consumer $_2$ ≠… ≠ Consumer $_n$

Fig. 3.7 Traditional and new product segmentations

element of the 4Ps. This, in turn, maximizes the marketing returns as shown in the "new product segmentation" graph in Fig. 3.7.

In new product segmentation philosophy, the individual consumer's feedback is valued more highly in the company's marketing strategies, indicating a new shift in today's marketing from market valuation based on product segmentation to consumer valuation. New product segmentation is successful because of the continuous flow of feedback and information from consumers in real time. In traditional product segmentation, it is not clear how much an individual consumer has actually been influenced by specific marketing efforts, as feedback from consumer segments where all consumers are assumed to be equal in terms of the specific segmentation factor takes a really long time. It is much easier for the company to develop a relationship with a single consumer and segment—which eventually increases the value of a consumer rather than a segment (see Fig. 3.8).

In traditional product segmentation, segmentation value is measured by a group of consumers' willingness to purchase the products through discrete time periods (see the first figure of Fig. 3.8). With the digital revolution, consumer value becomes more important than segment value as companies can easily establish continuous individualized interactions with consumers. Consumer feedback is collected easily and instantly, so companies need to interact with consumers continuously to provide a real-time solution to each consumer. Because of the increasing intensity and

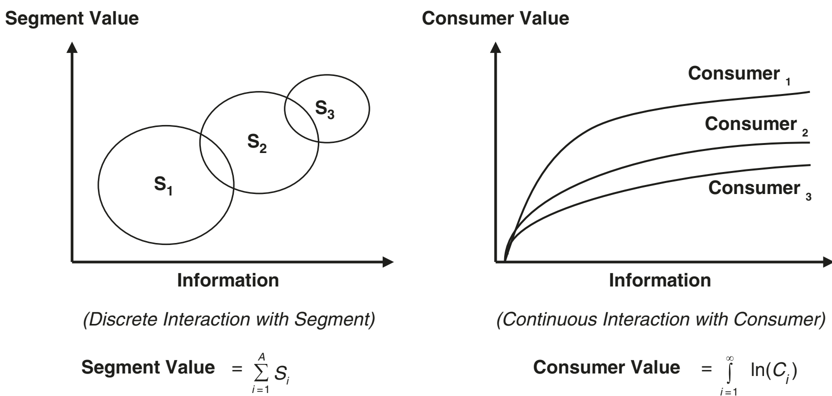


Fig. 3.8 Segment and consumer value comparison

number of consumer interactions, companies need to value each consumer so that they can use their 4P elements efficiently and effectively. This shift from group segment to individual segment has actually created a new marketing concept, "consumer life-time value." Each consumer's willingness to spend with the company during a time period is calculated and consumers are rewarded accordingly. The traditional market format is represented by a discrete mathematical series, while today's consumer value-based segmentation approaches are represented by consumer interaction integral function (see Fig. 3.8).

Services

Although product has been discussed as a physical product in previous sections, product can also be services or ideas, or general intangible entities. In fact, most products are a combination of both physical product and services. This, in turn, makes it difficult to determine how much a product gains its value from tangible or intangible elements. It is important to determine the tangibility/intangibility features of a product as this evaluation will eventually determine the building of appropriate value elements with the right marketing strategy to attract and influence consumer decisions. If a product has more tangible than intangible features, it is defined as a "good-dominant product" (e.g., a car); otherwise it is a "service-dominant product" (such as nursing or teaching) as pictured in Fig. 3.9. But what about a café? Is it a good-dominant or service-dominant product? It is difficult to answer this question as services and the physical features of products can be of almost equal importance in evaluating the product and its quality.

It can be easier to evaluate the quality of physical goods such as t-shirts, jeans, etc. This, in turn, is conceptualized as "search quality," as it is easy to assess product quality before consumption. However, because services are generally produced and consumed at the same time, it is almost impossible to assess the service's quality unless the consumer has previous experience of the product. For example, the consumer cannot assess the quality of a meal in a restaurant unless they have eaten at the very same restaurant. This is called "experience quality" (see Fig. 3.9). On the other hand, there are some products that consumers cannot assess for quality even after purchase. A patient cannot necessarily know how well his kidney surgery went as most patients/consumers lack appropriate knowledge and experience. This is conceptualized as "credence quality." The harder it is

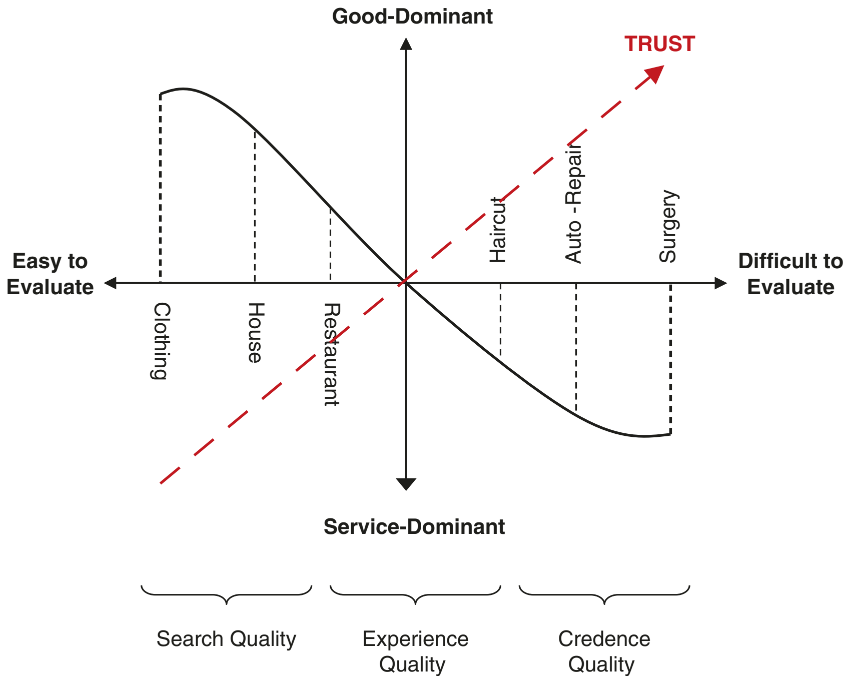


Fig. 3.9 Evaluation of goods and services

Source: Inspired by Zeithaml (1991)

to evaluate product and service qualities, the more important it is to develop trust-building relationships between consumer and service provider. If you are having surgery, you want to make sure that you are in the right hands. If a product/service is higher in search qualities, consumer trust in the service provider can be very limited. But, where the product/service ranks highly on experience and credence qualities, consumers demand a trusting relationship with service providers. Trust-building communications with consumers in these situations help to eliminate the risks perceived as inherent in the tangible nature of services. Most of the time, the company's services are directly associated with a service provider. In other words, the service provider's (or employee's) ability to deliver the promised service experiences successfully will determine consumer satisfaction. This, in turn, increases the importance of "internal marketing," or

additional marketing efforts targeting employees so that they can better represent the company to consumers.

Marketing success and consumer satisfaction can only be achieved by service providers who know how to utilize the intangible and tangible features of products in their marketing strategies.

Consumers will stay with the company as long as they receive exceptional (unordinary) and satisfactory treatment. In other words, satisfied consumers will remain loyal to the company. Service providers desperately need to create consumer loyalty on both attitudinal and behavioral levels by delivering satisfactory service experiences to consumers.

Research has revealed that a 5% increase in consumer loyalty in some industries may lead to an increase in profit from 25% to 85% (Reichheld and Sasser 1990). Although consumers rating the service 'satisfactory' feel more loyal to the service provider, the proportion jumps exponentially to a 100% loyalty level when the satisfaction is higher than that (Heskett et al. 1994). Consumers who are extremely dissatisfied with the service provider do not hesitate to voice their dissatisfaction and can create a negative attitude towards the company in the market. Thus, service providers should make every effort to create "apostle consumers" (very satisfied, thus very loyal, consumers). When consumer satisfaction is at low or medium levels, consumer loyalty can also suffer. Ultimate loyalty, or "ultimate satisfaction" and marketing success in the services market is achieved when only very satisfactory service and experience is provided to consumers. In short, a moderate level of consumer satisfaction is no longer enough in today's digital markets where every little point of dissatisfaction can be read by millions.

Note

1. Moore (1991).

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CHAPTER 4

Price

Abstract This chapter discusses pricing from the perspectives of demand, cost, and perception. The classical economics concepts of demand revenue curves and price demand elasticity are explored. Break-even pricing and its elements are introduced. Many of the marketer-created perceptional pricing approaches and concepts such as value pricing, price lining, price skimming, and price penetration strategies are discussed from the consumer behavioral point of view with related visuals that have been developed in the theory.

Keywords Market pricing · Production costs · Demand · Price elasticity · Price perception · Price skimming · Penetration pricing

Price is the main exchange medium in any transaction. There can be no exchange without the right price. Moreover, price is strategically the most flexible marketing-mix element. Put simply, you can easily change the price any time you like, but you cannot change your product, promotion and/or branding strategy, distribution, or product availability overnight. Thus, price is one of the most competitive marketing tools among all marketing-mix elements. Ultimately, it is the only one that can generate revenue and hence borrows some essential conceptualizations from economics literature.

Three important factors directly and indirectly impact price and pricing decisions: demand for the product; the cost of manufacturing the product and the market structure; and consumers' perception of the value elements of the product compared to other alternatives available in the market.

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S.U. Kucuk, *Visualizing Marketing*,
DOI 10.1007/978-3-319-48027-5_4

Classical economics discusses price as the main exchange element of value and assumes that all consumers makes rational decisions and prefer the cheaper products to maximize their benefits. In other words, classical economics does not recognize emotional and spontaneous decision-making processes. On the other hand, marketing theory, influenced by psychology and sociology, assumes perception of product benefits and/or value elements, and hence decisions, can also vary from consumer to consumer and may be spontaneous and emotional. Thus, in marketing theory, price can be defined as many interacting elements in a functional form as follows:

$$\text{Price} = f[\text{Demand}, \text{Cost}, \text{Value Perception}]$$

The following sections will address pricing elements individually.

Demand-based Pricing

Every pricing exploration in classical economics starts with demand analysis. Without knowing consumer demand for a product at various price levels, no business can calculate future revenue and profit streams that could be detrimental to its existence. This basic optimization process tells the company the pricing levels that will maximize its revenue. One of the common ways to calculate revenue uses the product's demand curve. The company's revenue can change dramatically at different price levels as the quantity demanded will vary accordingly. This is pictured in the first graph of Fig. 4.1.

In Fig. 4.1, various prices and quantities are indicated by the letters A, B, and C. In general, the higher the product's price, the lower the demand (A), as indicated on the Quantity axis. On the other hand, if the product is priced lower, the demand rises (C) as everybody wants to benefit from the value created by the lower-priced product. Companies try to determine the best price throughout the price–quantity continuum (from A to C). In this context, the company should pick the price or price ranges where the revenue is maximized [Revenue = (Price) × (Quantity)]. The company's revenue streams can easily be derived from the demand curve. The revenue curve, as indicated in the second graph of Fig. 4.1, can be calculated. The second graph shows a concave down curve (second-degree polynomial) with a maximum point (B). It is clear from this graph that the company's revenue reaches the highest point at price level B.

The same results can be found using marginal analysis. This analysis helps us to calculate marginal revenue (MR), which is the change in revenue

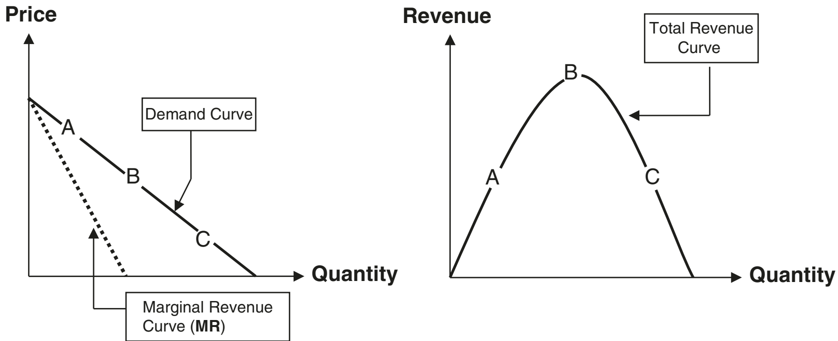

Fig. 4.1 Demand and revenue curves

derived from selling one additional unit at a specific price level. MR can be calculated by taking the derivatives of the second degree of the polynomial revenue curve shown in the second graph of Fig. 4.1. Derivation of the revenue curve eventually gives us another linear line of a similar shape to the demand curve. Thus, if a demand equation (with a negative slope) can be defined as $P = a - b * Q$, the MR line will be $P = a - 2bQ$. In other words, the MR equation has the same intercept as the firm's price equation and twice the slope, as shown by the dotted lines in the first graph of Fig. 4.1. This economic generalization is especially useful for calculating the profit maximization price and pricing levels in marketing.

The company's exchange value can also be determined by examining the interactions between supply and demand in markets. In general terms, supply represents "seller" or "company," while demand represents "consumer" in these kinds of analysis. The interplay between supply and demand eventually sets the product's exchange value in markets where sellers and buyers agree. In other words, price is used as a communication tool. While the buyer or consumer signals their willingness to pay, the seller signals the value of the offerings and their willingness to sell.[1] As a result of this negotiation and bargaining, markets determine the true value of products.

If a product is produced in a smaller quantity than demanded, its price will eventually be higher than expected. The scarcity of the demanded product eventually increases its price. On the other hand, if a greater quantity is produced than is needed or demanded in the market, consumers have more and cheaper options available everywhere in the market, eventually making it difficult to sell the product and hence lowering the

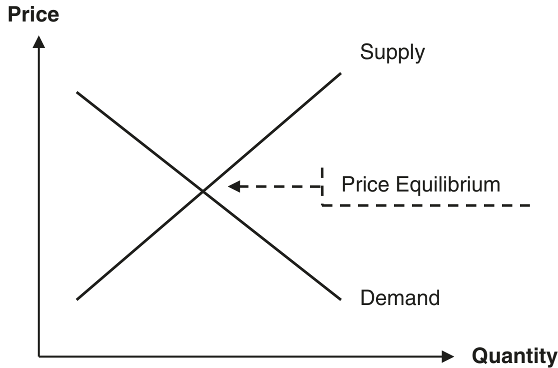

Fig. 4.2 Demand-supply and price equilibrium

price in the market. Market price reaches equilibrium when supply and demand intercept as pictured in Fig. 4.2.

In other words, market determines the price based on consumer demand and availability of the product in the market, or supply. Companies prefer to operate around the market price equilibrium to attract the right number of consumers. If a company sets its price higher than the price equilibrium, most consumers prefer not to buy it as there are more alternatives available at lower price levels in the market. If the product is not sold because of the higher prices, there will be more products available in the markets (this is called a supply surplus). On the other hand, if a company sets the price lower than the price equilibrium, most consumers will go to this lower price because they profit from the transaction (consumer surplus). Thus the company needs to set its price around price equilibrium so that its loss will be minimized for a long-standing presence in the market.

Another way to determine the product price is by looking at price demand elasticity. Price elasticity tells you how much you can or need to change the price without disturbing consumer demand. In other words, price elasticity (E_p) shows how responsive demand is to price changes; hence it can be said to measure the sensitivity of quantity to price. This, mathematically, can be formulated as follows (where E_p refers to price elasticity):

$$E_P = [\%\ Change\ Q]/[\%\ Change\ P] = [\Delta Q/Q]/[\Delta P/P]$$

As explained in Fig. 4.1, price and quantity are negatively correlated, thus price elasticity always comes out as a negative. But, in general, elasticity is referred to without a negative sign in the industry, thus it is wise to use the absolute value of elasticity in formulations as follows:

$$\text{If } |E_p| > 1 \text{ demand is elastic}$$
$$\text{If } |E_p| < 1 \text{ demand is inelastic}$$
$$\text{If } E_p = 1 \text{ demand is unitary elastic}$$

Thus, if quantity demanded changes more than price changes, the price elasticity of demand can be said to be elastic. On the other hand, if quantity changes less than price changes, it can be said that consumers are insensitive to price changes thus price is inelastic. Finally, if the price change and quantity change is at the same level, the price elasticity equals one and it is called unitary elastic. The various price elasticities are shown in Fig. 4.3.

As illustrated in Fig. 4.3, the demand's price elasticity is inelastic between points B and C as a price increase from P_2 to P_3 does not make too big a difference to the quantity demanded; between points C and D as the price increases from P_1 to P_2 it makes a big difference to the quantity demanded. Demand is infinitely inelastic between points A and B (where $E_p = 0$); and finally, it is infinitely elastic between points D and E (where $E_p = \infty$). At the infinite elasticity level, the company cannot influence the price, whereas the opposite is true in the infinitely inelastic range.

From the marketing point of view, if the company can find where the price is inelastic, then it can increase the price to the limits of elasticity so that it can maximize its profits. In other words, price-inelastic consumers are still willing to buy the product even though the price has increased, which in turn increases the company's profit. Thus, to make a pricing decision that will maximize profit, the company needs to determine the price levels at which elasticity is high and low. This approach, in fact, can help the company to develop a segmentation strategy based on price elasticity. Furthermore, the product features can influence price elasticity. If there are more substitutes for the product in markets, it may increase consumers' price sensitivity and hence the price elasticity as consumers can easily replace the product with near-substitutes. On the other hand, a product that requires complements can have price elasticity as the demand for the product depends on the complementary products. For example, the iPhone has low price elasticity as there are many applications required

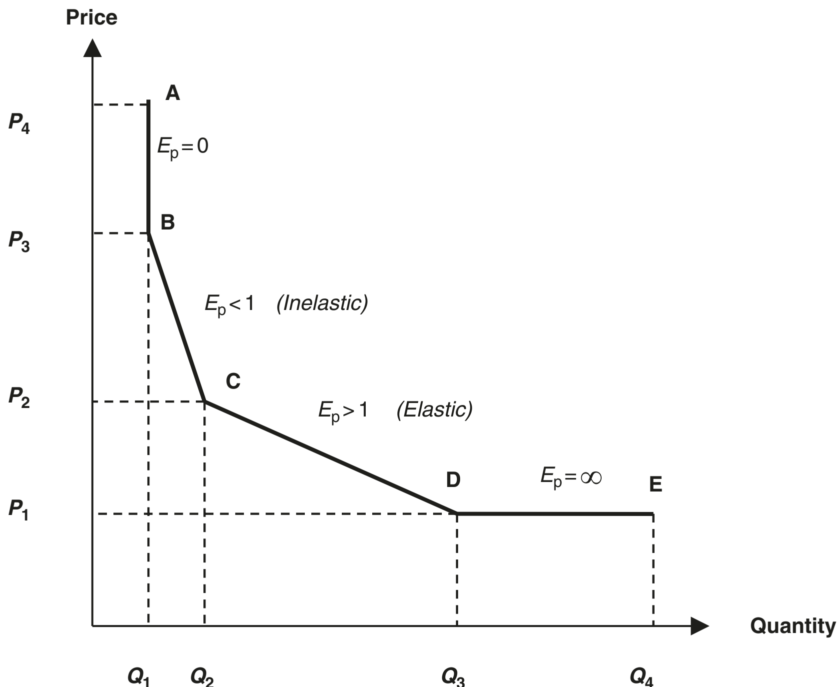

Fig. 4.3 Price elasticity

to run in the phone in order to reach efficiency. Thus, if the iPhone's price increases, users are less likely to switch to another brand because all the information is stored in the complementary apps.[2] That eventually keeps the iPhone price inelastic, enabling Apple to easily maximize its profits.

A company's price changes influence not only consumers' decisions but also other companies' sales. In general, when substitute products are in price competition (such as McDonald's and Burger King), a price change at McDonald's might also influence demand at Burger King as these two close substitutes compete in the same market. This is called cross-price elasticity. If a company only measures the price elasticity of its own product, it will miss out on competitive reactions and their impacts on price changes. Thus, cross-price elasticity helps a company understand possible changes in competitors' demand structure as well as market

share. This elasticity measure could also be used to understand the level of price competition in the market.

Similarly, among all the various price elasticity measures, a company can use *residual price elasticity* which takes all the potential changes into account. The residual price elasticity is the combination of the *regular price elasticity* measure (or the company's own price elasticity), *cross-price elasticity*, and finally *competitive reaction elasticity*, which takes account of competitors' reactions to the company's price changes. The calculation of the residual elasticity is also illustrated in Fig. 4.4.

Residual elasticity, in this context, helps marketing managers to understand potential price changes in the markets. Residual price elasticity is the most realistic elasticity measure as it is the combination of all the major market competitiveness measures. Moreover, it is a strong indicator of competitive reactions in the markets.

Overall, price elasticity can change as a result of the availability of substitute and complementary products in the market as well as product durability and the availability of other products. In short, any influences that sit at the heart of consumers' product or brand switching and searching behaviors eventually affect price and demand elasticity.

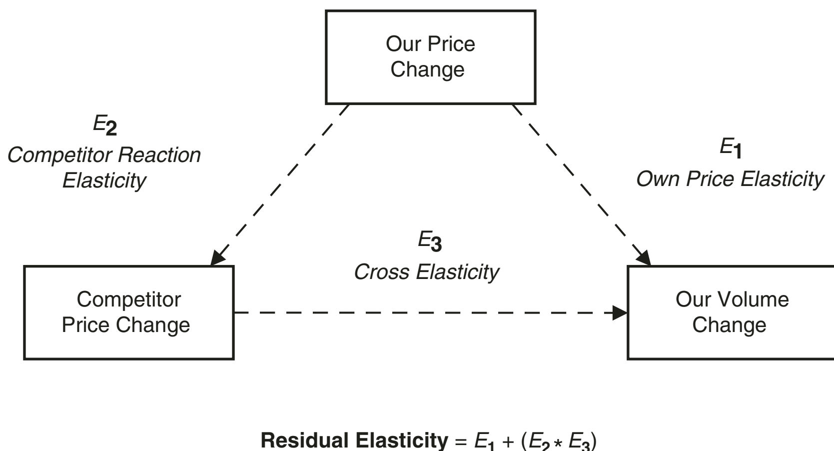

Fig. 4.4 Residual elasticity

Source: (Farris et al. (2006)

Cost-based Pricing

Every company needs to calculate the costs of producing its products and services and to determine its profit margins based on these calculations. Needless to say, companies need to set the selling price over costs so that they can generate profit for their survival. Thus, a company must calculate all the cost elements affecting its products before determining the selling price.

Every company basically has three major cost components: fixed costs, variable costs, and total costs. Fixed costs are the cost elements that do not depend on production volume or are independent of outcomes, such as buildings, rent, machinery, and so on. These costs do not change in the short run and remain constant most of the time. Variable costs are the cost elements directly related to production volume and vary with the production output, such as the expenses of buying raw material for production, utilities, etc. The variable costs increase at a consistent rate, especially when a company starts increasing production capacity and producing more products. Total costs is a summation of fixed and variable costs (total costs = fixed costs + variable costs).

The company needs to set the unit price with this cost structure in mind. It needs to know how many products to sell to be able to pay its own costs before eventually making a profit. This is called break-even analysis. Break-even analysis is critical for a company in setting a mark-up price that reflects its sales targets and strategic goals. Break-even can be calculated for a specific price as follows:

$$\text{Break even Volume} = (\text{Fixed Costs})/(\text{Price} - \text{Unit Variable Costs})$$

The volume indicated by break-even analysis tells us how many units of products the company needs to sell in order to start making profit (profit = total revenue – total costs). In other words, all the losses and costs are paid before break-even point in order to start making profit. This is the point where total cost equals total revenue. This is also the point where the total cost curve intersects with the total revenue curve as pictured in Fig. 4.5.

Break-even point or the amount of product sale required to make a profit can vary greatly according to the selected price. If the company wants to reach break-even quantity earlier, it needs to increase prices, or vice versa. Thus, the break-even quantity can dramatically change the company's pricing strategy.

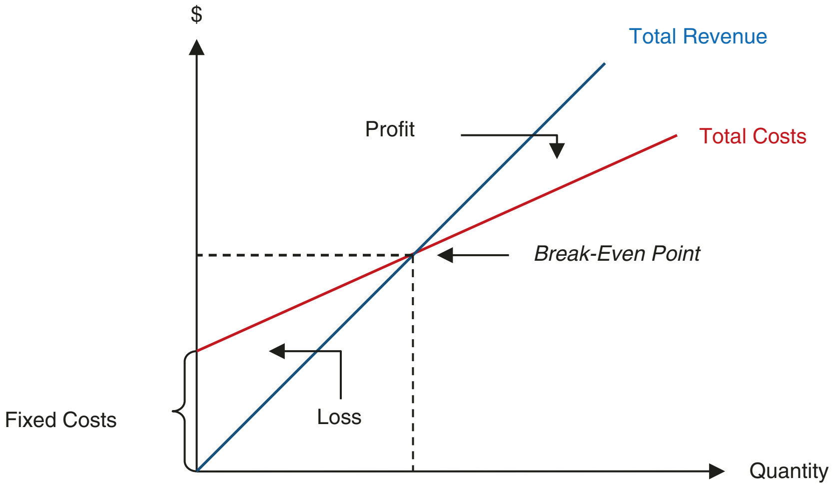

Fig. 4.5 Break-even pricing

Once the company starts making a profit, the next question is: how can it maximize its profits under similar cost structures? The company needs to calculate marginal costs (the costs of producing one additional unit) to see the level at which it can reduce its own production costs in order to find a profit-maximizing price level. Marginal costs generally show an early downward slope followed by a rising slope. At the beginning, the company's production costs generally reduce along the way as it learns how to effectively produce the products. That shows itself as a downward-sloping marginal costs line. In order to keep up with demand, the company needs to increase production capacity, for example, by hiring more workers. At some point, hiring one additional worker decreases production as it becomes difficult to organize employees to reach efficient production levels. This eventually causes an increase in marginal costs, which is depicted as a linear increase in the marginal costs curve in Fig. 4.6(a). This phenomenon is conceptualized as diminishing returns.

As discussed earlier, the marginal revenue curve is a downward-sloping line similar to the demand curve (Fig. 4.1), and the intersection of marginal revenue and marginal cost indicates the price and cost level where the company maximizes its profits. This can also be seen in Fig. 4.6(b) where total revenue exceeds the total costs line. The figure also indicates the

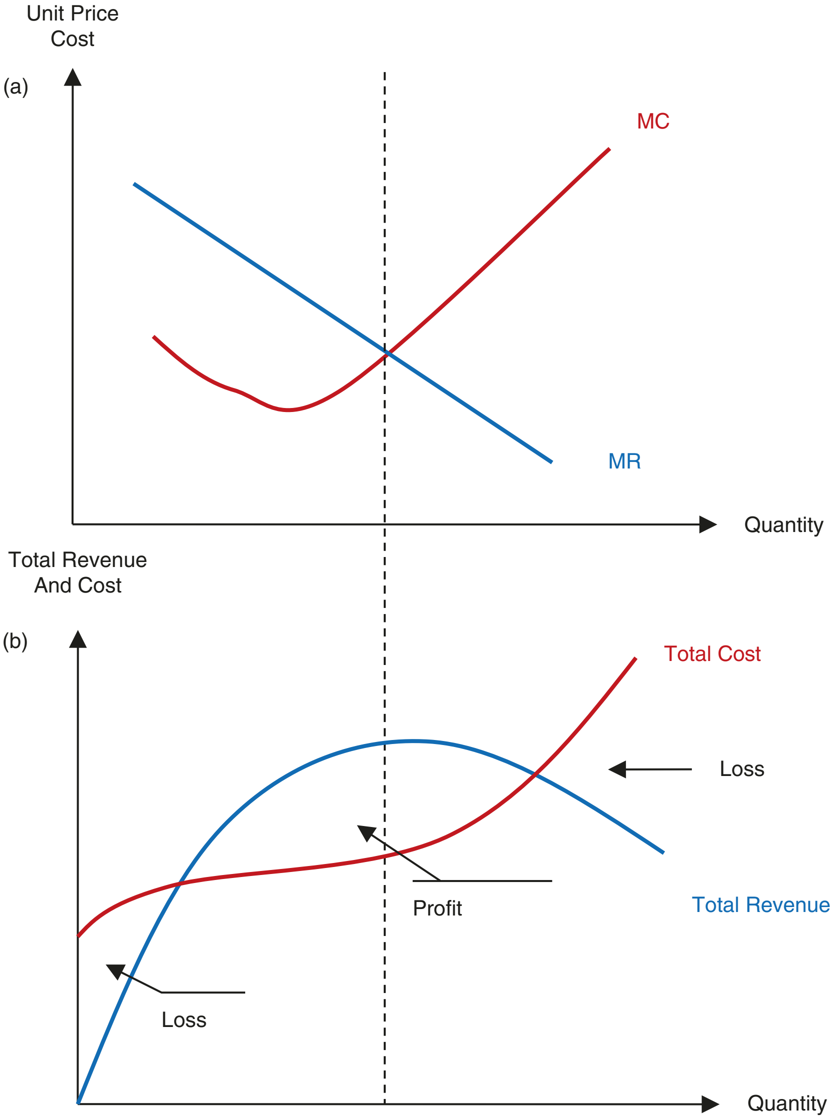

Fig. 4.6 Marginal cost and marginal revenue

company's profit and loss zones. Thus, the company should operate at the right cost and price combination to remain profitable.

The cost structure is also influenced by the market structure. In monopolistic markets, a company potentially has substantial control over the market price of its product, and profit maximization can easily be achieved at the expense of consumers. However, in oligopolistic markets, price control is under the influence of competitors and sometimes is shared among a few producers in the same market. Thus, the companies in oligopolistic markets have moderate to substantial control of market prices and hence profit levels. On the other hand, in perfectly competitive markets, no company in the market has control over market prices and the market itself determines the price (see Fig. 4.2). In these markets, profits will be divided up according to the number of companies in the market.

Perception-based Pricing

Price is an indicator of the economic value created by the company. Thus, price is used as an important product information source and quality indicator by many consumers, especially when there is uncertainty in the purchasing process. Consumer behaviorists, psychologists, and behavioral economists have studied the process in some depth, and have found that purchase decisions tend to be made principally on the value elements introduced by the marketer. This is a very different view from the classical economists' pricing philosophy.

Value can be simply expressed as a function of the benefits expected to be gained by every dollar spent on the product:

$$\text{Value} = (\text{Perceived Benefits})/(\text{Price})$$

Every consumer eventually tries to maximize their benefits while trying to pay less. One way to increase value in the eyes of consumers is by influencing their perception of the product's potential benefits. This is mainly achieved by media advertisements and other promotion tools. Most of these perceived benefits are intangible ones that come with the brand and its associations. However, the marketer needs to know which value elements associated with the product/brand make consumers feel confident about buying it.

Sometimes, consumers see value in the product quality or use product as a social class indicator. They may buy an expensive product just because

they believe that the higher the price, the better the product quality. Their value understanding, in some situations, might have nothing to do with the product's market price; consumers' perception of value and benefits go beyond sheer economic value. Such perceptional value elements are generally created with the help of other marketing-mix elements such as media advertisements and promotion.

The best-known perceptional consumer value association is price and product quality. Many consumers think that the product's price is a strong indicator of its quality. This effect is especially noticeable with speciality products such as wine and clothing. For example, in a Stanford University experiment, the same wine was tagged with different prices and served to ordinary consumers. Consumers were asked to decide which wine was better quality. Most thought that the wine with the higher price tag was better quality even though all the wines were the same.[3]

The link can be stronger for some specific products, but less valid for other products as explained by Corstjens and Corstjens' (1995:144) "value corridor" conceptualization. My own classification is inspired by their graph but differs from it slightly (see Fig. 4.7).

Every company wants to be above the value corridor (highlighted with red arrow in Fig. 4.7) and perceived to be offering good quality. Even a good-quality product can be perceived as poor quality if the price does not reflect its true quality in the eyes of consumers. At the bottom of the corridor, there are private labels which are low-quality and low-priced products produced by retailers rather than manufacturers. Because private labels have less brand power and their success are highly dependent on distribution and in-store merchandising support, they are more likely to be preferred by price-sensitive consumers and perhaps those loyal to a particular store. Hence there are manufacturers who produce cheap products in the corridor because of their relatively lower brand power in the markets. Mimic brands, which follow the major national brands by copying their philosophy but cannot be perceived as leading and original, come next. Finally, well-known national brands offer the highest prices because of their strong brand power in the markets. These brands are recognized by all and are seen as the highest quality. The value corridor ultimately sets the expectations based on the price–quality relationship.[4] If consumers read higher prices as a sign of higher quality, then the company can set its price higher than expected to maximize its profits. Similarly, a company that does not have exceptional product quality can even set its price at the same level as products perceived to be high quality to signal that its product is of the

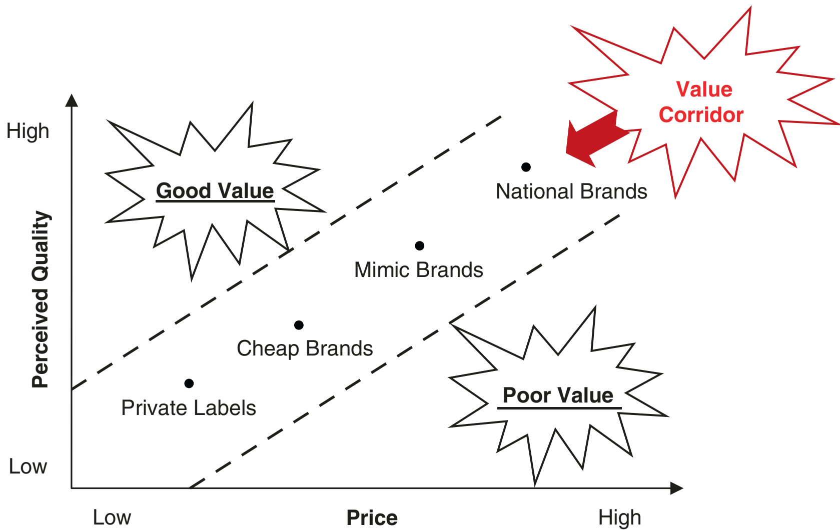

Fig. 4.7 Value corridor-price and quality relationship

Source: Corstjens et al. (1995) Author's note: I have changed the original figure and added red highlighted features in the figure by inspiring from C&C (1995) book!

same quality so deserves to be valued at the same level. This is called "prestige pricing" and it helps a company to maximize its profits if it sets its price at the same level as that of high-quality products.

A similar strategy is used for products in the same product line. The marketer can rank prices for products in the same product line (see Fig. 4.8). This strategy is designed to give consumers a clue as to the quality of products in the same product line. The pricing can indicate which product has better and additional features compared to other products in the same product line. For example, if you want to buy a car you look at the standard product's base price without any additional features. If you want to add more horse power or want the sport version, you probably pay more than for the regular standard product. Thus, the various versions of the same product in the product line can be placed in a logical price order. Price lining can eventually reduce the potential confusion for consumers and sales personnel created by various value elements. Furthermore, each price level can indicate different market segments and the products' price elasticity. Thus, price lining can ultimately help the company to better organize its operations

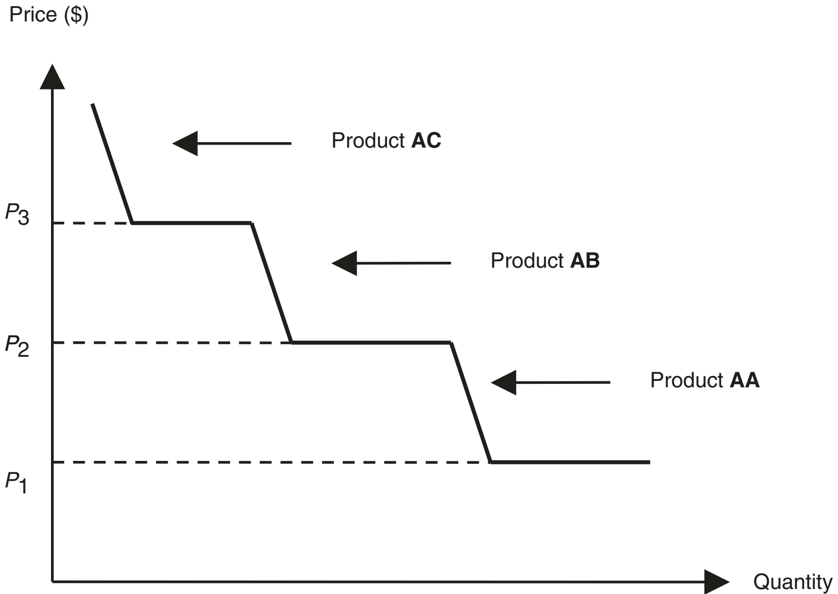

Fig. 4.8 Price lining

(such as stock levels and inventory) to reach operational efficiency and reduce many purchase risks as perceived by consumers.

For new products, pricing strategy can be difficult. The company can start by setting the price high to test potential demand. This is a common strategy for both new-to-world products and/or existing products with new features. The company first skims the best demand in the market, then lowers the price along the demand curve as shown by the red lines in Fig. 4.9.

This is a similar pricing mentality (sliding down the demand curve until the right price range is found) to the one used by economists to determine price equilibrium with changes in supply. In other words, price skimming is always a good strategy when the demand for the product is higher than the supply. This can be a good pricing strategy especially when the company has a valuable brand with strong patents which will limit the possibilities of competitors entering the market. From a marketing point of view, this is also a better strategy for recovering major product development expenses in the early stages of the product life cycle. But the question is: how much lower should the price get? The lower the price,

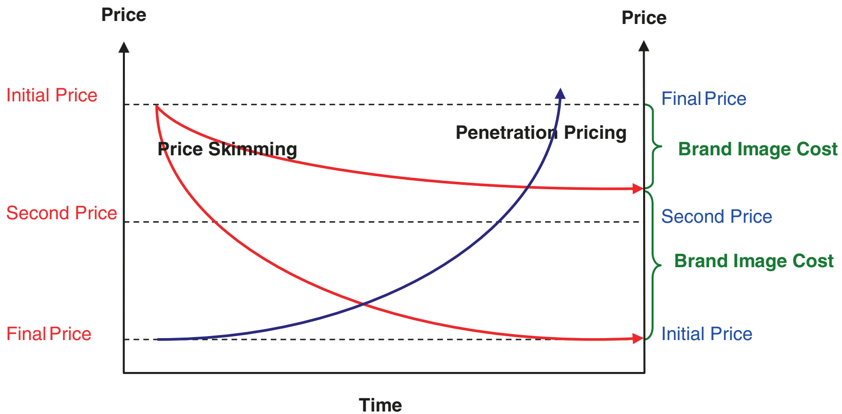

Fig. 4.9 Price skimming and penetration pricing

the lower the quality could be perceived. This, in turn, damages the perception of the product's quality and its brand image in markets, as illustrated with green lines in Fig. 4.9. In the long run, that potential image erosion caused by a sudden price reduction can cost a company more in advertising to change perceptions of the product's quality.

Alternatively, the company can enter the market at the lowest possible price and increase its price gradually when the demand starts picking up, as shown by the blue lines in Fig. 4.9. This initial low price can help the company achieve a larger market share. This is a very good strategy if the company is focusing on mass markets and if the demand curve is elastic. A low initial price can also deter potential competitors from entering the market as they assume that the company is operating on very low profit margins, as shown by the bold lines in Fig. 4.9.

Another very influential perceptional pricing strategy is aimed at impacting consumers' sensory perceptions. This is known as "sensory pricing". The best-known variation of this strategy is ending prices with 9, 99, or 95. People tend to read the first number and conclude that the price is actually somewhere around that number. For example, they read $1.99 as around one dollar but in fact it is about two dollars. The one cent price discount can increase the sale considerably by increasing the consumer's willingness to buy. If the company prices its products/services with zero at the end, such as $2.00, or $30.00, that can also send consumers a message that the products are of high quality. A Cornell University study found that when

prices were given just as numbers without dollar signs, consumers tend to spend more.[5] The logic is that when consumers see a number on its own, subliminally they may not associate it with money, making them more willing to spend that amount. A final psychological pricing strategy is to set the number of products/services purchased at a certain price level. If a company restricts the purchase amount at a specific price level (e.g., two per customer), the consumer thinks that the product is in high demand and is encouraged to buy it, in some cases perhaps in greater quantity than planned.[6] I remember buying a Lego set for my son just because I saw that per-customer information attached to the product and worried that I might be missing a hot deal in Lego world!

All these sensory and psychological pricing techniques can increase a company's sales numbers, but from an ethical point of view they can be controversial strategies as many consumers are not aware of why they are making these selections.

Notes

1. Froeb et al. (2016).
2. Froeb et al. (2016).
3. Reinberg (2008).
4. Corstjens and Corstjens (1995).
5. http://www.moneytalksnews.com/tricks-of-the-trade-restaurants/.
6. http://www.msn.com/en-us/money/yourlifeyourmoney/7-pricing-tricks-that-make-you-spend-more/ar-AAfmnoT?li=AAa0dzB&ocid=HPCDHP#page=2.

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CHAPTER 5

Place

Abstract This chapter discusses the benefits and value of distribution or place in marketing planning. Product availability and its relationship to market share, and the effects and costs of an out-of-stock situation are discussed with related algorithms and visuals. The concept of distribution elasticity and inventory control models are also discussed with graphs from the theory. Distribution-related brand awareness concepts and measures are investigated and illustrated in light of the theoretical discussions.

Keywords Product availability · Out of stock · Distribution elasticity · Inventory control · Bullwhip effects

Place, or what is also called distribution and/or product availability, mostly functions as a service to the other marketing-mix elements of product, promotion, and price. Place helps these three Ps to reach their strategic marketing goals. Simply put, without being in the right place, at the right time, and in the right quantity, no product or marketing plan can succeed. A company can have the best price and value in the market with a matching message supported by promotion techniques. But if the product is not there when consumers need it, consumers and revenue are lost. Thus, place's role in marketing activities is paramount even though it is the most silent element and its effects can only directly be realized and appreciated if the product is not there.

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In general, production can happen in one place (manufacturer's factory) while consumption happens in millions of places (various retail stores, vending machines, etc.). Furthermore, production happens at one time, but consumption happens over a long period of time in millions of places. These major differences between production and consumption can be normalized and balanced by a third function: place.

Manufacturers' expertise is to develop products/services and make the product ready for consumption; however, this does not necessarily translate into distribution expertise. As indicated by Rosenbloom (1999) "*the economies that are necessary for efficient production do not necessarily make for efficient distribution*" (p. 36). It does not make economic sense, although some manufacturers occasionally become involved in the distribution of their own products in traditional marketing.

The first graph of Fig. 5.1 displays the average cost curve (AC) indicating that production of Q_1 amount of product incurs a cost of C_1. This is around the optimum point on AC—where the company reaches economies of scale in production. However, such economies of scale cannot be reached if the company attempts to distribute these products itself, as indicated in the second graph in Fig. 5.1. The company tries to distribute each order itself directly to consumers. In order to handle this new function, the company needs to build a new system (order processing facilities, delivery vehicles, warehousing and inventory control systems, etc.) to handle a huge amount of orders. This in turn could be so costly that the company could not sell enough to compensate for these costs (especially fixed costs). In other words, if Q_1 amount of product is distributed, the costs of distribution will be C_2 at a point that is not even close to the optimum point of AC. The only way to keep the costs at an optimal level is to shift the distribution function to other channel members.

In other words, assume that there are a total of three manufacturers and three consumers in a market. If each consumer visits each manufacturer one by one to find the best product, three times three (equals nine) visits to and/or transactions with manufacturers are required. However, if there is one outlet in the middle where each consumer can go and compare all the products, this reduces the total visit numbers to six (three visits from both manufacturers and consumers to the outlet). Creating one major shopping stop between consumers and manufacturers where all the desired products are stored and introduced to sales (known as a distribution channel member), reduces the shopping hassle for consumers while manufacturers benefit from reduced transaction costs. Furthermore,

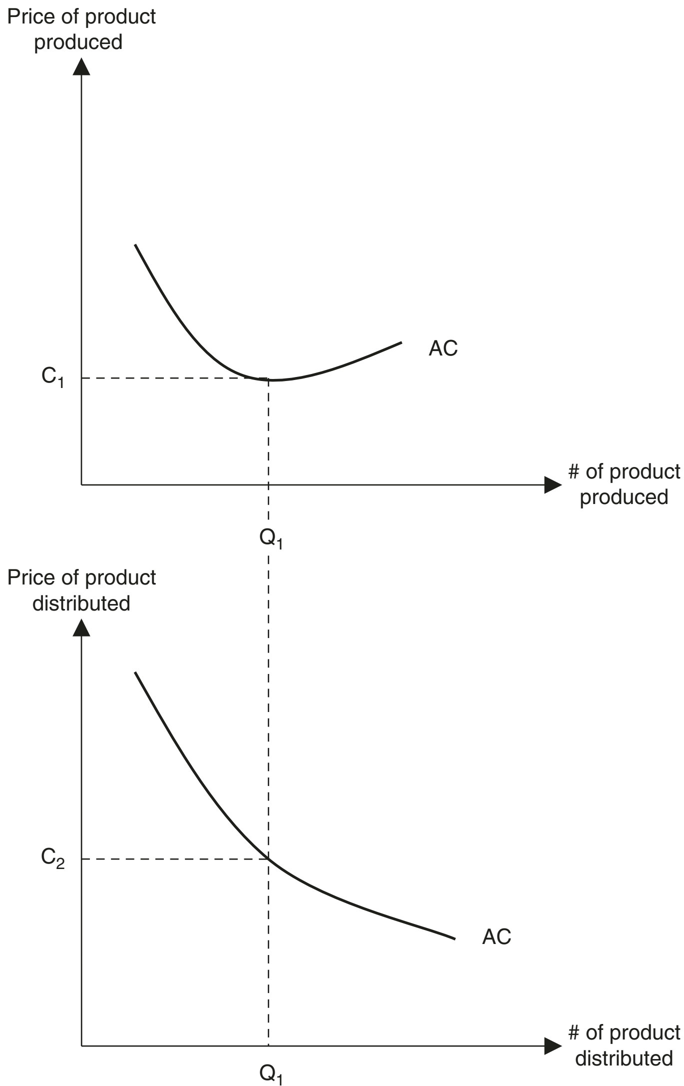

Fig. 5.1 Production, distribution and average costs (Rosenbloom)

Source: Rosenbloom (1999)

manufacturers save on inventory and storage costs by shifting the products to the distribution channel members. On the other hand, shifting potential inventory costs to retailers means less control over how to represent and sell the product to the consumers. Retail stores, in this context, are the places where consumers first come into contact with products in the real world. This delegation of product representation is of paramount importance as the first impression of the product may ultimately affect consumers' future purchasing habits.

In other words, although manufacturers can use distribution channels to shift the inventory costs to middlemen, this can also change the structure and length of the distribution-channel and product-handling processes. Manufacturers desperately need to share the costs of holding products where inventory costs are high, such as cars. As they cannot store all the cars they manufacture, they shift the products to car dealers which carry the retailing function for manufacturers. Similarly, foodstuffs need to be shifted as soon as possible to markets for consumption before they deteriorate, avoiding high costs such as cold storage facilities. Thus, there is a great need for what is called the retailer channel for perishable goods, but for low-cost items, such as candy, chewing gum, canned goods, etc., that are easy to store and handle, the wholesaler channel is also possible. Furthermore, if there are many small producers in the markets spread over a wide geographical area, then agents or brokers are required to convey the products to wholesalers/retailers. This occurs in meat and grocery markets, as somebody needs to go into the market (producers), talk with each producer/farmer and pick the best products for the wholesaler/retailer. The insurance industry, where insurance agents try to reach these fragmented and small markets, is another example of distribution channels involving a middleman, conceptualized as agent channels. However, the inclusion of each new member in a distribution channel system makes the coordination between channel members difficult and increases the price of the final product as each member's costs are reflected in the final price. Thus, the solution is either to establish vertical integration with all channel members, or what is known as disintermediation by eliminating as many middlemen as possible and replacing them with advance information systems in order to be able to sell the products to consumers directly. Nowadays, consumers can easily order products from the manufacturer's website and have them delivered directly using ordinary mailing systems. So in today's digital markets, distribution systems are being replaced by delivery and mailing systems.

Distribution Elasticity

Distribution elasticity is a measure of the effect on a company's sales of distribution or product availability. It also indicates the distribution intensity in the markets where the company is operating. Distribution is a very important part of marketing-mix planning if the product is a convenience product or impulse purchase. These kinds of products require intensive distribution, while shopping goods require more selective distribution. Finally, speciality and luxury products, which can be conceptualized as "exclusive distribution," do not depend on distribution, rather consumers seek out where they are available. In other words, distribution elasticity is a more concrete and quantitative representation of distribution intensity, simply indicating the change in distribution impact on sales, other effects excluded. The concept utilizes the same calculation approach as price elasticity, discussed in the previous chapter.

If distribution elasticity (De) is greater than one, it means the product's success mostly depends on its availability. This is generally the case for frequently purchased products (see Fig. 5.2). Similarly, empirical research indicates that distribution and product availability might also lead market share for these kinds of items when the products are available in every market

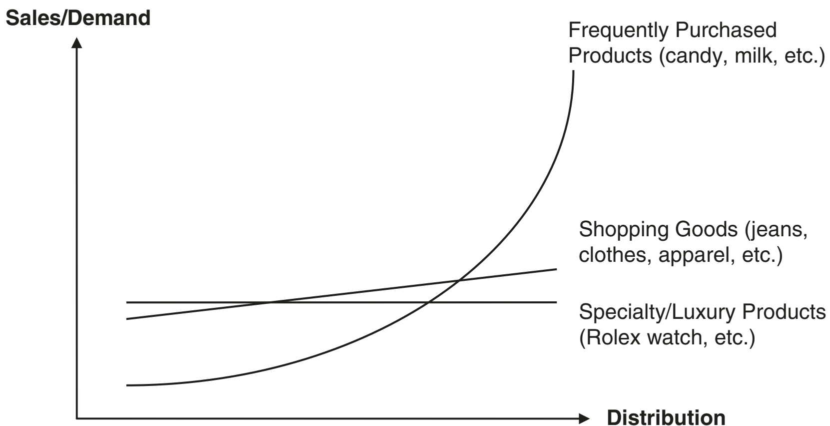

Fig. 5.2 Distribution elasticity

Source: West (1989)

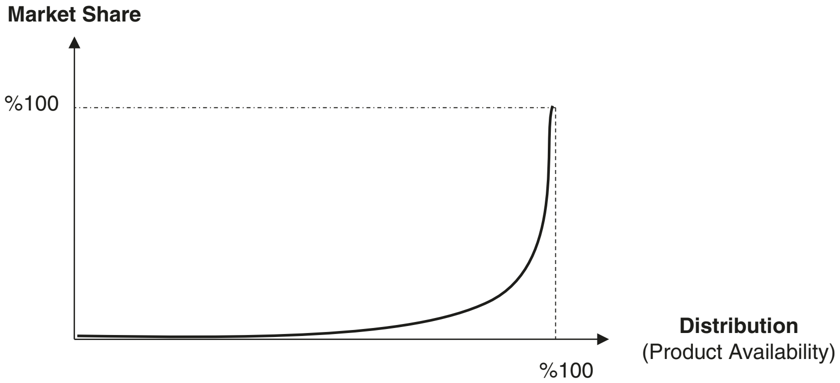

Fig. 5.3 Distribution and market share

Source: Farris et al. (1989)

outlet (Farris et al. 1989). This relationship reveals a convex shape, as shown in Fig. 5.3 (Farris et al. 1989; Reibstein and Farris 1995), especially for items where De > 1.

In general, small outlets carry fewer products than big stores. Once the product is available everywhere in the market, searching for it is not an option. Smaller stores generate fewer shares, and when more outlets start carrying the product market share grows at increasing pace. Since the market shares must equal 100%, then the entire outlet shares equal 100%. In other words, the product's visibility and possibility of being purchased, as well as its market share, can eventually reach the highest level (100%). Since buying these kinds of frequently purchased products involves a smaller financial risk, the only differentiating factor is availability of the product in the retail or market outlets, thus their success is highly dependent on distribution.

On the other hand, if De is less than one or a very small number approximating to zero, it means that distribution has no or very limited impact on product sales, as illustrated by the speciality and shopping goods lines in Fig. 5.2. While a company might be able to tolerate the unavailability of these kinds of products for a certain amount of time, unavailability of impulsive purchase items means a loss of sales and market share.

Inventory Control

Companies need to know how much product to stock before it is needed so that they can satisfy consumer demand. However, there is a delicate line between overstocking the product, with increasing inventory costs, and not stocking enough, hence losing sales to competitors and other alternative products. Thus, every company eventually needs to successfully manage its inventory control systems to predict the optimum amount of products to order and store. In this context, a good inventory control system should have two features: a sound demand forecasting system, and a successful cost inventory management system.

Where consumer demand and ordering and holding costs are constant, there is less need for demand forecasting. Similarly, if demand lead time (how often to order the product to meet the demand) is almost fixed or constant, then the company can achieve the lowest costs possible by calculating the economic order quantity (EOQ). EOQ can be formulated as follows:

$$Q = \sqrt{2DK/h.}$$

Where D is "(annual) Demand Quanitiy"
K is "Fixed Costs of Ordering, Shipping and Handling per order"
h is "storage costs per unit"

EOQ indicates the order quantity where total logistic costs (inventory carrying costs + ordering costs) are minimized. The company should therefore always seek to achieve the lowest possible total costs by keeping inventory carrying costs and ordering costs at manageable levels (see Fig. 5.4).

However, consumer demand is not always perfectly fixed or constant; it is very difficult to predict and many forecasting models fail to calculate the right amount of demand most of the time. Thus, companies always try to order more than they need to (precautionary and/or safety stocks) in order to reduce the potential sales loss and consumer dissatisfaction caused by an out-of-stock situation. The amount of these precautionary stocks can be a costly problem if the demand does not fluctuate more than expected.

If an increase in demand is anticipated, every middleman will be placing high orders with some level of safety stocks, creating a domino effect in the

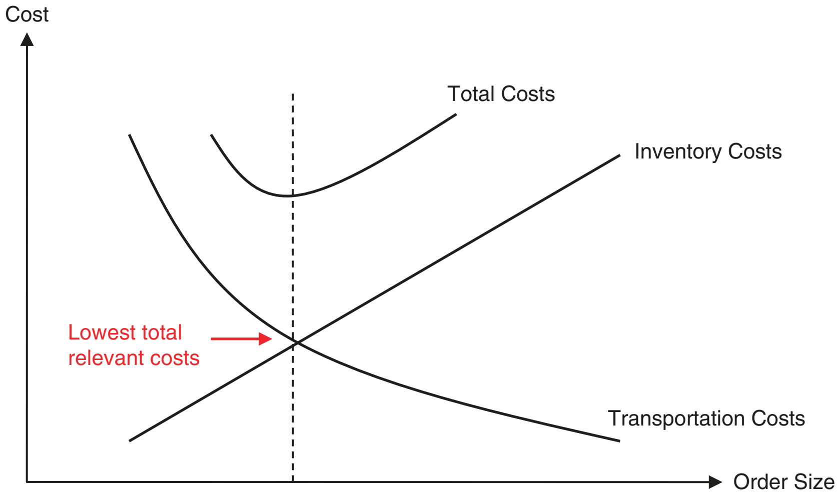

Fig. 5.4 Economic order quantity (EOQ)

distribution channels as the amount of product reaches levels higher than required. Once the middleman has dealt with the high inventory costs, they will make more conservative predictions and try to reduce inventory levels. In general, if a middleman predicts that the demand will be low in markets, he will eventually reduce the order, which reduces the amount of product in the distribution channel. The unpredictability of demand eventually creates abnormality in stocking decisions and unexpected highs and lows in orders. Thus, many distribution channel members face higher inventory costs than necessary. This phenomenon is called a bull-whip effect.

Figure 5.5 illustrates that there are big differences between order quantity and actual stock levels for each middleman. A small unexpected change in consumer demand can lead to a big wave of unpredictability in stocking decisions (first graph of Fig. 5.5), creating an excessive amount of safety stocking all along the distribution channel to tame the wild demand movement. Needless to say, this will eventually increase the inventory costs for every middleman in the distribution channel. Synchronizing the demand with the correct amount of order is not achieved all the time, thus companies end up with out-of-stock costs.

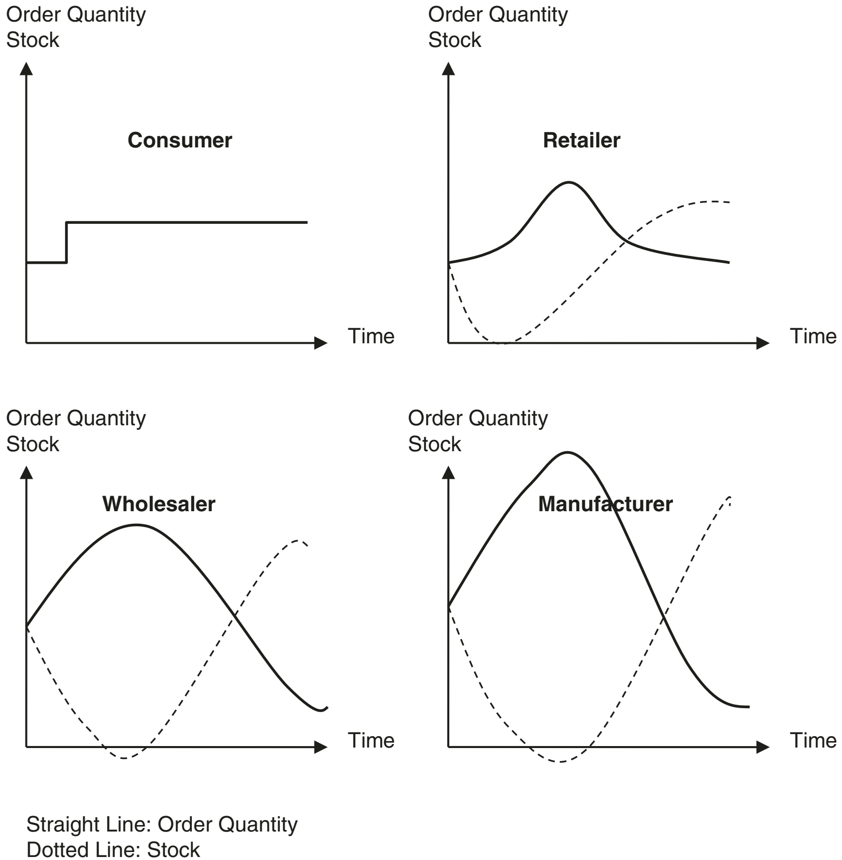

Fig. 5.5 Bullwhip effects

Source: http://en.wikipedia.org/wiki/File:Bulwhip_efect.jpg

Out of Stock (OOS)

As discussed at the beginning of this chapter, consumers cannot evaluate the effectiveness of distribution systems unless the product is unavailable on the retailer's shelves, or out of stock (OOS). The OOS literature discusses a range of consumer responses to an OOS item.

In an OOS situation, consumers either postpone their purchase, switch from the OOS item to a product available in the same store, or leave the store to search for the OOS item in another store. A consumer switching to an available item at the same store represents a gain for the retailer and perhaps indicates the power of store loyalty (Kucuk 2004, 2008). Some store-loyal consumers even fail to recognize the OOS situation and pick an available alternative for their own convenience. However, this might not be the case for brand-loyal consumers. A consumer choosing to leave the store and look for the OOS item elsewhere, is the manufacturer's gain and might indicate the strength of consumer brand loyalty towards the item (Kucuk 2004, 2008). In some cases, brand-loyal consumers prefer to postpone purchasing the OOS item until it is available or pick a different size of the same OOS item (known as size switching). The algorithm in Fig. 5.6 illustrates these types of consumer reaction to OOS items.

Although the degree of brand and store loyalty might play active roles in influencing consumers' decisions in the OOS situation, some situational factors are actually under retailers' control. Retailers can try to influence the consumer's decisions by increasing the effectiveness of in-store merchandising of available alternatives (e.g., in-store advertisements, price promotions, big shelf space, etc.), especially for items that are constantly out of stock. The OOS situation is a big test of the consumer's brand and store loyalty for especially frequently purchased and convenience items (Kucuk 2004).

On the other hand, brand and store loyalty might not be that strong in respect of impulse buys and some specific frequently purchased items. If the market is of a fixed size (thus is not changing or is dynamic) and brand loyalty is very small or non-existent, product availability (distribution) and in-store merchandising might contribute to changing consumers' preferences at the point of purchase. Furthermore, not every consumer feels loyal to a specific brand and store; they may make daily shopping decisions based on "top-of-mind awareness" (TOMA) towards brands for especially frequently purchased items. TOMA defines a basic consumer brand awareness indicating the first choice or the first known brand name in a particular category in the consumer's mind. Whether or not the consumer has previously purchased the brand, every consumer can identify a couple of brand names from the relevant category. TOMA is generally created by media advertising and word of mouth. Thus, although some consumers enter retail stores with some level of TOMA regarding a set of brands, not every TOMA created in consumers' minds necessarily leads to a purchase decision.

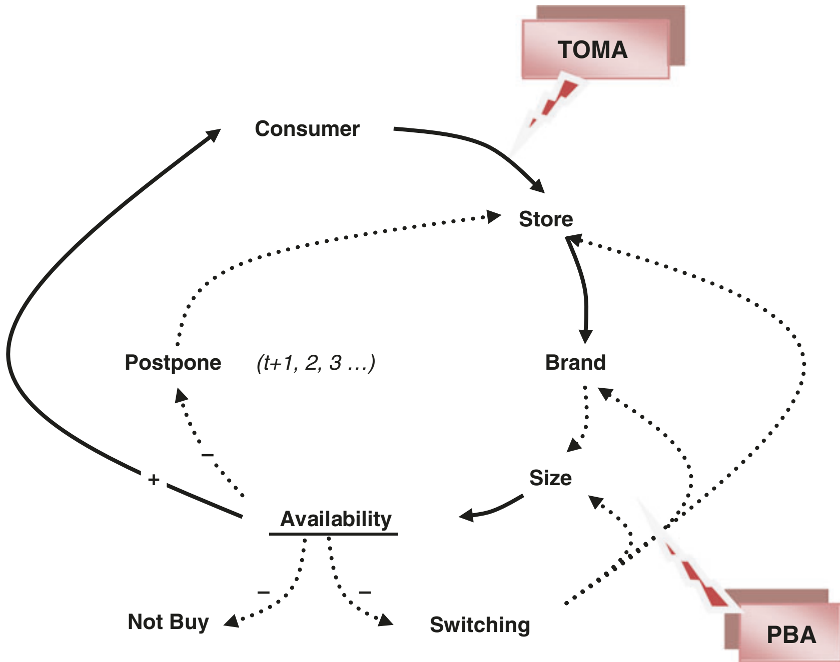

Fig. 5.6 Algorithm for consumer behaviors in OOS situation

Note: Dotted lines indicate consumer's behavioral responses to the OOS item as also discussed in OOS literature
Source: Kucuk (2011)

In this context, the goal of the retailer is to either carry products which have high TOMA or break the strength of TOMA in store and direct consumers to other available products. The strength of TOMA can be reduced with a tool recently conceptualized as push-based brand awareness (PBA). PBA has been defined as "*available brand's ability to create consumer awareness with the support of retailer's in-store merchandising efforts in the situation of the consistent unavailability (OOS) of the searched item at the same retail store/setting over time*" (Kucuk 2011). Thus, while TOMA is mostly created by promotion tools before the consumer enters the retail store, PBA relies solely on the retailer's in-store merchandising effectiveness. PBA can also be formularized as the combination of consumer awareness of

consistently available items (known as availability awareness or AA) and the amount of in-store merchandising support [PBA = AA × In-store Merchandising]. AA is used as an indicator of the ability of distribution and/or product availability to create consumer brand awareness for items experiencing consistent OOS (Kucuk 2008). Two important factors therefore determine PBA's success: the level of in-store merchandising support given to the available brand; and the duration of OOS for the item being sought, which directly affects AA. These functional relationships are illustrated in Fig. 5.7. If retailers successfully manage and control the duration of OOS (DurOOS) and in-store merchandising efforts (IsM), the brand awareness level created by PBA in the retail store may push higher TOMA levels down. Figure 5.7 illustrates how AA and PBA can shape a convex curve sloping upward to the right as discussed in previous empirical studies in this section. If a brand is frequently in an OOS situation, the amount of TOMA ($TOMA_a$) created by previous exposure and AA_a might eventually decrease as consumers are exposed to availability of other brands in the same store (AA_b). In this situation, AA_b might reach higher levels over time when brand b is widely available in the market, and OOS continues (indicated by a thick

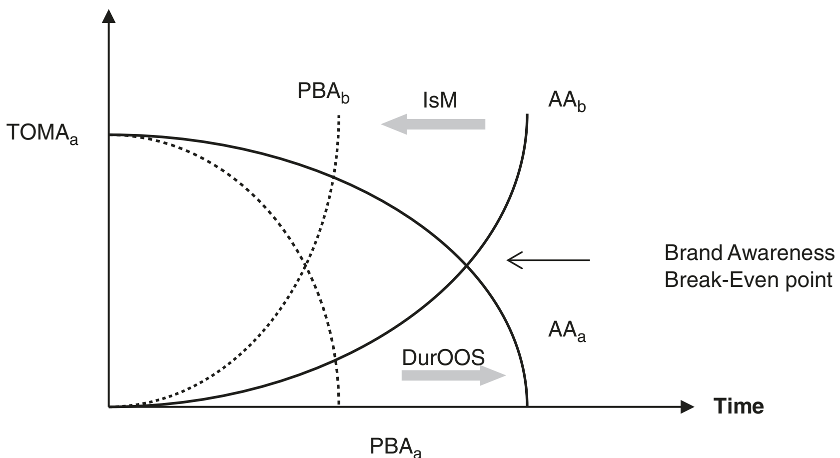

Fig. 5.7 Push-based brand awareness

Source: Kucuk (2011)

gray arrow pointing toward the right). If brand b also receives effective in-store merchandising by a retailer (indicated with a thick gray arrow pointing left), brand b reaches higher awareness levels earlier than expected (PBA_b). This is indicated with dotted lines in Fig. 5.7. The point where AA_a and AA_b as well as PBA_a and PBA_b intersect is where brand awareness levels reach equilibrium, conceptualized as a brand awareness break-even point (also indicated with an arrow in Fig. 5.7). At the awareness break-even point, consumer brand awareness might be further triggered by active implicit memory created during previous and frequent OOS occasions.

If a brand passes brand awareness the break-even point, the consumer's AA and PBA towards the available brands increase more rapidly. At some point, the consumer ceases to search for a previously preferred item, and TOMA of the available brand takes over, eventually entering the consumer's awareness and consideration set. Thus, the consumer's choice finally might be compromised in the store. With that, AA and PBA transform to TOMA, completing consumer preference modification in the retail store. This example indicates how powerful distribution can get to develop brand awareness and change consumer preferences, especially of frequently purchased products or impulse buys.

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CHAPTER 6

Promotion

Abstract This chapter introduces visual representations of promotion within the marketing mix. The effectiveness of advertising and sales promotion, post-promotion dips, public relations, personal selling, and interactive marketing are discussed and illustrated with figures and graphs. Comparisons of these elements and their coordination for a successful marketing communication strategy are also investigated.

Keywords Advertising · Sales promotion · Interactive marketing · Repetition · Public relations · Personal selling · Promotion mix

Companies use various promotion tools to communicate the value created by products/services to consumers. Promotion practices have two principal goals: offering information to consumers about products' features and attributes; and building the right image and identity to convince or persuade consumers to buy the product by changing their beliefs about it. In every communication process, there are always three major components:

1. Audience—Who is your audience? What do they like? What do they want to hear?
2. Message—What are the appealing signs, symbols, semiotics you need to use? What is the content or feature of your message? What do you want to tell your audience?

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3. Channel—What is the best way to reach your audience: TV, Internet, or print? Which source do they use when they need information? Or, when and how do consumers use various message channels?

Every promotion communication uses four major marketing techniques to reach these goals: advertising, sales promotion, public relations, and personal selling. These four tools are also called the promotion mix elements.

Advertising on TV or radio is a perfect tool to reach the mass of the population as the cost per contact is very low compared to other promotion-mix elements. On the other hand, the total costs of advertising can be quite high compared to other promotion tools. However, personal selling (business-to-business selling or door-to-door selling) requires one-to-one communication with buyers and is generally used in industrial markets or B2B markets. Personal selling focuses on influencing and convincing the other party to buy the products. Because the marketing communication happens at a personal level, selling efforts generally focus on building a trusted relationship with the buyer. Thus, it generally takes a long time and can be very costly as it is difficult to convince buyers one at a time. But this technique may be the most powerful of all in informing and persuading the potential buyer as it focuses on long-lasting relationship building. On the other hand, sales promotion (coupons, premiums, and temporary price reductions) does not have the same long-term effects as personal selling. Sales promotion is more likely to accelerate sales by stimulating impulse purchase decisions. Although it is low cost, it does not aim to build long-term relationships with consumers. Yet sales promotion can be very effective and competitive in synergy with other aspects of promotion. Finally, public relations, which is building publicity about the products/services delivered in the markets, aims at major media sources and critics. It is the only non-paid communication tool that focuses on convincing product experts and opinion leaders to deliver positive reviews to build a positive public image. Thus, it can be seen as a strong trust-building tool when there is uncertainty surrounding the company and its products.

Advertising

Advertising's success depends on creating and communicating the right message to the right consumers enough times to enhance consumer learning about the product and services. The ability of the advertising

message to connect with consumers will determine its success. The message should be either intriguing, interesting, or repeated over a longer period of time. In other words, the longer the advertising message stays in the consumer's memory, the higher its impact in consumers' purchase decisions. If a consumer cannot remember the information provided in the advertising message at the point of sale, this in turn would be a loss of sales opportunity. Early research reveals that we, human beings, forget 75% of the new information we learn after a week (this is also known as the Ebbinghaus curve or the "forgetting curve"). Thus, if the memory is not refreshed, new information that is introduced will eventually leave the consumers' memory permanently after six months to a year as indicated by the bold black line in Fig. 6.1.

From a marketing point of view, the money invested in advertising to inform and influence consumers about products will be wasted if the advertising message is not repeated. Even though there is a slight chance that a limited amount of information might be retrieved and remembered with limited capacity, it is almost impossible to retrieve much more product information since we are bombarded by millions of adverts every day. Thus, if the advertising message can be repeated enough (as also indicated by the dotted red line in Fig. 6.1), it may become the part of

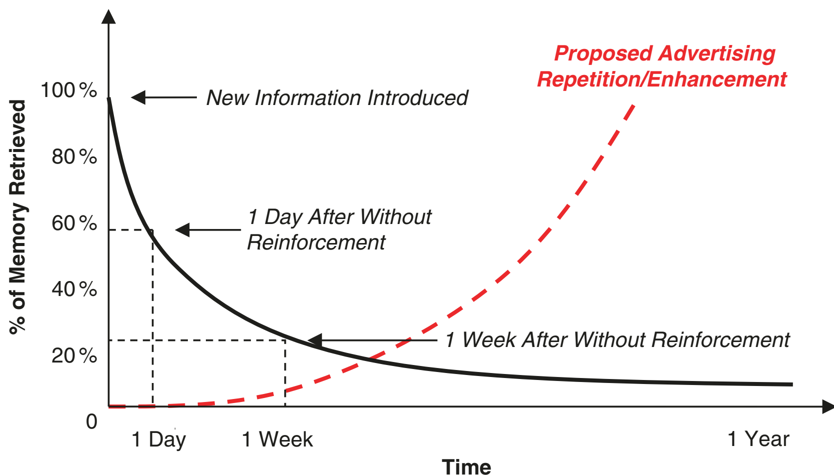

Fig. 6.1 Forgetting curve and advertising repetition

Source: Ebbinghaus (1913) or Colin McDonald (1995)

consumers' long-term memory which potentially plays an active role in many purchasing decisions to come. In short, the repetition of intriguing and interesting advertisement messages eventually increases the possibility of the consumer making a purchase decision in the long run. In other words, repetition and memory for advertising messages are at the heart of advertising research, as repetition is one of the most incremental learning and reinforcement tools.

However, no company can advertise its message for ever. Advertising costs can be high and thus the company should optimize how many times the message is to be repeated. Similarly, if the message appears too often, it can wear off after a certain point. At that point and beyond, the effectiveness of the advertisement becomes minimized or remains flat. Thus, the question is: how often and over how long a period can an advert be repeated so that the effect of the advertising can be maximized? Figure 6.2 attempts to answer this question. Early advertising research

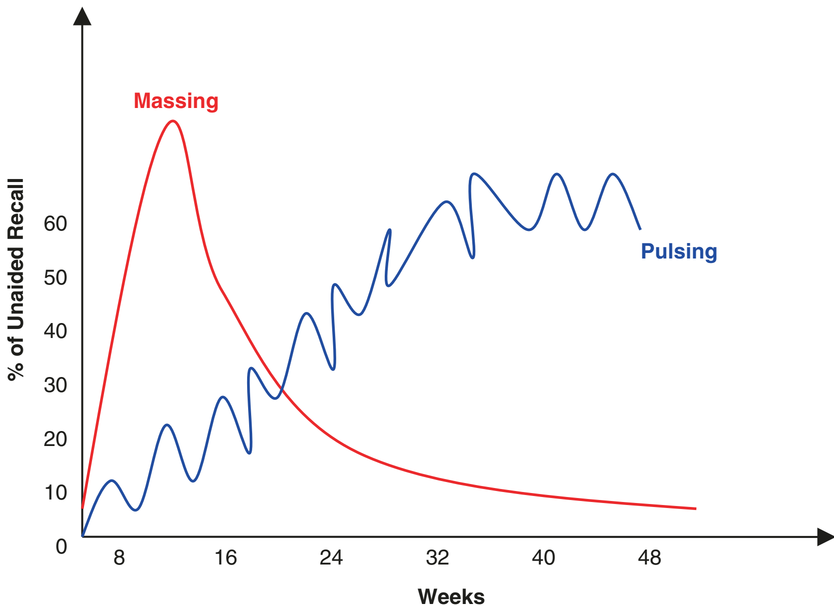

Fig. 6.2 Advertising repetition and mode on recall

Source: Zielske (1959)

explored whether it is better to "burst" advertising on a single occasion or to "pulse", sending advertising messages to respondents every other week or on separate occasions. When consumers' recollections of the advertising were tested, the results revealed that mass advertising reaches high recall levels quickly but that these also fade quickly in the weeks following, as shown by the red line in Fig. 6.2.

Although pulsing may have a relatively low recall effect, it can continue to increase, staying around for a long time, perhaps years, in the market. Thus, if a marketer needs a more immediate effect (perhaps in aggressive competition), mass advertising can be the right strategy, while pulsing can be the right option if the company is seeking a steady-state recall level. On the other hand, it would be naïve to expect the same results for every kind of product. Every product requires a different level of learning. A technologically advanced product requires more learning and more in-depth research about the product. But, if the product is an ordinary impulse buy or frequently purchased product, the risks are easily apparent and learning about the product can be liminal. Thus, repeat advertising plays different roles in different product categories (see Fig. 6.3).

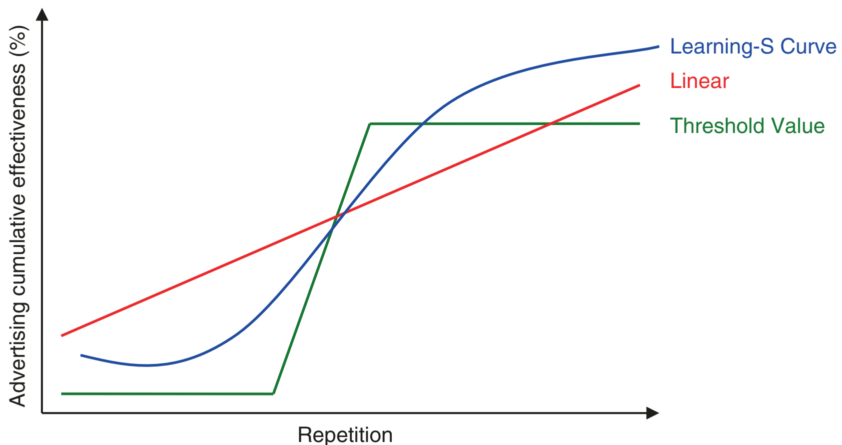

Fig. 6.3 Advertisement effectiveness

Source: Farris et al. (2006)

The linear advertising effectiveness model is generally true for frequently purchased products, as the perceived risk of buying such products is lower. Consumers can easily be influenced by the advertising to switch to the advertised items. Where some learning by consumers about the product's features is required, an S-shaped graph results once learning has occurred. In each advertisement, the consumer learns more about the product and develops positive attitudes encouraging them to purchase. The more information consumers have about the product, the lower the perceived risk of purchasing it as the majority starts to use it, so the effectiveness of advertising shows itself as a learning-curve shape. Finally, consumers need even more information and perceive the risk as higher when they are shopping for speciality or luxury products. Once all the required information is collected, all the repeat advertising and exposure finally pay off, and consumers may consider buying the product, as shown in the threshold value graph in Fig. 6.3.

Moreover, the research showed that increasing repetition of advertising messages can also influence consumers' beliefs about the product and the company. Some studies revealed that consumers have a tendency to believe repeated messages whether or not the claims are true (the "truth effect"; see Fig 6.4).[1]

On the other hand, if consumers become highly engaged with the advertising message, they may become more skeptical about its claims.[2]

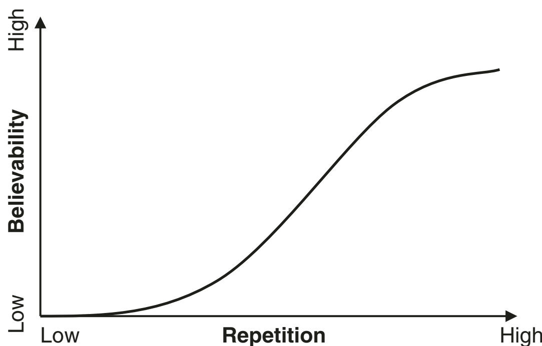

Fig. 6.4 Advertising truth effect

Source: Wirthwein (2008)

In addition, increasing repetition can cause the advertising to wear off, with consumers just totally losing interest in the message. Every consumer has different interests and beliefs, so these findings cannot be generalized. For example, if a consumer finds the story used in the advertisement interesting, the information is easily retained. However, if the story conflicts with the consumer's beliefs (which happens most of the time in political advertising) the message may be seen as untrue, unbelievable and/or "hype." Nevertheless, this method is widely used to create awareness and interest.[3]

In general, consumers find the information more interesting if it matches their interests, and if the advertisement is repeated, their engagement with the message may eventually increase incrementally. Although presenting information conflicting with consumer beliefs may increase their involvement with the message (see Fig. 6.4), there is a fine line between information contradiction and consumer beliefs, as extreme contradictions can be perceived as absurd and nonsensical, causing the advertisement to be totally rejected by consumers. This is another waste of advertising spending. But if an appropriate balance can be maintained that leaves both a sweet and a sour taste in the consumer's mouth, it can also be perceived as fascinating and, in fact, true (Tellis 1998). The advertising message should focus on creating impressions that move from "OK/acceptable/understandable" through "interesting" to "fascinating" (Tellis 1998). This is how marketers generate awareness among consumers with varying degrees of beliefs about the issues presented in the advertisement.

In this context, advertising is an important tool for creating not only consumer awareness but also consumer interest. As a rule of thumb, the message should be clear and should make strong claims using the optimum amount of repetition without causing any confusion for the recipients. Determining the right level of repetition is important in order to reach the highest efficiency. In other words, the marketer's goal is to reduce wastage of the advertising budget by eliminating duplication and exposure (reaching the target interested consumers more than needed or wanted) or wrong audience (consumers with no potential interest in the company and the product). The content and clarity of the message are as important as repetition and reach in building consumer awareness and interest as well as changing the attitudes and behaviors of consumers towards products and services.

Sales Promotion

Sales promotion's main goal is to create short-term behavioral changes in both consumers and distribution channel members. The most frequently used sales promotion tools are temporary price reduction, couponing or gift-giving activities that add more value to the product with the aim of changing consumers' behaviors and decisions at the point of sale. Although some sales promotions are aimed at distribution channel members such as retailers and wholesalers (these are also known as trade promotions), the ultimate goal is to pass trade promotion on to the consumer. In other words the objective of advertising is to create demand before consumers get to the store while sales promotions aims at changing their preferences at the point of sale in the store.

Because sales promotion uses many price-related tools, strategies can be quickly modified. Advertising does not affect sales immediately the way sales promotions do; rather it focuses on building long-term relationships with consumers to generate positive attitudes and loyalty. On the other hand, the effects of sales promotion are easy to see in sales, as many sales promotion tactics, especially temporary price reductions, can easily create brand switchers. However, these increased sales do not produce long-term effects, and sales drop sharply immediately after the promotion period. This, in turn, creates sales spikes rather than slowly increasing trends. Thus, the results of sales promotion can be seen within days or even hours, as opposed to advertising where the response is measured in months and years, and sometimes there is no response at all. In other words, sales promotions can be used more like a tactical tool to create short-term brand-switching behaviors rather than a long-term strategic tool like an advertisement.

When trade deals initiated by manufacturers are passed on to retailers and their consumption spaces, high sales volumes and initially sharp spikes in sales are expected as most consumers try to get the maximum value for their money. Although sales go down at the end of the promotion period, there can be some small aftershock sales increases as the initial excitement created by the sales promotion lasts for a little while (see Fig. 6.5). This over-consumption or sales spike eventually leads to inventory shortages and stock-out problems, and the resultant sharp drop in sales is shown as "inventory effects" in Fig. 6.5. The stock-out situation is a natural result of sales promotions. Companies, especially retailers, should carefully plan for inventory problems after sales promotion, as stock-out situations make for

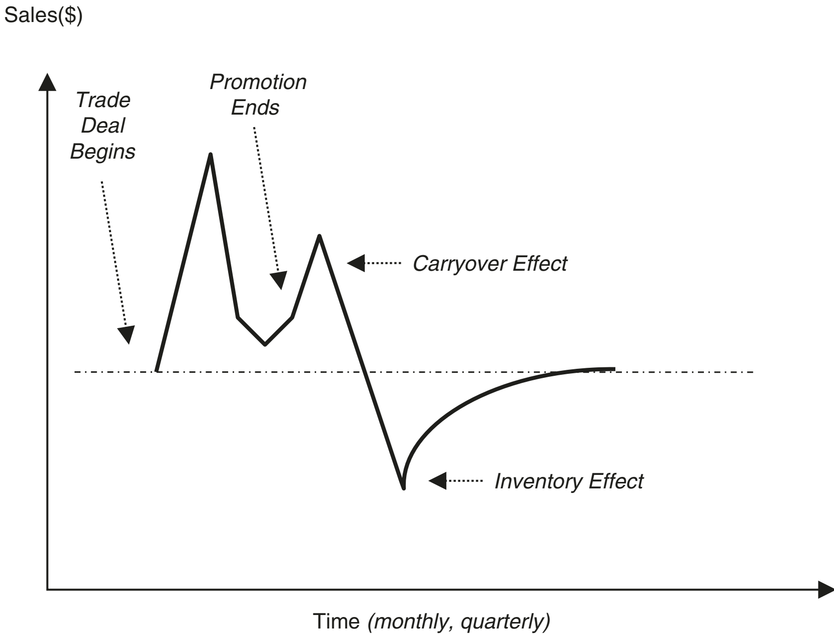

Fig. 6.5 General sales promotion curve

Source: Blattberg and Levin (1987)

unhappy consumers. Sales will not return to baseline levels until the retailer refills the empty shelf spaces at the end of the sales promotion period.

Generally sales promotion lines are jagged with sharp peaks and troughs. Various sales promotion techniques work differently according to sales volumes. While many of the effects on sales of such sales promotion techniques as coupons and attractive displays are immediately apparent, the most dramatic effects can be seen from temporary price reductions. When these sales promotion elements are used in combination, there is a potential synergy effect on sales, with spikes and troughs becoming sharper. Research has revealed that sales can increase if display (e.g. eye-level shelf spaces or end-aisle displays with eye-catching in-store advertisements) and price cuts are used together during sales promotions in the store (Blattberg and Neslin 1989).

Interestingly, sales numbers seldom fall below the base line (regular levels, others things being equal) once the sales promotion is over, as indicated by the horizontal dashed line in Fig. 6.5. Sales of especially frequently purchased products bounce back and stay at approximately the level they were before the promotion started. This absence of a "post-promotion dip" is an important phenomenon shedding light on how sales promotions actually work for frequently purchased products. Figure 6.6 illustrates the general appearance of this lack of post-promotion dip.

Figure 6.6 (a) shows the general structure, which is explained by Perreault et al. (2012) as follows. Children might convince their parents to eat Big Macs at McDonalds while there is a promotion there, and once the promotion is over things get back to normal. The lack of post-promotion dip is a normal result for McDonalds, a service company that works with just-in-time production models. The "lack of post-promotion dip effect" can also be observed in physical product categories and is explained by consumers' stocking decisions. However, there are times when consumers are still willing to buy the product even after the end of the sales promotion, which is actually what every marketer is looking for from sales promotions. It means the company was able to create new regular consumers with the help of sales promotion, as these consumers keep coming back and buying the product post promotion (see Fig. 6.6(b)). This could be case with frequently purchased products rather than convenience and speciality products, but it is a rare occurrence. The most common structure with lack of post-promotion dip is actually the one shown in Fig. 6.6(a). There are alternative explanations for this phenomenon related to consumers' stocking decisions and shopping timings, and of course to retailers' and manufacturers' decisions about sales promotion strategies.

Some studies have found that household inventory levels have a greater influence on purchasing decisions for frequently purchased products such as coffee and tomato sauce.[4] However, this section seeks to explain this phenomenon through consumer brand loyalty and switching behaviors.

Promotions are generally designed to stimulate brand-switching behaviors and hence attract deal-prone rather than brand-loyal consumers. Although some brand-loyal consumers buy more than they need during promotions (especially in frequently purchased product categories), sales promotions have, in general, a limited impact on the loyal consumer's purchasing decisions. Sometimes loyal consumers do not even look at product prices; they simply grab their products from retail

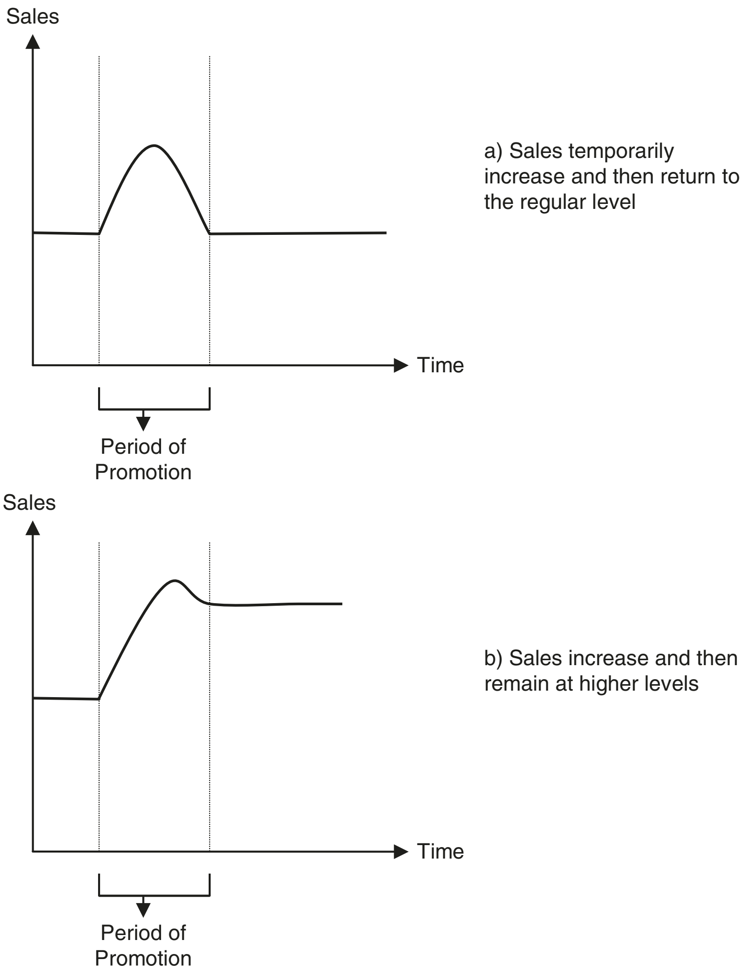

Fig. 6.6 Sales promotion effectiveness in various scenarios
Source: Perreault et al. (2012)

shelves. As consumers do not even remember information about promoted products after promotions,[5] repeat purchase rates remain the same after promotions.[6] Thus, in general, companies have already had some baseline sales numbers generated by loyal consumers—generally through media advertising over a long time. Thus, when the promotion

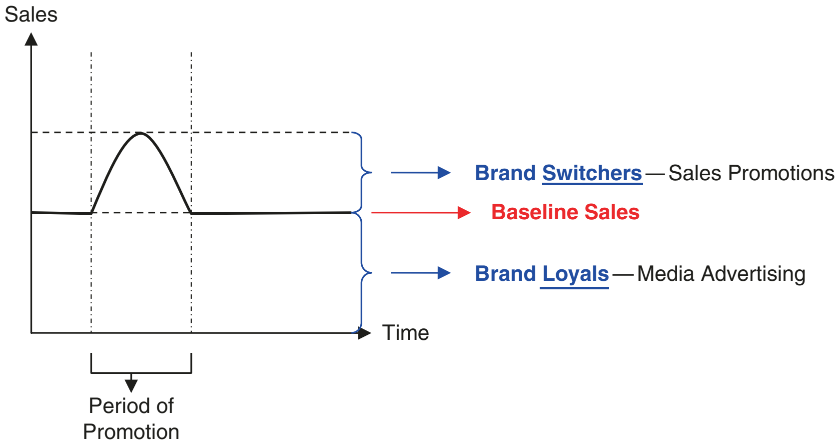

Fig. 6.7 Alternative explanations of lack of post-promotion dip

ends, sales fall back to the base line previously generated by brand-loyal consumers as a result of media advertising (see Fig. 6.7).

Therefore, if consumer brand loyalty is high in a frequently purchased product market, a lack of post-promotion dip might be normal. This is because sales promotions have more impact on the decisions of non-loyals or switchers than those of loyals. Thus, sales return to normal levels after promotions, and this can be called baseline sales or brand loyalty levels. On the other hand, if the loyalty level is unstable or weak, baseline sales levels can change easily after the promotion. Thus if a loyalty level to a product is sensitive to sales promotions, post-promotion dips might not be expected. Consumers' loyalty levels move, and whether they shift up or down depends on the effectiveness and power of sales promotions and previous media advertising.

Marketers therefore need to develop balanced strategic approaches, making use of advertising and sales promotions. These two strategies should complement each other rather than acting as two separate competing marketing tools. Companies also need to know that constant sales promotions mean their products are perceived as low quality, undermining consumer loyalty. Consumers will always be waiting for the next sales promotion cycle to buy the product instead of buying the product regularly all the time.

Personal Selling and Direct/Interactive Marketing

Personal selling can be the most effective way of influencing the behaviors of buyers or message recipients as it is a direct face-to-face interactive selling technique. It is, however, a very expensive tool to be applied across the board rather than one that seeks to impact key buyers. It is a method now widely used in business-to-business interactions. During the 1960s and 1970s it was very popular, with personal sellers knocking on every household's door to demonstrate and sell their products effectively. Today, this technique has been replaced by e-mail marketing and the interactive marketing tools of the digital world. Because it can easily be personalized and is very interactive, personal selling is very effective at generating customer attention and can be highly persuasive. However, it can also trigger privacy concerns if it is not conducted appropriately.

Every personal selling process starts by defining the needs and wants of buyers, then proposes and implements a solution for the buyer and finally follows up the buyer at the post-purchase stage. Personal selling is a very persuasive technique that can be perceived as highly manipulative. In traditional selling, success was measured by the amount of sales made, but these kinds of sales tactics can be seen as pushy. It is important to look at the various stages of personal selling in order to develop non-manipulative and truthful experiences for both seller and buyer (see Fig. 6.8).

As can be seen from Fig. 6.8, there are four main steps in personal selling: determining the buyer's needs; finding solutions; implementing and demonstrating solutions; and following up with the buyer post purchase. In a traditional or manipulative selling mentality, as illustrated by the red lines in Fig. 6.8, a salesperson's success depends to a great extent on how much need they can create for a buyer even in cases where buyers do not need the product. In other words, a salesperson needs manipulative sales tactics in order to create a need that is non-existent and/or unnecessary. Such approaches are unacceptable in today's world, where consumers demand two-way communication and mutual understanding (Alessandara et al. 1979). Once the consumer finds the product they need as a result of non-manipulative sales tactics—shown by the blue lines in Fig. 6.8—they engage in communication with the salesperson about the product and the rest of the sales process is concluded smoothly. This major paradigm shift from traditional selling to non-manipulative selling techniques has become of particular importance with the advent of digital shopping. Finally, in traditional selling processes, the salesperson

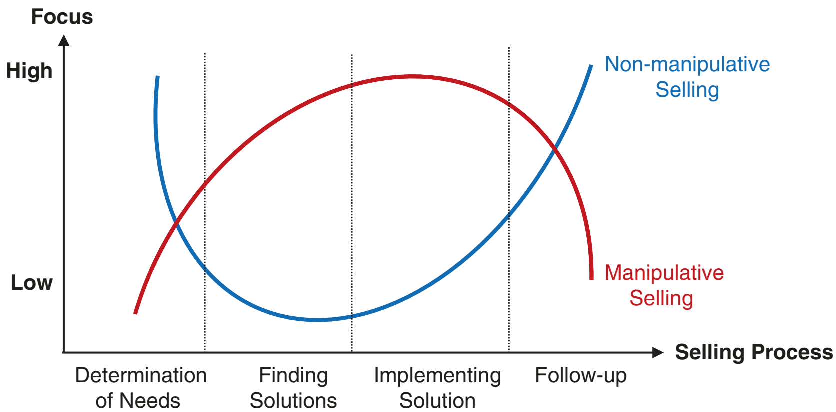

Fig. 6.8 Mentality shift in personal selling process

generally provides less support as their goal is about sales, not about building the long-lasting relationship which is critical for industrial (B2B) markets. Post-purchase support and communication become more important in non-manipulative selling approaches, as communication also reduces potential cognitive dissonance.

During any personal selling processes, the salesperson's goal is to eliminate the buyer's concerns, providing a smooth and easy shopping experience. The buyer's concerns generally focus on the perceived risks of buying the product, the price of the product/service, whether the product is meeting a genuine need, and how to reach satisfactory or whatever kinds of solution will ultimately benefit the consumer at the end of this transaction. Thus, salespeople need to focus on many issues to develop a successful selling process.

At the beginning of the process, the perceived risk of buying the product is not that high, as the consumer is generally not ready, not sure or not involved in the product/service. But the more time is spent on the process, the more real the purchase amount and price become, at which point consumers may start feeling some risks and perhaps some pressure. Price is always an important factor, and most of the time buyers try to get more concrete ideas about the risk they are taking. Price, in this context, is of moderate importance at the beginning, but becomes less so in the middle of the conversation if the consumers become more involved in calculations. If consumers make up their mind about the potential risk of

buying this product at the potential price, they will start questioning what kind of benefits they get as a result of the exchange. This, in turn, increases the importance of potential solutions related to the product especially in the middle of the conversation. At the final stage, if the consumer gets serious, that eventually increases the importance of price-related concerns in a non-manipulative selling process (see Fig. 6.9).

In any sales presentation, the challenge is to keep the buyer's attention at the highest level all the time. The seller needs to develop the communication and interaction tactics needed to persuade the receiver to purchase, especially in the middle of the process when the buyer's attention might wander. At the beginning of the conversation, the product or service is new and fresh and the buyer's attention is at normal levels. They are interested in the product and willing to learn more about its benefits. Their attention level, moderate at the beginning of the selling process, is shown by the message retention curve in Fig. 6.10.

In the middle of the sales conversation, the buyer's attention starts to flag as they become tired of the constant flow of information from the seller. Moriarty and Duncan (1995) comment: "*keeping attention is harder than getting attention.*" In the middle stages, everything depends on the salesperson's ability to communicate and maintain a conversation. In fact, salespeople are also advised to generate dramatic effects by changing the pace of the conversation, using visual presentations, exaggerating

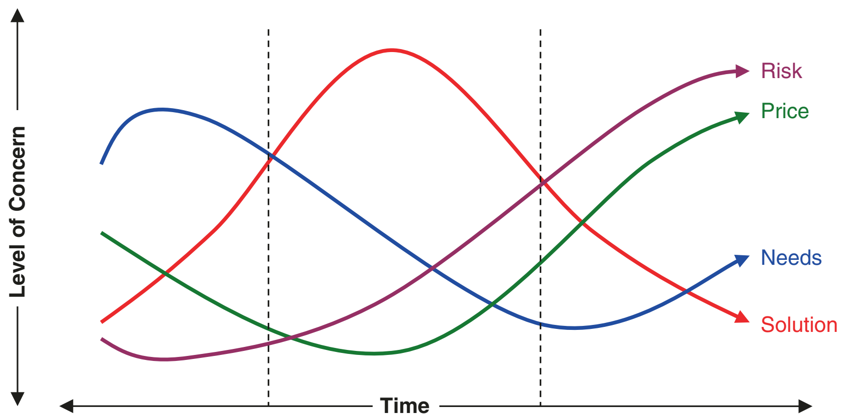

Fig. 6.9 Align with the buyer's shifting concerns

Source: Bosworth (1995)

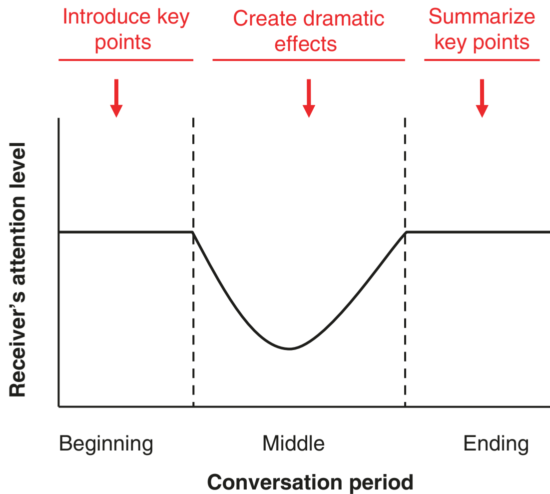

Fig. 6.10 Message retention curve

Source: Adapted from: Moriarty and Duncan (1995)

some statements, and asking questions to improve interactivity and maximize the attention and involvement of the customer. In general, the attention level of customers returns to normal (or "moderate") at the end of the conversation, as the receiver gets excited on seeing the key points summarized and resolved. The resultant retention curve is represented in Fig. 6.10.

In any sales process, the consumer's commitment to the product and interest in purchasing communication are generally lower than the salesperson's expectations at the first contact. Sales personnel need to work hard to develop communication and interaction so that they can deliver the product message to the buyer. However, soon after the buyer has committed to purchase the product, the roles might eventually be reversed (see Fig. 6.11).

Buyers become more committed to the product as they invest money and time in it. Their expectations remain higher even when the salesperson thinks their job is done. This is the stage where manipulative and non-manipulative sales mentalities differ, as previously discussed (see Fig. 6.8). This potential interest and commitment gap between buyer and seller is called the relationship gap (see Fig. 6.11). The bigger the relationship gap,

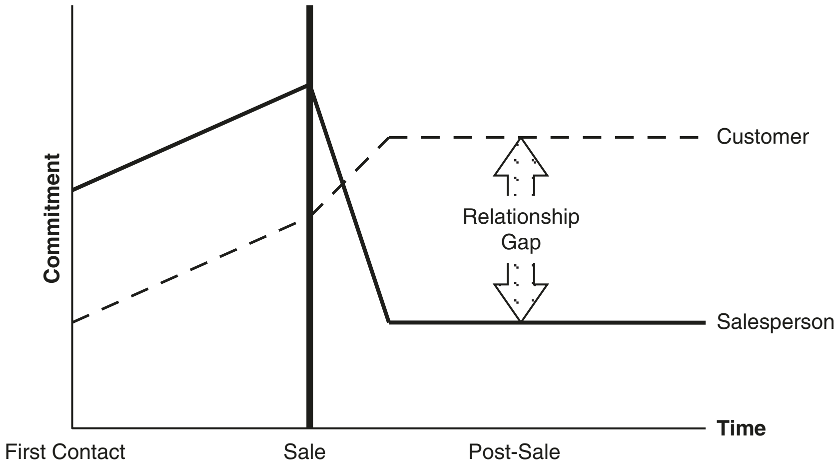

Fig. 6.11 Post-sale relationship gap
Source: Del Gaizo et al. (2004)

the less likely the buyer is to stay with the company, switching perhaps to an alternative and generating loud and negative word of mouth in the market. The salesperson's job is not over when the sale is concluded; it actually becomes more important as both sides enter a new interactive communication phase, seeking ultimate customer satisfaction. The salesperson who neglects the buyer relationship at the post-purchase stage eventually creates a one-time-only sales experience.

In the digital marketplace of today, many online companies are fighting for consumers' attention and interest as switching costs for consumers are very low in digital markets. Post-purchase follow-ups are becoming more important as sellers can now easily develop deeper and stronger relationships with their digital-market consumers.

Public Relations

Public relations is the art of changing public opinion without direct company intervention. The main goal is to build positive company and brand images in markets. The goal is to first influence people who are seen trusted and unbiased, and hope that later their influence will spread to the rest of society.

The company's public relations team first targets product experts in the media or opinion leaders whose views are respected by everyone, moving on to the general public, and finally to consumers. The dotted lines in Fig. 6.12 indicate indirect effects or influences rather than a direct impact. Opinion leaders and experts are generally representatives of the mass media, independent third-party organizations, or influential personalities who have established public trust and respect in their field of expertise (public trust in these objective and honest sources of opinion are represented by direct lines in Fig. 6.12). Although a company itself can attempt to influence public opinion (indirectly), opinion leaders can act like a part of the company's communication process if there is a high-level agreement between these two about the quality of a product or service. Successful public relations eventually build a strong long-term company–consumer relationship. However, each individual has their own beliefs about how the company attempts to spread influence or change through public relations. For example, consumers who can be defined as "extremist" do not like changing their ideas and cannot be affected. Some consumers described as "apathetic" may have limited interest, while others are more concerned about the issue (Lesly 1998). In general terms, there are always a few extremists who will not change their opinions no matter what and a few interested, highly alert and concerned individuals who pay attention to public relations work. The majority of the public probably do not care too much at the beginning but are likely to sit back and watch what happens, making their decisions later.

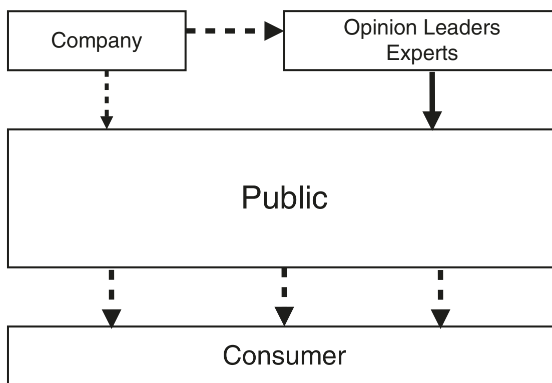

Fig. 6.12 Influence flow in public relations

The apathetic group are intellectual and can easily follow some other discussions if they lose interest. Since they are in the majority, marketers need to pay extra attention to this group when trying to transform public opinion. This, in fact, shows some similarities to the diffusion models discussed earlier. In general, marketers should carefully define the groups and develop appropriate public relations approaches with a view to changing public opinion.

I have discussed four major promotion techniques individually in this section. The question that arises at this point is how to coordinate these individual promotion elements to develop a single major promotion campaign that will strengthen the company's persuasiveness. Or, which promotion element in which situation has more impact on the consumer decision process. The next section is devoted to answering these questions.

Coordination of Promotion-mix Elements

Clearly, each promotion-mix element plays a different role in the process of informing and influencing consumers at different purchase decision-making stages.

Advertising is a major mass communication tool creating awareness of products and brands and informing consumers that the product is out there and available in the market. However, advertising is the least effective element in promotion, stimulating consumers to buy the product immediately and thus less effective at the purchase stage. Yet, it could be effective as advertising continues to inform consumers about how to use, or alternative uses of the product, and/or the availability of post-purchase services (such as product guarantees) as indicated by the blue line in Fig. 6.13. Similarly, personal selling's importance is high as it focuses on convincing the buyer (especially in industrial markets) to buy the product. As personal selling success predominantly depends on building a long-lasting relationship with the buyer, the importance of the technique remains high. Sales promotion can create awareness and can attract consumers to products. Importance can reach high levels as it can create a strong stimulus with various selling techniques at the point of purchase. The importance of sales promotion reduces after purchase as all the effort was focused on immediate sales generation. Finally, public relations can be used to develop positive attitudes about products in the pre-purchase stages. Although it is less influential at the purchase stage than many other promotion-mix elements, it can enhance consumer satisfaction if

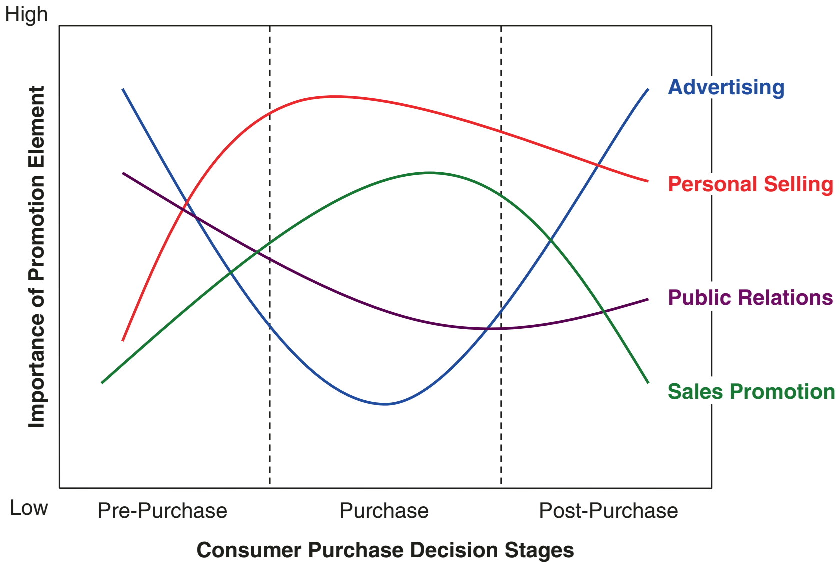

Fig. 6.13 Promotion-mix elements' effectiveness

Source: Roger et al. (2009)

the influential positive image of the pre-purchase can be affirmed at the post-purchase stages (see the purple downward-sloping line in Fig. 6.13).

Another comparative approach to understanding the effectiveness of promotion-mix elements would be to look at them from the perspective of "push and pull" strategies.

Push and Pull Strategies

Push and pull strategies have two distinct strategic focuses. Pull strategies focus on building a demand in consumer markets and trying to pull this demand from the markets to places of consumption, while push strategies focus on pushing the product out to the distribution channel members so that they can pass it to the consumers. Each promotion-mix element has a different level of impact on distribution channel members and consumers as regards push and pull effects.

If a manufacturer uses personal selling and sales promotions to create product awareness and encourage channel members to stock the product,

that strategy can be defined as push. Distribution channel members are at the center of push strategies, whereas it is consumers who are at the center of pull strategies such as media advertising and public relations which are designed to develop consumer awareness. In a pull strategy, the manufacturer's goal is to generate market demand so that consumers enter retail stores with some level of product/brand awareness already in mind, whereas in push strategy the goal is to change consumers' previously generated preferences within the retail store (see Fig. 6.14).

As discussed in the previous chapter, top-of-mind awareness (TOMA) can be created through major media advertising campaigns. By creating TOMA in the minds of consumers, companies hope to change their preferences before they enter the retail outlet. The objective is to create awareness of the manufacturer's brand even though the consumer is not planning to purchase the advertised item at any particular point in time. If TOMA opens the door to the advertised product, the next stage is, then, to develop a brand preference and loyalty so that the consumer continues to come to the store or buy the product whenever it is available. Successful pull strategies therefore depend on the ability to create TOMA and later preferred habitual behaviors through media advertising and public relations campaigns.

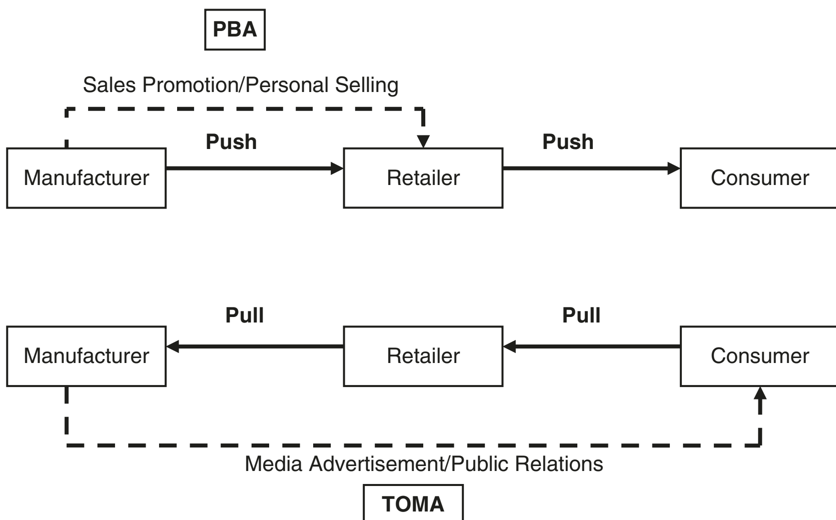

Fig. 6.14 Push and pull

Although consumers generally make decisions before entering retail stores and have some level of TOMA, their preferences can be changed inside the retail store under the influence of available brands where in-store merchandising support has already been achieved through intensive personal selling and sales promotion efforts focusing on distribution channel members (mostly retailers). Thus, the brand awareness is created through PBA (push-based awareness) strategies (see Chapter 5). For consumers who have never seen or heard of the product before the point of purchase, the sheer availability of unknown products supported by in-store merchandising might create PBA and stimulate brand-switching decisions (Kucuk 2008). The most effective strategy can be to synchronize push and pull strategies so that both TOMA and PBA reach their highest level of effectiveness.

Whether brand awareness is created through TOMA or PBA, companies need to focus on how to convert it into brand preference and then loyalty. Brand awareness is the first building block of brand preference, brand loyalty, and finally brand equity. TOMA and PBA are the major antecedents and components of brand preference, as not every consumer that will eventually prefer the brand in the long run is already aware of it. Conventionally, it is assumed that there is a linear (or one-on-one) relationship between brand awareness and brand preference. If a company has

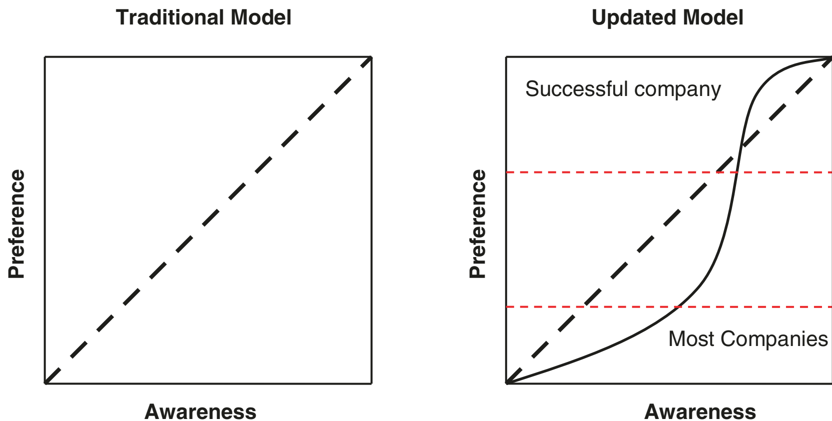

Fig. 6.15 Brand awareness and preference model

Source: Wirthwein (2008)

x amount of brand awareness in the market, it should have the same amount of consumer preferences. This notion is perhaps more realistic for frequently purchased products or impulse buys. However, recent updated models indicate that awareness and preference relationship should follow an S-curve, as shown on the right in Fig. 6.15. The updated model indicates that companies need to maximize their awareness so that they can achieve the desired level of brand preferences.

Wirthwein (2008) argues that the brand must, at least initially, reach a fair level of brand awareness in order eventually to achieve a modest level of preference. According to the author, a company needs to reach 70% awareness before preference reaches 25% (Wirthwein 2008: 73). He believes that this is the point where preference can really take off. Figure 6.15 shows that above 90% awareness level, preference reaches even higher levels.

Notes

1. Hawkins and Hoch (1992).
2. Wirthwein (2008).
3. Davis (1971).
4. Neslin and Schneider Stone (1996).
5. Davis, Inman and McAslister (1992).
6. Neslin and Shoemaker (1989).

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CHAPTER 7

Marketing-Mix Modeling

Abstract This chapter discusses the interaction and effectiveness of each marketing-mix element when they are used together to generate marketing synergy effects in markets. The importance of the coordinated use of these elements and their relationship with fundamental marketing concepts is examined. The role of the various elements in the product life cycle, in consumer decision making, and in brand equity development is explored and illustrated with relevant visuals.

Keywords Marketing-mix coordination · Marketing synergy · Marketing effectiveness · Coordinated marketing

Some flaws can be observed in the conceptualization of the marketing mix. The marketing-mix elements are not mutually exclusive. Furthermore, the marketing-mix approach does not necessarily include interactions between its various elements in calculations.[1] Having discussed each marketing-mix element in previous chapters, we will now consider how these 4P elements work together, interacting and/or perhaps creating synergy. It is important to see if any synergy effect and marketing success can be achieved as a result of the interactions of the marketing-mix elements with major marketing concepts.

The first concept to look at is product life cycle (PLC). We can examine how each element of the marketing mix works in a different capacity at

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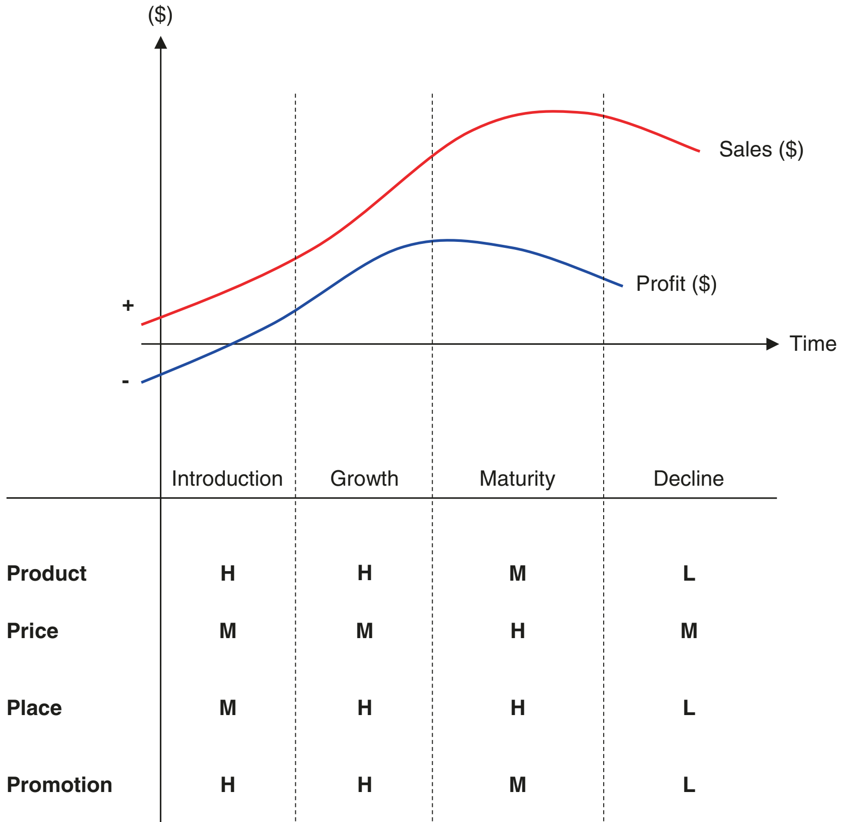
each stage of the PLC. For example, in the early stages of the product's life, all the marketing effort focuses on creating consumer awareness. Intensive promotion efforts are required to inform consumers of the benefits and value created by the new product. Companies can collect important information about the product at this early stage. It is also the time when most product modifications can be made in the light of immediate consumer feedback and requests. Pricing strategies for especially frequently purchased items generally focus on attractive value and here product quality is not as dominant as for speciality products. Product availability in the markets can also generate a certain level of consumer attention. Once the 4P elements are successfully organized and the sales targets have been reached, competitors are likely to be attracted to this market. Thus, competition in the markets gains pace, and the product needs to compete with alternatives and perhaps imitators at the growth stage. The strategic goal is to establish product differentiation, so promotion becomes very important at this stage, although product development can still continue. As the company seeks to differentiate its product from others, product modification efforts may also accelerate (Fig. 7.1).

Pricing can play an important role as competition increases during the growth stage, especially for everyday items. Both sales and profits go up during this stage. When the product reaches maturity level, sales start slowing down and profits start to fall. The most important issue is to keep the price at such a level that sales and profit maximization can be accomplished. Since the product is presumably known and habitual buying behaviors have been created, the most important marketing mission could be to keep brand-loyal consumers. At the end of its life, the product cannot generate any more sales and profits shrink. The most important step is preparing to leave the market even below cost price, so pricing can still play a role in the company's exit strategy. At that stage, neither place nor promotion can extend the product's life, so most of the marketing-mix elements have less impact on increasing sales or profit of the product at the end of its life.

An alternative way of looking at how the marketing-mix elements interact is to investigate the basic consumer shopping decision-making process. Each marketing-mix element plays a different role in this process, as discussed in consumer behavior literature.

Figure 7.2 shows each marketing-mix element's role in the consumer decision flow as a shaded box. The darkest shaded box indicates the most important element in the typical consumer decision-making process.



	Introduction	Growth	Maturity	Decline
Product	**H**	**H**	**M**	**L**
Price	**M**	**M**	**H**	**M**
Place	**M**	**H**	**H**	**L**
Promotion	**H**	**H**	**M**	**L**

H: high importance, **M**: medium importance, **L**: low importance

Fig. 7.1 Product life cycle and marketing-mix interplays

In this context, consumer desires can be created through stimulating advertising conveying the right message about the right product and service at the stimulus stage. In the early stages of the consumer decision-making process, consumers need to be awakened and made to realize that they have specific consumption needs and desires that can be directed towards to a product or service that will satisfy these. This, eventually, makes the consumer aware of the problem, or need, and act accordingly to satisfy it. At

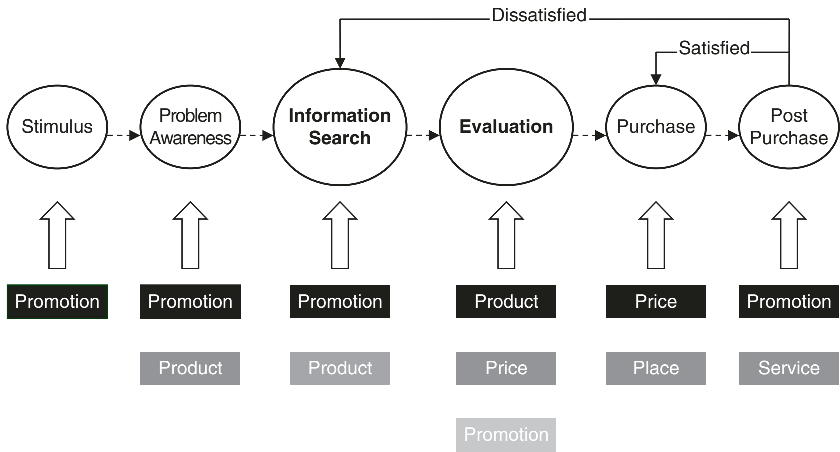


Fig. 7.2 Consumer decision-making process and the 4Ps

both the stimulus and problem awareness stages, consumers are awakened by the right products with potential to satisfy their needs with an encouraging and stimulating promotion message. Once the consumer reaches the information search stage, they need more information about the products or services. Informative advertising and promotion can play a significant role introducing the product/service to the consumer. Later, at the evaluation of alternatives stage, the consumer also needs price information to be able to make comparisons about the value elements of the product/service they are getting, generally trying to get the best product at the best price. This can in itself also be seen as a satisfaction component. Once consumers have decided which product/service to purchase, they need to determine where and when to buy it (see Fig. 7.2). If the product is available everywhere or easy to find in the market, the consumer can easily finalize the purchase where the product is available. If it is not available everywhere in the market, consumers may include relevant cost elements in their pricing and value perceptions and calculations (see also the discussion on distribution elasticity in Chapter 5).

As Fig. 7.2 illustrates, if the consumer is satisfied with the exchange, they can eventually continue the same transaction every time they need the product/service, going through the earlier stages very quickly, and in

some instances ignoring the previous stages and proceeding directly to purchase. However, if they are not satisfied with the product/service, they can reflect their dissatisfaction, which requires successful complaint management. Sales personnel techniques (see Chapter 6) can be important for managing consumer dissatisfaction and the rehabilitation of the consumer back to the company with satisfying outcomes for both company and consumer. Otherwise, dissatisfied consumers will eventually go to another source and start another information search process (see Fig. 7.2).

Another well-known model in the consumer behavior and personal selling literature is the attention, interest, desire and action (AIDA) model. The AIDA model suggests that first the consumer's attention needs to be captured and then later their involvement should be encouraged to lead them to make a purchase decision (which is conceptualized as action). Each element in the marketing mix plays a different role in gaining attention and interest at the beginning, leading to a desire for the product and eventually a purchase (see Fig. 7.3).

Here again promotion, as well as product design and features, plays a very active role in attracting consumer attention. Price has a moderate appeal for general goods but is more important at first for especially frequently purchased products. When the consumer becomes interested

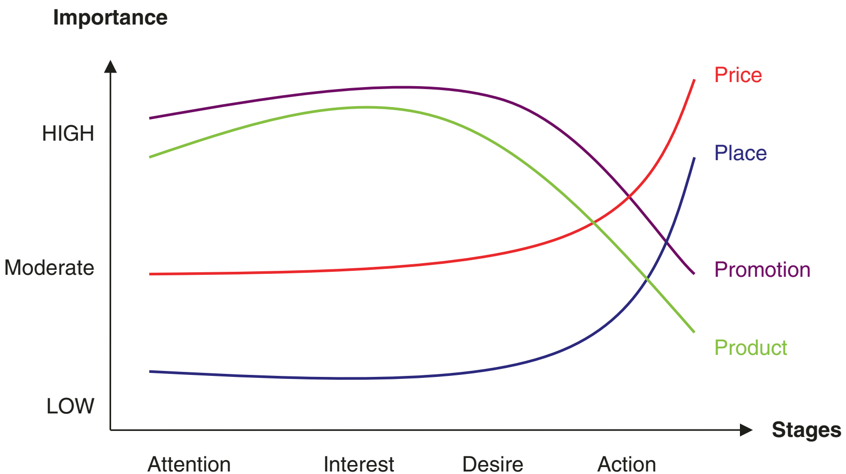


Fig. 7.3 AIDA and the 4Ps

in the product, price also plays a very active role in controlling the consumer's desires. Place is the most important element until the consumer becomes serious and decides to act to buy the product. The consumer seeks to buy the product wherever it is available. Once they have passed the interest and desire stages where psychological stimulation is the focus, promotion and product are superseded by price and place as the latter elements have more transactional focus and purpose (see Fig. 7.3).

The marketing-mix elements also need to work together to build brand loyalty and equity (see Fig. 7.4) Brand equity is a representation of the accumulated investment of the marketing-mix elements into a brand.[2] No company can reach brand equity immediately; it is a continuous process and takes a long time. The first step is to create brand awareness. Once consumers are aware of the brand in the market, or once the company can get the consumer's attention, then they can start a communication about the brand with consumers, which is similar to the attention and interest stages of the AIDA model. If consumers are satisfied with the brand that they have become aware of, the relationship can grow and lead to brand loyalty. There are two aspects to brand loyalty: attitudinal and behavioral.[3] Although attitudinal brand loyalty indicates consumers' feelings and commitments towards the brand, behavioral brand loyalty is generally conceptualized with repeat purchase behavior, or with purchase frequency. Once consumer

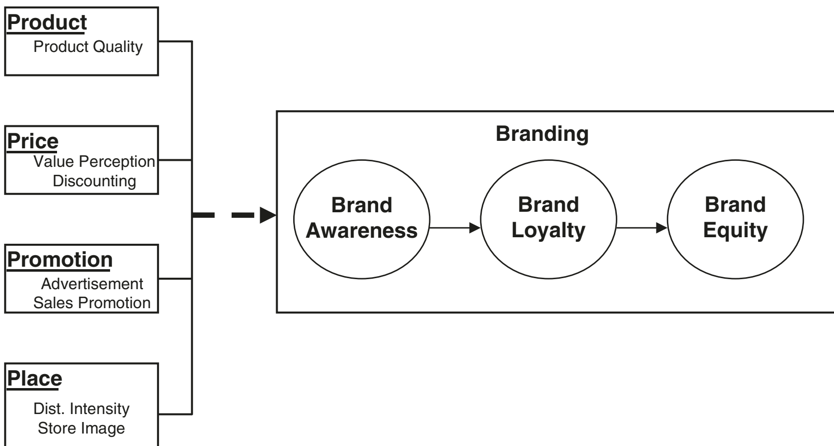


Fig. 7.4 Marketing mix and brand equity

loyalty can be established, brand equity is reached, and incremental value is added to a product/service. In other words, high brand equity means consumers have very positive strong feelings about the brand, perceiving its superb quality. A company cannot reach this stage without knowing how to utilize the marketing-mix elements along the way.

Research has revealed that product and product quality have a significant impact on brand awareness, loyalty and finally brand equity (see Fig. 7.4). Consumer perception of product quality is also influenced by the promotion element of pricing, advertising, and store image.[4]

However, if consumers are offered a frequent price discount it may negatively impact their perception of product quality. Consumers may feel that the product is not good quality, which in turn impacts brand equity negatively. This link between price reductions and product quality has been well studied in marketing theory.[5] On the other hand, some research has shown that price promotions advertised in local newspapers or other local advertisement channels may eventually increase repeat purchases (thus loyalty) and reduce consumer brand switching.[6]

Studies have shown that there is also a link between distribution intensity and brand awareness[7] which appears as an increased market share especially in the case of frequently purchased products.[8] On the other hand, if a product is offered in a high-quality retail store, it may positively impact consumers' perception of product quality and price.[9] While all of the marketing-mix elements contribute in different ways to building brand awareness, brand loyalty and eventually brand equity, promotion is the most important tool in building stronger brand equity for various types of products, with price and place stronger at building brand equity for frequently purchased products. In general, strong brand equity or brand name can ultimately be an advantage to the company which gains maximum returns and profits from using its brand name with new-line products. Although strong brand names can expand their market shares by utilizing their own brand name to extend product lines, weaker brand names eventually rely on competitive pricing and aggressive sales promotions.[10]

It is clear that the marketing-mix elements can be perceived as a competitive tool to different degrees by competing companies. In other words, the way company utilizes the elements can also be used as an indicator of the market's structure and competitiveness.

Intensity of competition in the market can also directly affect the configuration of the marketing-mix elements. If there is no competition or a single producer in the market, the market is defined as a monopoly. The product is

therefore un-substitutable, and the marketing-mix elements will be unimportant and have no impact on consumers, who will buy whatever is produced by the monopolist. In this case the **product** is the most important element of the marketing mix. Many innovative and new-to-the-world products are born as a monopoly until others decide to copy them and enter the new market (see Fig. 7.5). The Apple iPhone was a big success, creating a new market in which for a while it enjoyed being the only player.

However, if there are no entry barriers to the market, more competitors will enter it and the market capacity will determine the intensity of the competition in that particular market. In this context, if there are a couple of major producers in the market who produce similar products, the competition can shape in an oligopoly. With the entrance of new competitors into markets, product loses its importance but product differentiation naturally gains more importance as companies generally produce similar products around similar price levels. Promotion efforts focusing on product differentiation are therefore the only way to create sales. Companies generally compete by developing unique brand identities supported by major promotion campaigns, as shown by the purple line in Fig. 7.5. It can generally be difficult to get into these oligopolistic markets as there are major capital and copyright/patent barriers.

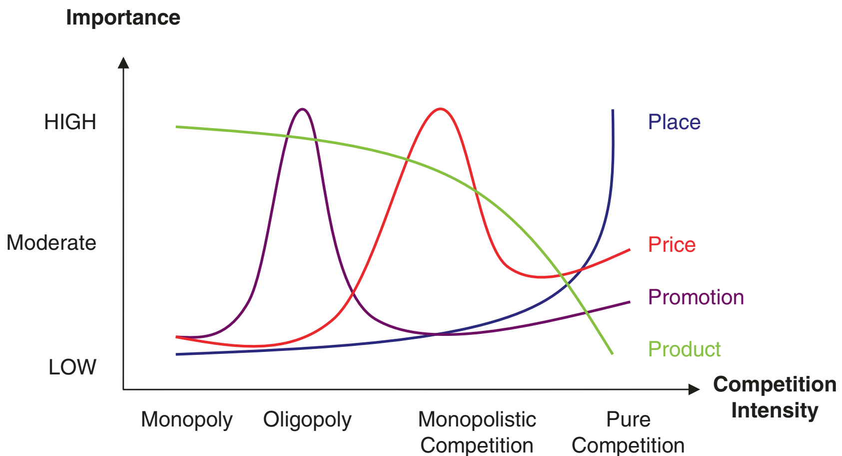


Fig. 7.5 Competition and the 4Ps

If there are a large numbers of competitors in the market, the market has a monopolistic competition structure and the focus is on the pricing of unique but easily substitutable products. The role of price is indicated by red lines in Fig. 7.5. Price is perhaps the most competitive of all the marketing-mix elements. It can be changed in a moment, while it is impossible to change the product, promotion, and brand identity or availability of the product in the markets in the same way. On the other hand, the company should be careful about making any sharp pricing changes as it is directly linked to product quality while promotion intensity is not (Carpenter 1987).

When a market reaches pure competitiveness, the products are all similar and the only way to make a difference in the market is to be able to be available everywhere at any time so that consumers can easily find the product whenever they need it. Thus, distribution and place play an important role in pure competition markets, as shown by the exponentially increasing blue line in Fig. 7.5.

In any type of competitive market, a company's ultimate goal is to produce the right marketing-mix combination to increase market share (MS). MS indicates how much revenue can a company generates compared to competitors and is therefore a major competitiveness and hence success indicator. Smaller or shrinking market share values indicate major problems in the company which might require a major strategic change. Sales revenues (compared to the other incumbents') can come from three major sources which directly impact market share. These are penetration (PEN), brand loyalty (BL), and usage (USE), and can be formulated as follows:[11]

$$MS \equiv SPEN \times BL \times USE$$

PEN is the ratio of people who buy the product at least once in a given time period in a given population, BL indicates how often these consumers buy the product (or simply repeat purchase ratios), and USE indicates how many of these consumers buy the product in that specific period. In order to reach high PEN numbers, the company needs to inform them about the product and convince them to buy it with serious promotion campaigns supported by distribution. Otherwise, consumers will be unable to test or buy the product at least once. Thus, promotion and place play a significant role in generating penetration. On the other hand, the company needs to create repeat and continuous purchases by providing highly satisfying product/service experiences supported by

brand identity and purchase reminder-oriented promotion campaigns. Thus, loyalty, as an important component of MS, can be created and enhanced by satisfying products and services as well as promotion. The well-known 20/80 rule tells us that 80% of a company's sales come from the 20% who are its loyal consumers. Thus, the importance of consumer loyalty can be seen to be paramount in MS, especially in service sectors. Finally, the amount consumers want to buy can be directly affected by the price and availability of the product. In other words, USE can be under the direct influence of the price and place components in many competitive environments. Thus, a stable and competitive market share for long-lasting market presence is directly related to the right combination of marketing-mix elements.

Similarly, market conditions can ultimately influence the performance of the marketing-mix elements. If the market growth rate is high, the company should also be able to grow and increase its market share. However, if the market is growing significantly but the company's market share is shrinking, the company is facing a major problem. Alternatively, if the company's market share is thriving while market growth is falling, the company can enjoy its progress and increase its sales as much as possible. At this point, place and pricing can become more important as the company tries to reach the whole market to satisfy the already compromised needs. Finally, when the market is growing and the company's market share is also increasing, it means that the company has found its own niche and should continue the same strategic direction.

Notes

1. Gronroos (1994).
2. Yoo et al. (2000).
3. Oliver (1999).
4. Yoo et al. (2000).
5. Carpenter (1987).
6. Carpenter and Lehman (1985).
7. Kucuk (2008), Kucuk (2011).
8. Reibstein and Farris (1995).
9. Grewal et al. (1998).
10. Carpenter and Lehman (1985).
11. Ailawadi et al. (2001).

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CHAPTER 8

The Transformation

Abstract This chapter focuses on how the digital revolution has transformed marketing value creation. Changes in traditional marketing (the 4Ps) are examined alongside possible complementary e-marketing elements, and new marketing value elements (the 4Cs) are introduced. The chapter considers how each of these new marketing value-creation elements works in the digital world, and makes suggestions for management. It concludes with a new discussion on how to utilize today's e-value drivers in the light of the transformation of our understanding of marketing in the digital age.

Keywords 4C elements · Connectivity · Content · Community · Commitment · Integrated e-marketing value

Marketing theory and understanding have undergone fundamental changes during the last decade. The Internet has given rise to more sophisticated consumers, more fragmented markets, and rising consumer empowerment. What we are seeing today is a major marketing thought transformation, with increasingly active market involvement by consumers

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This chapter is based on my original article entitled "Towards integrated e-marketing value creation process", published in *Journal of Direct, Data and Digital Marketing Practice* in 2011, Vol. 12, pages 345–363.

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which is having a fundamental impact on many business and marketing operations. This consumer revolution, in which consumers are empowered and/or are acting as equal alternative agents and players in markets, has not been previously observed in traditional marketing.[1]

Clearly, traditional marketing-mix elements no longer build value on the Internet as they used to in physical markets. Without an understanding of today's digital value elements and their interaction with traditional marketing-mix elements, all the money spent by businesses on the 4Ps will be wasted. In order to balance the changing power dynamics in online markets, a re-conceptualization of new e-marketing value drivers and market meanings in today's visual spaces is inescapable. This chapter focuses on these transformative changes.

It has recently been proposed that consumer power can be balanced in the consumer decision process by four principal basic strategies: findability, credibility, convenience, and consulting.[2] However, this conceptualization does not reflect all the major changes in both markets and theory. The present work attempts to fill this gap by providing (1) an investigation of the transformation in marketing-mix elements; (2) a re-conceptualization of the new e-marketing value drivers—the "4Cs" of connectivity, content, community, and commitment—in today's digital world; and (3) an investigation of possible synergy effects in an integrated value-creation approach.

Complementing the Old with the New

Companies conventionally have had more control over value-creation processes, their marketing-mix elements, in physical markets. However, the advent of the Internet has seen a power shift in these processes. This section discusses the transformation in each marketing-mix element.

Product: At the beginning of the Internet revolution, marketers underestimated the rising importance of customization and wrongly assumed that marketer-generated value systems fit each segment's needs. However, the traditional assumption that all the segments were homogeneous was, in fact, often incorrect when assessing the needs and expectations of the individual online consumer. Today, each individual consumer requires individualized/customized products and services from a variety of companies. Thus, in order to satisfy individual consumer demand, companies attempt to successfully brand their online destinations (website or domain name) in order to pull consumers to

their website or, alternatively, make their website easy to find on the Internet. Now, through the Internet, consumers can easily access market and product information at any time from anywhere[3] and change the direction of consumption in the blink of an eye. Consumers have become far more actively connected and involved in their communications with markets about products and services, and have thus started to act as co-producers or equal partners of products/brands/contents rather than as passive acceptors of company-created (in some cases dictated) value.[4] Now, companies need consumers more than ever before in order to develop new products, services, contents, and brands. Many companies are now getting more help from consumers by communicating with them in their native habitat of online communities (this is known as crowd sourcing).[5] Finally, some products are simply not created for the Internet. For example, although some fashion companies (e.g. ASOS in the UK) have successfully started selling online, particularly targeting "tweens" and "generation Ys" on the Internet, the success of some other apparel companies is still not clear. Not every computer monitor is "color and size true," causing consumer dissatisfaction if the actual color or size of the product does not match the one displayed on the screen,[6] and companies need to develop the right strategies to eliminate or avoid such problems.

As a result, today we are at the tipping point of the consumer-driven economy rather than the traditional product-driven economy. Companies need to analyze constantly changing consumer trends and the way consumers connect, communicate, and interact with each other and markets in order to understand the impacts of this consumer-driven economy on product and brand successes.

Complementary E-Value Elements for "Product"

- **Connectivity:** draw consumer attention to your website and domain name with the right branding techniques, or make yourself easily findable on the Internet by consumers seeking your product/brand experience.
- **Content:** create interactive interfaces and website designs to provide an attractive product/brand experience.
- **Community:** collaborate with consumers in online communities for product and brand co-production (crowd sourcing).

- **Commitment:** compensate for possible disappointments caused by poor appearance, performance, or experience with products/brands in either their digital or physical forms.

Price: The Internet has reduced many barriers to market entry,[7] reducing market imperfections and increasing competition in favor of consumers. Increasing information availability and product varieties in markets eventually lower market prices. In other words, increasing market transparency and competition reduce company-dominated price control in the markets and empower consumers economically.[8] Consumers can now access better options using comparative search engines, and can easily detect price discrimination on the Internet.[9] An ever-increasing number of auctions and consumer-to-consumer markets indicate a rise in consumer involvement in market pricing mechanisms as, essentially, alternative company value construction systems. In other words, consumer online communities have transformed marketing from cost–profit-based pricing into consumer-influenced value pricing. Thus, companies now need to understand these communal and comparative value-creation elements in order to meet the right price levels for consumers in the marketplace. Finally, the digital presentation of price can be different than in the physical world. Consumer decisions can be influenced by where and how the price is introduced in the stores; they can be influenced by flashy banners, or even the font used for the price.[10] However, if you emphasize the prices more than the product features in your website, the product may be perceived as low quality when there are no other indicators of product quality. Thus, not only how a company reaches consumer-influenced value pricing, but also how these prices are introduced in company websites and e-mail campaigns is crucial for price success on the Internet.

Complementary E-Value Elements for "Price"

- **Connectivity:** Follow comparative search engines to see how your price levels compare with your competitors'.
- **Content:** Use the right color and font in your product and service prices and present the information in the right places on your website and your e-mails.
- **Community:** Watch consumer-to-consumer markets and e-auctions closely to understand the real market value of your product.

- **Commitment:** Clearly emphasize shipping costs and possible unknown costs (hidden costs) to eliminate possible misunderstandings beforehand.

Place: The essence of distribution is to provide convenience and bring expertise to consumers.[11] The Internet reduces many physical shopping hassles and costs for consumers, providing a convenient shopping experience. Consumers can now easily access product logistics information, which enhances understanding in terms of time, space, and availability—this has recently been conceptualized as "consumer logistics awareness."[12] Thus, companies need to provide easy ordering options and share product logistics information with consumers on their website to reduce possible misunderstandings, such as those caused by delayed delivery. Retail stores not only make products available for consumers but they also provide information and expertise through their sales personnel. Today, many consumers visit physical stores to learn more about products/services, then purchase such products online where they are discounted (this is called "online free-riding").[13] Alternatively, they collect information on the Internet by using search engines or listening to what other like-minded consumers are talking about in their blogs or social networks and then visit retail stores to experience the product in the physical store and eventually buy it there. Thus, the Internet has, in turn, caused cannibalization problems in many distribution channels. Companies need to understand how consumers utilize product information and logistics in order to reduce such negative free-riding behaviors and channel cannibalization.

Complementary E-Value Elements for "Place"

- **Connectivity:** Create visits between your website and the physical store. Provide Internet access in your stores to discuss other price/quality options in the markets in order to be able to control the negative effects of free-riding (e.g., Sear's real-time online in-store price comparison strategy in the USA). Support consumers at post-purchase stages with your expertise (e.g., BestBuy's Geek-Squad post-purchase tech-support services in the USA).

- **Content:** Provide clear information about the value of retail services, expertise, and product availability on your website so that consumers gain a better appreciation of your prices.
- **Community:** Be involved with consumer discussions and provide information about the services and products you provide to consumers.
- **Commitment:** Teach consumers about possible future risks if they buy products from free-riders. Provide product delivery information with tracking systems on your website so consumers feel that they are in control of the progress of their order through the distribution channel. This may reduce possible dissatisfaction caused by late deliveries.

Promotion: Capturing consumer attention with traditional promotion and communication tools is in sharp decline in today's digital markets. Traditional media advertisements have started to lose out to new digital communication tools such as social networking, blogging, and viral videos.[14] If companies really want to reach consumer minds and hearts, they need to use these tools effectively and be part of the mushrooming consumer social networks. Now, consumers are creating their own messages in their blogs, social networks, or company-supported UGC (user-generated content) spaces. It is clear that consumers are gaining greater control over media selection for purchase decisions and message dissemination on the Internet.[15] This, in turn, means that companies are no longer such active market message generators as they used to be. Today, e-WOM (electronic word of mouth) has better reach and exposure than many other traditional promotion tools.[16] Companies need to use the right communication tools and develop the right consumer messages in order to be able to maximize their reach and exposure in today's markets.

Complementary E-Value Elements for "Promotion"

- **Connectivity:** Use e-mail marketing that targets your sales promotion campaigns to repeat purchasers or consumers with promising lifetime value with your company. Monitor consumer blogs to be able to keep pace with consumer trends.
- **Content**: Provide consumer-generated or UGC platforms for consumers in your domain so that you can easily follow consumers. Closely

follow people who are blogging about you and your products/brands in order to understand changing consumer language and identity and to be able to talk with consumers on an equal footing.

– **Community**: Utilize viral videos and create effective e-WOM before major campaigns.
– **Commitment**: Provide personalization for your consumers to eliminate the hassle of inputting credit card and personal information every time they purchase.

It is clear that the exploration of each new marketing value driver in today's online markets is inescapable. Companies need to understand the changes in the traditional marketing-mix elements in order to complement the weakening functions of traditional marketing with new e-marketing value-creation tools (see Table 8.1).

New Is Not Always Good

Although companies can introduce e-marketing value elements into their marketing strategies, these elements do not always create perfect solutions, and perhaps sometimes create new problems. Thus, there is a need to

Table 8.1 Complementary e-value elements for traditional marketing-mix elements

4Cs	*4Ps*			
	Product	*Price*	*Place*	*Promotion*
Connectivity	Website branding (domain name)	Comparative SEM (findability)	Multiple contact in distribution channel	E-mail marketing (sales promotions)
Content	Website interface	Font and place Appropriateness on the website	Sharing expertise on the website	UGC: Blogging
Community	Crowd sourcing	e-auctions	Discussing service value	e-WOM:viral videos
Commitment	Compensations and guarantees	Clear presentation of shipping and hidden costs	Delivery tracking system	Personalization

discuss the new value elements and possible problems in order to achieve better-functioning marketing value drivers.

Connectivity: Connectivity is the first step in successful value-creation processes on the Internet. There are two important ways to connect with consumers on the Internet, which can be functionalized as enhanced addressability of the company's website and findability[17] of the website by consumers.

Addressability means that a company has knowledge about the consumer and targets or addresses the information on its website to that consumer or consumer segment. *Findability* is the ease with which a consumer can find the company. These connections are formed in opposite directions: addressability is from company to consumer, and findability is from consumer to company. These two components combine to create today's cutting-edge marketing philosophies: website branding, e-mail marketing, and search-engine marketing.

Consumers can be attracted to directly visit the company's website or can be directed to it through a link embedded in e-mail contents. Therefore, major addressability components can be discussed from two important perspectives: website branding and e-mail marketing.

Website Branding can be used as a major addressability tool to direct potential consumers to a company's website. Some websites or domain names are better branded than others. Some consumers go to the specific domain names knowing what they are looking for beforehand, while others prefer searching on the Internet. The most effective tool for creating effective website branding is choosing the right domain name. From a marketing point of view, the domain name reinforces brand identity and is generally used as an equivalent to brand name on the Internet. A company's domain name must be self-descriptive and provide clues about the company's products, values, and identity in order to be a facilitator of strong brand identity.

Although company domain names can be protected by trademark laws, cyber-squatters can copy the company domain name (cyber-squatting means domain name and trademark infringement) or take advantage of users' typing errors (typo-squatting is also called URL hijacking), causing a user to end up visiting a different website from the one intended. However, although there are different rulings about domain name infringement in different countries, there is one exceptional situation affecting the legitimacy of cyber-squatting in the USA: the right of free speech which is

protected by the First Amendment. In this context, the law protects many consumer-organized anti-brand sites[18] if they are not profit generating, thus limiting the effect of corporate legal action. Similarly, dispute resolution services (such as Nominet.org.uk) exist in the UK. Thus, either by enhancing the legal power of such sites with new laws and regulations or through resolution services, the consumer voice will eventually be empowered. The success of a company's website branding depends not simply on picking the right domain name, but also on predicting possible cyber-squatting and typo-squatting alternatives in order to protect the website's identity and reduce possible legal problems in the future, and, most importantly, to lead consumers straight to the intended Internet destinations.

Lessons Learnt

- Do not require your consumers to guess your domain names. Find domain names that speak directly to them.
- Watch out for all the possible derivatives of your domain name and buy all the possible domain names in order to prevent cyber-squatting and typo-squatting beforehand.

E-mail Marketing can be an excellent way to directly connect with consumers who are interested in your products/services. However, there have been many misunderstandings about e-mail marketing. It is helpful to first define what e-mail marketing is not, rather than what it is. E-mail marketing is not sending lots of e-mails to consumers who do not have any interest in your message. It is not about putting your message into a whisky bottle and throwing it into the ocean in the hope that somebody somehow finds it and contacts you. E-mail marketing is about communicating with consumers who are most likely to be interested in your products/services. The expected result is to eventually direct interested consumers to the company's website via the links embedded in the company's e-mail.

There are two ways to acquire the e-mail addresses of interested consumers:

(1) Companies can create their own lists by asking consumers for their e-mail addresses and permission to contact them. However, without understanding consumer interest an e-mail marketing

campaign's behavioral targeting will not be successful. Consumer targeting requires deep and fastidious data mining in broad areas of consumer interests, shopping histories, geographical locations, demographic configurations, etc. If an e-mail message, or its content, does not fit the targeted consumer's interest and expectations, company e-mails may be seen as spam. Although e-mail marketing can be seen as almost costless by companies it can create very high psychological costs for consumers and sometimes even destroy the company's reputation in the eyes of consumers.

(2) Companies can also buy more targeted e-mail address lists from service companies to communicate with potential consumers. Service companies collect consumer information and e-mail addresses for different reasons from different sources and classify their lists according to consumer interests, location, shopping habits, etc. The price and value of e-mail lists are generally determined by consumer response rates and how many sales are generated by such e-mails, as well as by the level of consumer permission given (either opt-in or double opt-in). Again, however, spam is a problem—not just consumer misperception and misinterpretation of company e-mails, but also spam filters. Some spam filter algorithms are highly sensitive and increasingly able to filter out any unwanted e-mail. Thus, companies need to understand the way spam filters work to be able to access their consumers without being quarantined and deleted by spam filters.

Lessons Learnt

- Do not send e-mails to consumers without knowing and understanding their needs. Otherwise, you will be treated as a spammer.
- Understand spam filter algorithms in order to prevent being trapped by your favorite consumers' spam filter.

Findability Many consumers start their shopping process by searching for what they need in the markets with the help of external or internal information sources. Search engines are one of the major external sources through which consumers find what they need on the Internet. The action starts on the consumer side in search-engine

marketing (SEM), unlike e-mail marketing, where the action orientation is from the company. In a general search process consumers try to find the best information about products or services among the millions of websites on the Internet with the help of search engines. A company's' findability in the digital world should be higher than alternatives so that the consumer can easily access and connect to the company website. This drives consumer traffic to the website, which can generate more exposure and ultimately sales.

Search engines use both simple and complex algorithms to rank the available websites in a list that best fits a consumer's keyword search. Many search engines determine their ranking by calculating the frequency of keywords on the websites, how many websites are linked to them, how many times the websites are visited, the website's use of metatags, and so on, to find the most appropriate range of websites that may match the consumer's search needs (this is also known as organic search or organic SEM). Alternatively, a company can pay search engines extra money to get their website found, or ranked higher in search-engine results (known as paid search or paid SEM). In either case a company needs to understand the algorithms behind search engine optimization (SEO) to generate a value for every dollar paid to search engines or for every adjustment they make to boost their website's findability.

On the other hand, although many websites use the rules and guidelines appropriately to optimize their rankings by applying these organic or paid SEO methods, some other sites might break some of these algorithmic rules and abuse the SEO process, using shortcut techniques (e.g., link hijacking, link farming, etc.) in order to be unfairly noticed.[19] Such methods (termed "black-hat SEO") can negatively impact the ranking of the websites that have fairly earned their rankings in the search-engine results.

Lessons Learnt

- Know the algorithms the search engines use to achieve better value for your costs.
- Pick the right keywords, ones that define you well and are able to be found easily in organic SEO results.
- Watch out for possible black-hat SEO methods. Every search engine has a different policy, so learn their policies in order not to be

classified a black-hatter. For example, BMW.de is blacklisted by Google because BMW websites were using techniques to artificially boost search-engine rankings (http://news.cnet.com/Google-blacklists-BMW.de/2100-1024_3-6035412.html).

- Although SEM techniques can boost companies' brand awareness in digital markets, strong synergy effects can be achieved if SEM is supported by e-mail marketing campaigns. In other word, addressability and findability should work together to optimize your message and brand awareness on the Internet.

Content: Although companies can successfully bring potential consumers to their websites by utilizing connectivity features, not many websites turn a consumer visit into a memorable or unforgettable experience. Thus, the content of a company website plays a very important role in creating market value. Many well-known online companies were born with this understanding of the value of innovative and interactive content that allows more consumer involvement in content-creation processes.

Website Content and Interface Website content functions like shelf space does in real-world retail stores. The website content is the first real exposure of the company's products, brand, or services, and thus it is a representation of the company's business philosophy in the digital world. The clarity and attractiveness of the website design and interface will play a crucial role in overall e-marketing and e-branding success in digital markets.

Well-crafted website content that meets consumer needs helps companies to reduce possible consumer perceptional biases and perceived risks.[20] This, in turn, ultimately improves the company's website branding. There are two aspects to consumption of website content: ease of use, that is, consumer perception of the effort needed to navigate a website and satisfy their needs; and usefulness—consumer perception of the degree to which using the website will improve their satisfaction. Each component is used to understand consumer acceptance of web-based technologies[21] and website quality.[22] If the website content includes a user-friendly design, interactivity, and useful features enabling online consumers to satisfy their needs, then the company is probably one step away from successful website branding.

Banner advertisements can be a part of a company's website content. If a website reserves too much space for banner ads, consumers might not be able to see and understand the values and meanings provided by the

website. Also, consumers might avoid looking at banner ads (banner blindness) or not remember what they see.[23] Placing the right banner ads with the right amount of information and features, at the right time, on the right website, for the right potential consumers is a real challenge for companies seeking to maximize advertising revenue while enhancing and protecting their brand reputation and image.

An effective way of providing a user-friendly and useful consumer experience is to shift control to consumers, allowing them to determine their own website preferences. This personalization of website features requires at least some control of content to be given up, as is also the case in UGC applications.

Personalization Website content should meet the specific task of increasing consumer involvement with the website and improving the consumer experience. These goals can be reached with personalization. Although not every consumer likes to personalize their website operations, the lack of a personalization option is sometimes seen as poor website design.

In general terms, personalization is like going to your favorite café and having your favorite drink ready when you appear at the door, even before you order it. Personalization is a process intended to predict individual consumer needs and consequently provide appropriate services through the website to satisfy those needs. Personalization requires a high level of interactivity with consumers, and very accurate information collection about current and future consumer needs. Once the individual consumer preferences are specified by the website user, the process is entirely computer driven. The personalized website content depends on the level of knowledge about the consumer and their preferences, needs, and tastes that the system has. The interaction between system and consumer needs to be efficient and build a strong relationship with the website user if it is to better serve both consumers and the company.

User-Generated Content Consumer control over content is generally limited as regards both website design and personalization. This limitation gives companies more control over their message and helps them to determine the level of their relationship with consumers. However, in the case of UGC, consumers are provided with platforms where they can freely generate their content and define the intensity of the relationship with companies, fellow consumers, and their brands. Most UGC is predominantly generated in the "blogosphere" and on social networking sites.

In UGC applications, a digital platform and the vast majority of content are provided to consumers to develop their own messages and value systems. Blogs are excellent examples of UGC: "*one study showed that four of five bloggers post brand and product reviews*" (Lamb et al. 2011: 251). Since many blogs also link to company websites, and constantly discuss products and brands, this eventually boosts company SEM efforts. In these digital environments, consumers can easily change or add new information to a website and achieve real-time and up-to-date communication with their audiences. Companies can pick words and phrases used by bloggers, and add them to their metatags for better findability. Consumers are also purchasing directly through blog links and posts.[24] Because most of the content is created by consumers, website owners just need to deal with organizing and providing new content opportunities around the website. In this way, companies who are the subject of the content-creation process can easily follow consumer thoughts and feelings about their brands and operations, in real time, with significant objectivity.

Because content is created by real consumers and the information sources are real persons, the message credibility is higher than for marketer-generated messages and content on the Internet.[25] Specifically, consumer-produced brand-related messages and information sharing are perceived as highly credible.[26] Many companies are trying to work with opinionated consumers and/or bloggers to positively promote their brands and stay ahead of the game. Hiring a blogger who can promote a company, an idea, or a brand is becoming a regular practice in today's markets. In the last national election in the USA, it was claimed that the Obama campaign hired 400 bloggers to influence the public (http://www.democraticunderground.com/discuss/duboard.php?az=view_all&address=132x5990249). The more control is transferred to consumers, the more credible your message and influence in the markets will be (see also Fig. 8.1). Similarly, the more places your brand and company are discussed with positive attitudes the better chance you have to be promoted by search engines. This feedback loop brings more traffic to your website, and potentially more revenue.

On the other hand, many companies are also monitoring websites in the blogosphere and social networking sites to learn more about possible consumer complaints before their brands are damaged.[27] Most importantly, because of the lack of control mechanisms on UGC websites to check the accuracy of such postings, hardly anyone knows when posts are false or include defamatory content. The credibility of this kind of sneaky

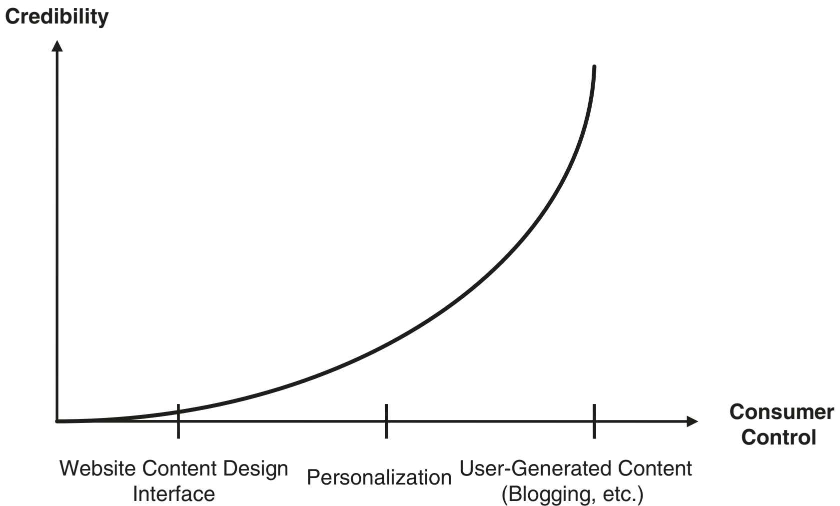

Fig. 8.1 Level of consumer control and credibility over content

advertising is, in fact, questionable, and the FTC (Federal Trade Commission) in the USA recently discussed the full disclosures of money or gifts received from companies by hired bloggers (http://www.nytimes.com/2009/10/06/business/media/06adco.html?_r=1&scp=2&sq=bloggers&st=cse).

Lessons Learnt

- Monitor bloggers regularly to learn more about your mistakes and successes, but also make sure that they are honest bloggers. Watch out for hired/fake bloggers who are targeting your company and brand. File a complaint with the FTC in the USA or perhaps with other related local government agencies if you have evidence of misrepresentation by a blogger.
- Carefully pick the consumers to whom you are willing to give more control in order to achieve message credibility in your content. Do not forget that they are your partners in today's marketing world, and treat them as such. Collaborate with them respectfully to create the most influential website content applications possible.

Community: The Internet has become a powerful social medium. Many online communities play a direct or indirect role in individual and communal consumption on the Internet.[28] Word of mouth generated in online societies (e-WOM) may have more impact on consumers than traditional advertisements.[29] Thus, understanding the role of such communities and the impact of consumer-to-consumer interactions on consumption is crucial.

In general, companies first provide the content for an online community, then the community becomes better organized and develops its own identities, norms, and values over time. Online communities are places where consumers can freely speak with companies and each other on the same footing, enjoying greater equality of speech.[30]

E-WOM and Viral Marketing Online communities are places where e-WOM can spread alarmingly fast.[31] Viral marketing is a process of developing techniques to create visible and influential WOM inside and outside the online community.

Not every attempt at viral marketing can achieve success, or even appear successful if it does. The level of consumer connectivity to other consumers (degree of connectedness) may play an active role. Some consumers are more connected with online communities (such as fans, loyal consumers) than some others (such as followers or daily readers). Fans are able, even delighted, to pass on information to large audiences. For example, in a recent interview Thomas Baekdal discusses the importance of fans in his calculations of social network exposure as follows:

> ...one active fan is worth 445 people. And you need to reach 14,000 people to get one active fan. Which also means that only 56 active fans can create just as much an exposure than a web site with 25,000 visitors (Sterne 2010: page 53).

This indicates that active fans leverage their connectivity to spread e-WOM, perhaps creating even better e-value than the original web content itself. On the other hand, even initiator consumers do not always have a high level of connectivity with others; the credibility of the consumer plays an important role in e-WOM success.

Another important feature is the credibility of the source that initiated the e-WOM. If the source is perceived as credible, the message can easily travel all around the digital world (see Fig. 8.1 and 8.2).

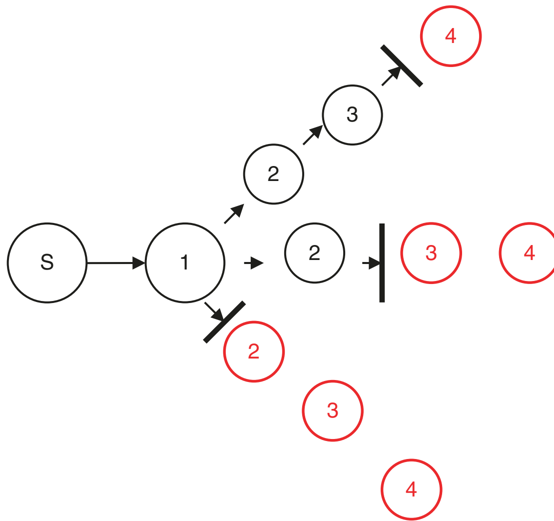

Fig. 8.2 Community and e-WOM

In Fig. 8.2, **S** stands for source or message initiator and the numbers following indicate the individuals that are linked to each other in a community. Not every message reaches the far corner of the network, such as the fourth person highlighted red in the upper right corner of Fig. 8.2. Some stop at the second person in the network; sometimes, if the nature of the message is not deemed suitable for the community's goals it is not even passed on to another person. However, if a message receiver (e.g., number 1 in Fig. 8.2) feels the message is powerful and in the appropriate context, and passes it to others, the message can travel significant distances in the network. The power of the story used in e-WOM can increase the acceptance and hence dissemination of the message within the network. A powerful story might generate a high level of exposure to consumers, no matter who first initiated the e-WOM (whether consumer or company). If the story has a lot to say, and is embedded with the right pictures and videos, e-WOM can spread fairly quickly and can reach the whole market. It can therefore be more influential than the traditional promotion strategies discussed in earlier chapters. Using the right content with the right story-telling approaches can enhance the power of e-WOM and maximize

its impact on consumers. For example, many ordinary people upload their videos onto YouTube, where they are accessed by millions of viewers in a short time, reaching higher levels of exposure than could have been achieved using traditional media.

There is no technical social filtering system on the Internet, but online communities are great social filtering systems, determining what is good or bad for consumers in the market.[32] In general, information about products and brands collected by community members goes through a review process (called collaborative filtering) and the evaluated information is shared with other members as appropriate for the community's purpose and mission. For example, a consumer can go to Netflix in the US market and learn about their friend's favorite movies instead of going through millions of options. It is increasingly possible for a consumer to sort search results in terms of who they know, their friends, or in-groups[33] in order to get more concise and better-filtered information for their own convenience.

Online communities are great places to learn more about your consumers. Many companies monitor such communities intensively (especially Twitter and Facebook) to learn more about their mistakes before possible negative e-WOM becomes disseminated to the whole market.[34] This, in turn, helps companies reduce their consumer service costs in real time. Others also use these communities to develop new products and brand meanings with the help of co-producer consumers (this is known as crowd sourcing). Online communities can also provide great opportunities to outsource some marketing functions to consumers. Clearly online communities have pushed the company/consumer partnership to a very meaningful level. Either way, connecting to such communities helps companies to strengthen consumer loyalty, develop better content, and perhaps higher brand visibility, thus better findability in SEO results.

Lessons Learnt

- Always (24/7) engage in online community conversations to follow and to understand recent consumer trends.
- Target your e-WOM to the people with high levels of both connectivity and credibility. Those consumers eventually open the door to new and valuable consumers.

- Work on your message carefully as well. The power of the message is as important as the source or the person who spreads the message.
- The essence of online community communication is well explained by Sterne (2010: 130) "*You can't control the conversation but you can guide the conversation.*" Thus, accept the idea that you are not the only owner of your own brand. It is highly possible that you could eventually lose your total control over your branding to consumers on the Internet. Try to develop a control mechanism (such as setting up a unit in your organization to monitor such communities regularly) that helps you to create frequent checks and balances with consumers. That, in turn, effectively continues your brand ownership.

Commitment: Increasing connectivity between/within consumers and companies has made meeting and doing business with strangers easy.[35] Also, if the information presented in the website content or communication content is confusing, false, or not up to date, it may increase consumer perceptions of uncertainty, and the need for commitment.[36] Although no party could be expected to exploit another's vulnerability in a trustworthy relationship, today's tech-savvy consumers have started to abuse the Internet's democratized structure, illegally downloading many digital products, hacking into company websites, and so on.[37]

From a marketing point of view, a high level of commitment and credibility is required to reduce future uncertainties and risks that consumers may perceive. Without consumer trust and company commitment, money, and effort spent on connectivity, content, and community would be wasted. For example, if a company delivers a birthday present two days late, the value created by e-mail marketing offers or an easy-to-use website, and the purchase support created through the online community would be zero. Some of the commitment issues are beyond the companies' control (for example, delivering a birthday package late because of a strike in the transportation sector). But there are some commitment issues that can be directly controlled by companies (providing compensation for the late delivery of a birthday package). Thus, the online company needs to introduce necessary guarantees to reduce possible uncertainties and repair disappointments.

Although such guarantees can carefully be calculated and developed by the company, if the company cannot clearly explain this in its website content a trustworthy relationship cannot be established.[38]

For example, many consumers stop buying a product in the middle of the purchase process because they are worried about giving out too much information or do not feel safe about the transaction. Clearly, there can be no e-business without customer information and databases. But companies who conduct ethical and respectful collection and use of consumers' personal information are able to deal with these kinds of hidden costs.

Although legislators make new laws to regulate markets, and some companies, such as McAfee, provide new technological solutions, consumer trust will continue to be a big issue in today's continuously changing technological environment. Companies may need to develop their own innovative and dynamic solutions to achieve and maintain trustworthy market relationships.

Lessons Learnt

- Do not underestimate third-party SEAL (social and emotional aspects of learning) programs from providers such as Truste, BBB, etc. The basic mentality of these programs helps you understand how to achieve effective and commitment-based relationships.
- If you do not use third-party SEAL programs, introduce unbiased and updated product/service information without any hidden or undisclosed costs on your website. Most importantly, provide the company's ethical code without any loopholes or indeterminate terms on your website.
- Provide more personalization options to reduce the stress for consumers of repeatedly filling personal information forms, etc. That also, in turn, helps consumers to make conscious choices.

Integrated E-Marketing Value Creation

The 4C elements described above help companies to create marketing value with different capacities in various situations. Today's e-marketing requires an integrated approach to value creation. This can be done by discussing the implications of possible roles in various theoretical marketing approaches for the 4C elements.

Consumer Decision Process

Recently it was proposed that consumer power can be balanced in the consumer decision process with four major strategies: findability, credibility, convenience, and finally, consulting.[39] A more detailed integrated approach, in light of the discussion above, is pictured in Fig. 8.3.

In the problem awareness stage, consumer category needs can be under the influence of possible online brands. Thus, brand awareness of an online brand or domain name can help consumers to determine a direction (whether go to a store or online) and requires traditional media advertising support. Once consumers enter the digital world they try to collect information to satisfy their needs. At this stage, connectivity supported by SEM and e-mail marketing can play an important role in providing product, place, price, choice, and information to consumers. Consumers can easily evaluate possible alternatives with the help of a clean and understandable website design and the support of online communities. Reading the experiences of other like-minded consumers with the possible alternatives, and listening to what is talked about in the market and online communities now plays a major role in purchase decisions. At the purchase stage, easy ordering and payment options, which can easily be supported with website personalization (for example, Amazon's one-click buy system), can bring great navigational conveniences for consumers. At the end of the purchase process, customers can discuss their experience of the company with fellow consumers in their blogs or communities—disseminating either positive or negative e-WOM. Thus, a company needs to understand how this new complaint and complement process works and accordingly develop solutions in the digital world.

Attention–Interest–Desire–Action (AIDA) Model

The effectiveness of the 4Cs can similarly be discussed alongside the AIDA model. Content is a very strong attention-catching tool on the Internet, especially with the increasing popularity and usage of smartphones. Connectivity is also very important at the attention stage as it is impossible to grab consumers' attention without being findable (e.g., by search engines) and addressable (e.g., accessing the deal and company website with e-mail marketing content). Connectivity and content play a paramount role in catching consumer attention (see Fig. 8.4).

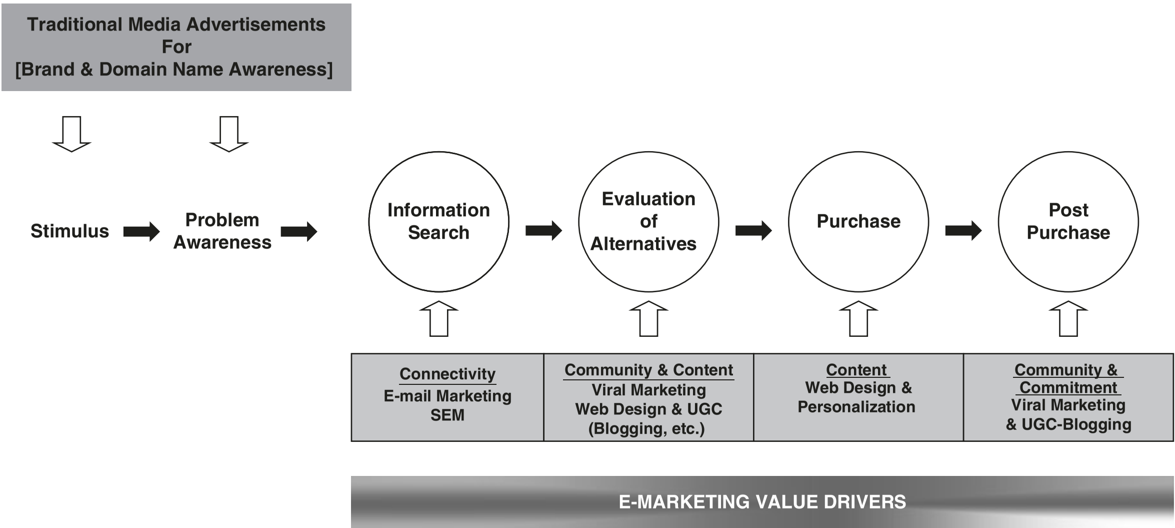

Fig. 8.3 The role of e-value drivers in the online consumer decision process

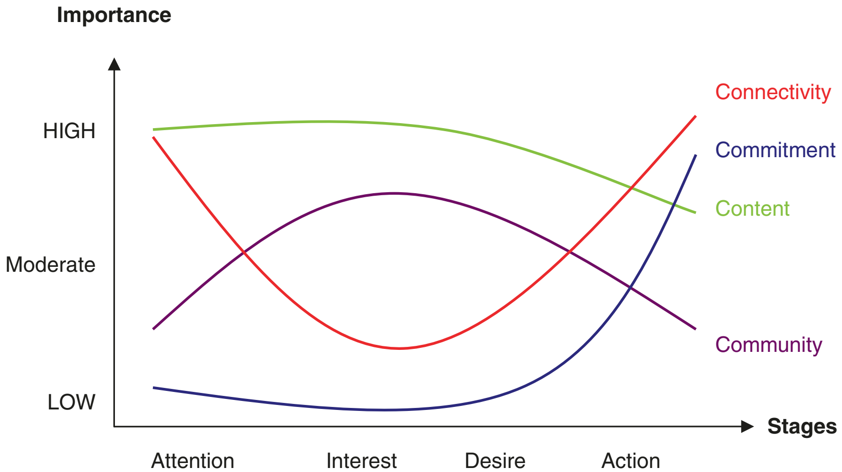

Fig. 8.4 AIDA and the 4Cs

At the interest stage, content continues to be important, supported by community. Positive e-WOM created in online communities can eventually grab consumers' interest as the credibility and influence of these messages are very high in both physical and online markets. Content can also be an effective tool fueling consumers' desire and motivating them to act to buy the product. Once the consumer is ready to act, the most important questions could be where and how to buy the product. Consumers can go back over the e-mails they received from the company or revisit the website to make the order, so connectivity regains importance at the action stage. Purchase guarantees and return policies play a significant role in consumers' preferences at the purchase stage as there can be significant gaps between what the product actually is and what it looks like onscreen. Commitment is very important at the action stage, as shown by the blue line in Fig. 8.4.

Brand Building

Some consumers go to specific domain names knowing what they are looking for beforehand, while others prefer to search using search engines and/or company-generated e-mail campaigns. The first step to creating brand awareness is to maximize consumer connectivity to the brand. Once consumers are

aware of the online brand, their attitude towards it can be shaped by listening to or reading what other consumers/friends are saying about it. Thus, online communities are major places where consumers' positive and negative attitudes are spread across the market. If consumers start using your brands, then your company has an opportunity to commit to providing the expected value elements every time consumers need your brand. This, in turn, opens the door to loyal consumers (see Fig 8.5).

Today's marketers are adding new and innovative digital tools to their marketing toolboxes every day. However, the effectiveness and efficiency of these digital tools in creating market value is not yet clear. Furthermore, none of these digital tools are able to create market value by themselves. Hence the need for companies to understand the e-marketing value-creation elements—connectivity, content, community, and commitment—to maximize their market value creation, eliminate unnecessary or duplicated marketing spending and take advantage of possible synergies. This study introduced an integrated e-marketing value-creation process and discussed the effectiveness of an integrated approach in relation to the consumer purchase decision process and to brand building by companies. The more that companies use the new digital marketing tools, the more they will need to understand the potential for integrative approaches to digital marketing.

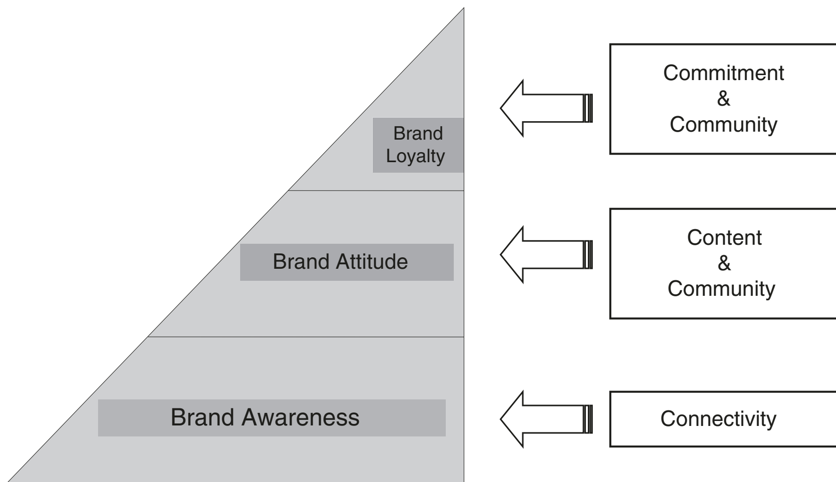

Fig. 8.5 Stages of brand building on the Internet

Notes

1. Kucuk and Krishnamurthy (2007), Kucuk (2009a).
2. Kucuk and Krishnamurthy (2007).
3. Kucuk and Krishnamurthy (2007).
4. Stewart and Pavlou (2002), Kucuk (2009a).
5. Sterne (2010), Mathieson (2010).
6. Kucuk and Maddux (2010).
7. O'Rourke (2000), Brynjolfsson et al. (2003).
8. Kucuk (2009a), Kucuk (2009b).
9. Kucuk and Krishnamurthy (2007).
10. Doyle and Bottomley (2004).
11. Ettenberg (2002).
12. Teller et al. (2006).
13. Kucuk and Maddux (2010).
14. Sterne (2010), Mathieson (2010).
15. Kucuk (2009a), Stene (2010), Kucuk (2009b).
16. Sterne (2010), Mathieson (2010).
17. Kucuk and Krishnamurthy (2007).
18. Kucuk (2008a), Krishnamurthy and Kucuk (2009).
19. Kucuk (2009a).
20. Kucuk and Arslan (2000), Pavlou (2003).
21. Kucuk and Arslan (2000).
22. Loiacono et al. (2002).
23. Hervet et al. (2010).
24. Sterne (2010).
25. Bickart and Schindler (2001), Johnson and Kaye (2004).
26. Hope (2002).
27. Kucuk (2008a).
28. Godes and Mayzlin (2009), Trusov et al. (2009).
29. Sterne (2010).
30. Kucuk (2008b).
31. Sterne (2010).
32. Kucuk and Krishnamurthy (2007).
33. Sterne (2010).
34. Kucuk (2008a), Krishnamurthy and Kucuk (2009).
35. Kucuk (2009a), Kucuk (2009b), Gefen (2000).
36. Kucuk and Krishnamurthy (2007), Kucuk (2009b).
37. Freestone and Vincent-Wayne (2004).
38. Kucuk (2009b).
39. Kucuk and Krishnamurthy (2007).

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