

# Solution Manual for CB5 5th Edition by Babin and Harris ISBN 9781133629689

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## CHAPTER 2 VALUE AND THE CONSUMER BEHAVIOR VALUE FRAMEWORK

### WHAT DO YOU THINK POLLING QUESTION

I get a lot out of shopping even when I don't buy anything.

Strongly disagree    1    2    3    4    5    6    7    Strongly agree

Have students access [www.cengagebrain.com](http://www.cengagebrain.com) to answer the polling questions for each chapter of *CB*. Ask them to take the online poll to see how their answers compare with other students taking a consumer behavior course across the country. Then turn to the last page of the chapter to find the What Others Have Thought box feature. This graph is a snapshot of how other consumer behavior students have answered this polling question thus far.

### LEARNING OUTCOMES

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

- 2-1 Describe the consumer value framework, including its basic components.
- 2-2 Define consumer value and compare and contrast two key types of value.
- 2-3 Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.
- 2-4 Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.
- 2-5 Analyze consumer markets using elementary perceptual maps.
- 2-6 Justify consumers' lifetime value as an effective focus for long-term business success.

### SUGGESTED LECTURE OPENER

Walmart, considered the world's largest retailer, is facing stiff competition from Amazon these days. Shoppers who are primarily focused on value are now turning to the world's largest online retailer Amazon for most of their value shopping. Walmart's target consumers were those who were primarily interested in low prices and not the overall shopping experience. This is where it lost to its competitor Amazon who scored by

providing more value to the shopper with their competitive prices and free shipping for many of their products.

Source: Brad Tuttle, "Today's Value Shopper Heads to Amazon, Not Walmart," Time Moneyland, April 10, 2012,  
<http://moneyland.time.com/2012/04/10/todays-value-shopper-heads-to-amazon-not-walmart/>

## **LECTURE OUTLINE WITH POWERPOINT® SLIDES**

Research in consumer behavior is not limited to identifying brands and products that customers most desire. Instead, researchers want to know why different consumers favor different brands. Exhibit 2.1 categorizes the favorite brands of young U.S. consumers by age group. Consumers' favorites are related to identifiable characteristics. These preferences are subject to change across time and situations. This change may be caused by different factors—demographic, psychological, cultural, and environmental. This chapter introduces the Consumer Value Framework (CVF) and some of the core concepts that tie all of CB together and make it actionable in marketing.

**LO: 2-1. Describe the consumer value framework, including its basic components.**

[Instructor PPT Slide 4]

**Q: Ask students to identify some of the factors that can change a consumer's favorite brands or products over time.**

**A: Answers will vary. Some of the factors that can change a consumer's favorites include declining quality, the perception that value gained is less than the perceived value, price increases, the influence from their reference groups or peer groups, situational factors, etc.**

[Instructor PPT Slides 5, 6]

### **The Consumer Value Framework**

The *Consumer Value Framework (CVF)* illustrates the factors shaping consumption-related behaviors and ultimately determines the value associated with consumption. Exhibit 2.2 displays the CVF in detail. All components in the model are interrelated and consist of the following elements:

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

**[Instructor PPT Slide 7]**

### **Value and the CVF Components**

The concept of value is at the heart of consumer behavior and it is discussed throughout the book.

**[Instructor PPT Slide 8]**

### **Relationship Quality**

*Customer Relationship Management (CRM)* has gained popularity over the years not just in marketing but in all of business. It is based on the assertion that customers form relationships with companies rather than companies conducting a transactional exchange of selling and buying. A CRM system facilitates customer-oriented decisions and lays the foundation for enduring relationships. *Relationship quality* reflects the connectedness between a consumer and a retailer, brand, or service provider.

**[Instructor PPT Slide 9]**

### **Consumption Process**

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

**[Instructor PPT Slides 10, 11, 12]**

### **Internal Influences: The Psychology and Personality of the Consumer**

Internal influences constitute the psychology of the consumer. For example, how will customers react to a price increase from \$80 to \$100? Does it matter whether an item is priced at \$69.99 or \$70? The psychology of the consumer involves both *cognition* and *affect*.

*Individual differences* are traits like personality and lifestyle differences that help determine consumer behavior. These traits define an individual's personality. A consumer with an outdoorsy personality might have a strong preference for a convertible than someone who is happy spending time indoors.

The psychology of the consumer is determined by two factors:

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

While cognition involves understanding and comprehension resulting in knowledge, affect deals with the emotional experience inherent in the consumption process.

The personality of the consumer accounts for individual differences. A consumer who is a fitness enthusiast may attribute high value to a 24-hour fitness center that gives him access to workout facilities at any given time of the day. However, a consumer who is

indifferent to workout regimens may perceive the center as being no different from other fitness centers.

**[Instructor PPT Slides 13, 14]**

### **External Influences**

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

Society and culture emphasizes conformity to rules that decide life's choices and consequently consumer choices. Situational influences which are mostly contextual to specific situations affect consumer behavior. Reference groups like family and friends have an impact on consumer behavior.

**Q: Ask students to recall a recent solitary shopping experience. How is the experience different from shopping in a group? Does shopping with peers influence their buying decisions?**

**A: Answers will vary. While shopping alone, people have a lot of time at their disposal to go through all the products, weigh their pros and cons, and then make a decision, whereas shopping with peers will influence the buying decision to some extent as shoppers may have less time, or be influenced by the opinions of their peers.**

**LO: 2-2. Define consumer value and compare and contrast two key types of value.**

**[Instructor PPT Slide 15, 16]**

*Value* is a personal assessment of the net worth obtained from an activity. Value is what drives consumer behavior. It is what fuels repeat purchases. Value is not synonymous with quality or customer satisfaction associated with a product or service. As the example in the book illustrates, a person who chooses to eat in a fast-food restaurant may relinquish quality of food for lower prices and faster service.

**[Instructor PPT Slide 17]**

### **The Value Equation**

Exhibit 2.3 demonstrates the value equation—“what you get” for “what you have to give.”

What you get = benefits such as quality, convenience, and nostalgia

What you give = time, money, and effort

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

While value can be of many specific types, the CVF in the book uses a value typology consisting of only two types—hedonic and utilitarian values.

### **[Instructor PPT Slides 18 - 21]**

#### **Utilitarian Value**

*Utilitarian value* is linked to products that solve consumers’ problems and facilitate task achievement. An example of utilitarian value would be buying a shampoo to clean one’s hair. The actual process of cleaning may be far from gratifying for the customer but the accomplishment of getting something cleaned is what gives the customer gratification.

#### **Hedonic Value**

*Hedonic value* is the immediate gratification that comes from experiencing some activity. As it is emotional and subjective in nature, hedonic value is not a means to an end, but an end in itself. An example of hedonic value would be riding a roller coaster.

It should be noted that consumers can derive both utilitarian and hedonic values from the same experience. The book uses the example of parents taking their children to the movies. It assures the children’s happiness as well as the parents’ enjoyment. Exhibit 2.4 further explains this concept.

A person who chooses a quick takeaway for a bite on the run is not actually thinking of settling down in a fancy restaurant that provides quality food with impeccable service.

Restaurants that provide one of the values will survive as against places that are low on both values. A consumer is most likely to repeat an experience of a place that serves high-quality food in a great atmosphere with efficient staffs.

**Q: Ask students to give examples (other than the ones provided in the text) of products that deliver both hedonic and utilitarian values.**

**A: Answers will vary. For example, when a person buys a chocolate bar, he or she intends either to consume it or to give it to someone. This is the utilitarian value of the chocolate bar. The hedonic value of the chocolate bar comes into**

**play when that person consumes it and enjoys the taste, or gifts it and sees the pleasure on the receiver's face.**

**LO: 2-3. Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.**

**[Instructor PPT Slides 22 - 25]**

### **Marketing Strategy**

Exhibit 2.5 indicates how business strategy exists at different levels.

- *Corporate strategy* – This strategy deals with how the firm will be defined and sets general goals.
- *Marketing strategy* – Refers to approaches a company uses to create value for customers. Marketing myopia develops when an organization ignores value in product business. It is a condition in which a company views itself competing in a product business rather than in a value, or benefits producing, business.
- *Marketing tactics* – Refer to the ways in which marketing management is implemented. They involve price, promotion, product, and distribution decisions.

**[Instructor PPT Slides 26, 27]**

### **Total Value Concept**

Exhibit 2.6 shows the relative market share for top athletic shoe companies in the U.S. Despite the relative similarity of products as well as the prices they sale for, the market share for the competing brands varies widely. Even as Nike dominates almost half the total market, its advertising budget is almost double of its nearest competitor. It is worth noting that among serious runners (people who run more than 10 mile a week) Nike and New Balance have an almost equal market share. Different brands create value for their products in different ways. An apple iPad will have no value without WiFi or a service plan. Apple offers more than 200,000 apps for its iPad. These apps increase the value of the product. The term *augmented product* means the original product plus the extra things needed to increase the value from consumption. *Total value concept* is practiced when companies operate with the understanding that products provide value in multiple ways.

### **The Total Value Concept Illustrated**

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

- Transportation
- The Ferrari service plan
- The feelings associated with driving the car
- The positive feelings that go along with ownership
- The feelings of status and pride that come with ownership
- The negative feelings that go along with ownership

**[Instructor PPT Slide 28]**

### **Value is Co-Created**

Value is not created by the marketer alone; the consumer adds his or her own resources to the consumption process so that value is co-created. The benefits offered by a 24-hour fitness center can turn into value only when the customer applies his diligence, skill and effort to a workout regime.

**Q: Ask students to explain the total value concept for different types of products and services, such as fast food, coffee, jeans, a massage, etc.**

**A: Answers will vary. Encourage students to use the book as a guide for comprehending the concept of total value. For example, when a person buys a new air-conditioner, he or she pays for the product, its installation, breakdowns, and maintenances. At the same time, he or she enjoys the experience of owning an air-conditioner and also enjoys the cool air generated by the air-conditioner. And, at some point in time, he or she will have to dispose of it as well.**

**LO: 2-4. Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.**

**[Instructor PPT Slide 29]**

Marketing management involves managing the marketing mix and deciding to whom the effort will be directed. The *marketing mix* is the combination of product, pricing, promotion, and distribution strategies used to position the brand in the marketplace. *Target market* is a term used to signify the particular market segment that a company will serve with a specific marketing mix.

**Q: Give students a product, such as a car and list its characteristics and attributes. Based on these characteristics, students must identify possible target markets for the car and justify their answers.**

**A: Answers will vary. For example, if the car is a sports car, it will appeal more to a younger age group. If the car is built for durability and utility and can seat five or more people, it will appeal more to people who want a family car.**

**[Instructor PPT Slide 30]**

### **Market Segmentation**

*Market segmentation* is the separation of a market into groups based on the different demand curves associated with each group. There may be many or few market segments

(groups of people with similar characteristics) in any given market. Exhibit 2.6 depicts the market segmentation process.

*Elasticity* is a term that is used to demonstrate the degree to which a consumer is sensitive to changes in some product characteristic. The example in the book suggested that there was more elasticity in the price variable versus the warranty variable when consumers purchase tablet computers. In many cases, segmentation is a consequence of consumers' unique preferences.

Exhibit 2.7 depicts the market segmentation process. *Backward sloping demand* refers to the situation where a positive relationship exists between price and quantity. *Product category demand* explains the market segment for many products that features a positive price-quantity demand relationship. The book uses the example of two perfumes—Trés Cher sold by the gallon and Chanel No.5 sold by the ounce. Athletic shoe consumers may defy the normative and negative price-quantity relationship as they perceive name brand products as more valuable than bargain brands. This added value maybe attributed not just to the tangible characteristics of the shoes but also from the feelings that come along with knowledge of the brand. Consumers perceive the values of different alternatives differently resulting in segmentation.

[Instructor PPT Slides 31, 32, 33]

### **Product Differentiation**

*Product differentiation* is a marketplace condition in which consumers do not view all competing products as identical to one another. An example of product differentiation is how many people see Internet retailers differently. Market segments can be identified based on the way different consumers view Internet shopping and their differing sensitivities to the characteristics of Internet transactions.

**Q: Ask students to pick a product category and analyze the ways in which different brands differentiate their product offerings. How do brands differentiate their offerings for consumers within the same market segment (teenagers, Hispanics, professional women, etc.) and across different market segments?**

**A: Answers will vary. Encourage students to use the book as a guide for comprehending the concept of market segmentation and product differentiation. For example, a shampoo may be differentiated across different market segments as shampoo for children, women, or men. The shampoo can be further differentiated within the same market. For example, within the shampoo for women category, there may be shampoo for damaged hair, to fight hair fall, to prevent dandruff, etc.**

**LO: 2-5. Analyze consumer markets using elementary perceptual maps.**

[Instructor PPT Slides 34, 35]



### **Analyzing Markets with Perceptual Maps**

Product differentiation becomes the basis for product positioning. *Product positioning* refers to the way a product is perceived by a consumer and can be represented by the number and types of characteristics that consumers perceive.

### **Perceptual Maps**

*Perceptual maps* are used to depict the positioning of competing products graphically. A *blue ocean strategy* seeks to position a firm so far away from competitors that, when successful, the firm creates an industry of its own and at least for a time, isolates itself from competitors.

[Instructor PPT Slides 36]

### **Illustrating a Perceptual Map**

Exhibit 2.8 illustrates a perceptual map depicting consumer beliefs about tourist attractions in New Orleans, Louisiana.

The perceptual map allows several key observations. Some of which are:

- The competition among attractions viewed as highly authentic and relaxing is intense.
- Two segments, Culture Explorers and Knowledge Seekers, possess ideal points near the five segments.

After analyzing the perceptual map, the analyst can draw several conclusions:

- The highest demand positioning is in quadrant IV (highly authentic – relaxing).
- An opportunity may exist in quadrant I. Here, major competition for the adventure seeking market appears absent. The advantage of positioning a new business away from the competitors is that it takes fewer resources to get started because the major competitors are not likely to see the new offering as a threat.

**Q: Have students choose an example of a product (i.e., car, makeup, household product) using Exhibit 2.8. Students can come up to the board or draw a perceptual map in their notebooks for a classroom discussion.**

**A: Answers will vary. For example, the perceptual map for a car may include dimensions like classic, distinctive, conservative, sporty, practical, or affordable. A consumer will then plot the cars he is considering along these dimensions and finally buy what he thinks is the best for him.**

### **Using Consumer Behavior Theory in Marketing Strategy**

Businesses are constantly using consumer behavior to make better strategic and operational marketing decisions. Exhibit 2.9 in the book displays a consumer behavior analysis checklist that is used by simply applying each question to the given situation.

**LO: 2-6. Justify consumers' lifetime value as an effective focus for long-term business success.**

**[Instructor PPT Slide 37, 38]**

**Value Today and Tomorrow—Customer Lifetime Value**

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

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

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

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

**Q: The value the company receives from exchange may be slightly easier to explain than the value that a consumer receives. Explain.**

**A: The value the company receives from exchange may be slightly easier to explain than the value that a consumer receives. This is because a company has access to numerical data like sales figures and costs figures, which help in calculating a customer's worth, whereas the only numerical data available to a customer is that of the money he or she spends on a product or service. It is not possible for the customer to assign a numerical value to the satisfaction or dissatisfaction he or she has gained from using the product or service.**

There is no single blueprint for successful and effective positioning. Many times firms are tempted to adopt another firm's successful marketing strategies. When Blackberry moved away from its positioning as the premier utilitarian value phone toward a hedonic value positioning as adopted by the Apple iPhone, its sales suffered.

**[Instructor PPT Slide 39]**

Video material for this chapter is starting on page 18 of the IM

**END OF CHAPTER MATERIAL**

## REVIEW QUESTIONS

(\* ) Indicates material on prep cards.

1. Why do a consumer's "favorite things" differ from one consumer to the next?

**Answer:** A host of factors influence our likes and dislikes for activities and goods. Why do preferences change? This is a complicated question and one that becomes only more complicated when other factors are considered besides obvious characteristics like demographics. What about psychological factors, cultural factors, and environmental characteristics? All of these can change a consumer's favorites.

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Knowledge

Difficulty: Easy

2. How is the Customer Value Framework useful?

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

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Knowledge

Difficulty: Easy

3. \*What is the difference between an internal influence and an external influence?

**Answer:** Internal influences are things specific to an individual consumer. They include individual difference variables like demographics and lifestyle – but also the psychology of the consumer. External influences involve things outside the consumer like society and situational influences.

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Knowledge

Difficulty: Easy

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

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

BUSPROG: Analytic

DISC: Product

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Application

Difficulty: Moderate

5. \*In what ways can using Twitter to tweet to others provide value? What type of value does tweeting provide?

**Answer:** Just look for students to use the concepts of utilitarian and hedonic value correctly in their examples. Such as, informing others where to meet – utilitarian value and participating in a humorous tweet - hedonic value.

BUSPROG: Analytic

DISC: Product

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Application

Difficulty: Moderate

6. What is the core concept of consumer behavior? Define it and use an example from your own life to illustrate its meaning.

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

BUSPROG: Analytic

DISC: Customer

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Knowledge

Difficulty: Moderate

7. Define and distinguish marketing strategy, corporate strategy, and marketing tactics, and provide examples. You may consult the Internet for names of well-known marketing firms.

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

BUSPROG: Analytic

DISC: Strategy

LO: 2-3

Topic: A-head: Marketing Strategy and Consumer Value

Bloom's: Evaluation

Difficulty: Moderate

8. What is the total value concept? Can you use the total value concept to explain why Callaway golf or Starbucks are such successful companies?

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

BUSPROG: Analytic

DISC: Product

LO: 2-3

Topic: A-head: Marketing Strategy and Consumer Value

Bloom's: Application

Difficulty: Moderate

9. What is marketing myopia? How does it relate to the total value concept? Does it apply equally today as thirty years ago?

**Answer:** Marketing myopia results when firms define themselves based on the product they produce rather than the value they provide. Firms avoid myopia when they practice the total value concept. The question about it applying equally should generate interesting debate. An argument can be made in either direction – but the case is easier to make that it applies equally in the past, today and in the future.

BUSPROG: Analytic

DISC: Strategy  
LO: 2-3  
Topic: A-head: Marketing Strategy  
Bloom's: Analysis  
Difficulty: Moderate

10. In what way are market segmentation and product differentiation similar? How are the two concepts different?

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

BUSPROG: Reflective Thinking  
DISC: Customer  
LO: 2-4  
Topic: A-head: Market Characteristics: Market Segments and Product Differentiation  
Bloom's: Analysis  
Difficulty: Moderate

11. What is a perceptual map? What are the dimensions of a perceptual map?

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

BUSPROG: Reflective Thinking  
DISC: Product  
LO: 2-5  
Topic: A-head: Analyzing Markets with Perceptual Maps  
Bloom's: Knowledge  
Difficulty: Easy

12. What is meant by product positioning?

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

BUSPROG: Reflective Thinking  
DISC: Product  
LO: 2-5  
Topic: A-head: Analyzing Markets with Perceptual Maps  
Bloom's: Knowledge

Difficulty: Easy

13. List at least three ways in which a firm can use a perceptual map to analyze a given consumer market.

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

BUSPROG: Analytic

DISC: Customer

LO: 2-5

Topic: A-head: Analyzing Markets with Perceptual Maps

Bloom's: Analysis

Difficulty: Challenging

14. \*How do marketing firms assess the value of a given customer?

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

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-6

Topic: A-head: Value Today and Tomorrow—Customer Lifetime Value

Bloom's: Knowledge

Difficulty: Easy

15. How do you feel about companies who give special perks like discounts or preferred seating to their “best” customers? Is this treatment fair?

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

BUSPROG: Ethics

DISC: Customer

LO: 2-6

Topic: A-head: Value Today and Tomorrow—Customer lifetime value  
Bloom's: Evaluation  
Difficulty: Challenging

### **INTERACTIVE/APPLICATION EXERCISES**

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

- Home Depot
- Apple
- Barnes and Noble
- John Deere

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

BUSPROG: Analytic

DISC: Customer

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Application

Difficulty: Challenging

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

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

BUSPROG: Analytic

DISC: Customer

LO: 2-3

Topic: A-head: Marketing Strategy and Consumer Value

Bloom's: Application

Difficulty: Challenging

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



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

BUSPROG: Analytic

DISC: Strategy

LO: 2-5

Topic: A-head: Analyzing Markets with Perceptual Maps

Bloom's: Application

Difficulty: Challenging

19. Interview several consumers, and ask them about their concerns when choosing a fast-food restaurant. Using these results, estimate the location of the ideal points for different fast-food markets on the perceptual map that you developed in Question 17. Then, prepare an executive summary (bulleted list) indicating potential opportunities that exist within this market. Also state which restaurants appear to have the best and the worst positioning, respectively.

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

BUSPROG: Analytic

DISC: Strategy

LO: 2-5

Topic: A-head: Analyzing Markets with Perceptual Maps

Bloom's: Application

Difficulty: Challenging

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

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

BUSPROG: Analytic

DISC: Strategy

LO: 2-1, 2 4, 2-5

Topic: A-head: Value and the CVF Components, Analyzing Markets with Perceptual Maps

Bloom's: Synthesis

Difficulty: Challenging

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

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

BUSPROG: Analytic

DISC: Customer

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Knowledge

Difficulty: Easy

### **GROUP ACTIVITY**

\* Assign each team member to closely examine a different component of the CVF (internal influences, external influences, etc.). Develop and act out a short skit in which each person explains to a store clerk why they are selecting to purchase a specific type of smartphone in terms only of the concepts that go along with the particular component of the CVF. In other words, is there a certain type of device that would be more likely to be selected based on external influences rather than internal? In the skit, each person must use the following words: value, hedonic value, utilitarian value, motivation, benefits, cost and time. Have some fun with this activity!

**Answer:** No specific answers exist. Rather, this is an opportunity for the students to elaborate on core concepts of the CVF.

### **CHAPTER VIDEO SYNOPSIS**

**To view the video case E-business at Evo, go to the CB companion website [login.cengage.com](http://login.cengage.com) to select this video.**

When ski enthusiast Bryce Phillips launched Evo from his garage in 2001, the sports-equipment company consisted of an Internet connection, used ski gear, and a single employee. Bryce wanted to build a brand that was exciting, unique, that would last for a long time and that would cater to the demands of a particular niche. He opened a store in 2005. Today the Seattle-based ski-and-snowboard retailer is the premier online destination for closeout-model equipment and apparel. Consumers of ski and water sport products choose Evo for its online shopping experience, discounted brand name merchandise, and no-haggle customer service.

Evo gained online recognition through the brand's efforts to connect with consumers. Bryce and Nathan Decker, who is in charge of e-commerce, differentiated their brand through content and the personalities of the employees who worked for Evo. Marketing strategies such as marketing plans for the holidays, free and expedited shipping, good value in terms of price and selection gave Evo online recognition and competitive advantage over other sites. Evo's success can be credited to its strong focus on customer relationship management. Since customers place importance on the value they receive from the consumption process, Evo makes sure that customers receive both hedonic and utilitarian value from its brand.

**Ask your students:**

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

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

BUSPROG: Analytic

DISC: Customer

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Knowledge

Difficulty: Easy

2. How does Evo offer value to its customers?

**Answer:** Evo offers its customers utilitarian value as well as hedonic value. Customers are given good value in terms of price, product range and selection, expedited shipping, free shipping, and good customer service. All these options increase the utilitarian value for customers. Customers also enjoy shopping online on Evo's website as it is quite different from the other websites in terms of content on the site and personality of the employees with whom they interact. This provides customers with hedonic value.

BUSPROG: Analytic

DISC: Customer

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Comprehension

Difficulty: Moderate

3. Explain a significant competitive advantage Evo offers customers.

**Answer:** Evo gives its customers a better online shopping experience than its competitors. This is a significant competitive advantage that Evo has over its competitors. Their website is designed with great content and they ensure that they provide good customer service to all. Their strategies to enhance the online shopping experience of customers include the addition of a log-in feature to the site and a package builder tool. The package builder tool will provide relevant matches to skis that customers can't find matches for. Thus customers who shop online will consider the buying process bringing them high hedonic value. Apart from this, Evo also provides free shipping for the items purchased online, a wide selection of items, good value in terms of price. This provides high utilitarian value for customers. Evo can thus segment its market by targeting customers who prefer shopping online. Evo also sells street wear apart from skis, snowboards, wakeboards, skateboards and so on. This product differentiation strategy gives it an upper-hand over its competitors.

BUSPROG: Analytic

DISC: Customer

LO: 2-3 | 2-4

Topic: A-head: Marketing Strategy and Consumer Value | Market Characteristics: Market Segments and Product Differentiation

Bloom's: Analysis

Difficulty: Challenging

## **PART 1 IN-TEXT CASE ANSWERS**

### **Case 1-1 IDEO: Consumer-Focused Innovation**

#### *1. Where does IDEO get inspiration for its product designs?*

**Answer:** IDEO's inspiration comes from the consumer. IDEO's product development teams use the "deep dive" process which consists of putting themselves into the consumers' shoes. The resulting experience is very revealing in terms of understanding consumers' needs and what challenges they face in owning and using a product. Without direct personal experience, it is difficult to determine which features and benefits consumers will value most. Optimal product design must happen from the standpoint of the end-user.

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Analysis

Difficulty: Challenging

#### *2. What kind of value do you think successful products deliver to consumers?*

**Answer:** Successful products need to both “do the job” and create a rewarding personal experience. A well-designed product means that people enjoy using it because it makes their lives easier, or makes them feel good about themselves. There are many dimensions of this “feel good” or hedonic, aspect of product design. A person may gain a sense of status from owning an expensive car, or may derive a sense of freedom or empowerment from owning a fast car. The car is not just a thing that gets you from here to there; it’s also who you feel driving it.

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom’s: Analysis

Difficulty: Challenging

3. *Why do you think having a product that just “works” doesn’t always translate to consumer acceptance?*

**Answer:** Consumers have many needs. These include both physical and psychological needs. A product that works but is unpleasant in some way – hard to manipulate, unattractive to look at, or reminiscent of something unpleasant – will likely not catch on. In today’s society consumers have many choices; competitors abound. If one product just “does the job” (i.e., the corkscrew opens the wine bottle) while another is also easy to use and beautiful to look at, which one will the consumer most likely prefer?

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom’s: Analysis

Difficulty: Challenging

4. *What is the relative importance of the utilitarian versus the hedonic value of products as suggested by the work of IDEO?*

**Answer:** IDEO’s success seems to come from the fact that they understand that utility alone isn’t enough, which is why their product development strategy requires total immersion in the consumer experience. When a new product is developed which solves a problem that no other product has solved before, then very likely the utilitarian function will prevail. For example, the first mass-produced automobile, the Model T Ford, came in one style and one color, with Henry Ford famously observing that consumers “can have a Model T in any color so long as it is black.” General Motors challenged the Model T by introducing cars in different styles and colors because there were people who sought variety, a hedonic function.

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Analysis

Difficulty: Challenging

5. *Do you agree with Albert Einstein's observation that "genius is 1% inspiration and 99% perspiration?" Explain your answer.*

**Answer:** Insights don't come out of nowhere. People who succeed in solving problems usually have spent a good deal of time thinking about and looking at the problem. IDEO realizes that it's not possible to solve consumers' problems without understanding them first, which is why the process of total immersion or the 'deep dive' is so important. Since individuals are motivated by a complex set of both utilitarian and hedonic needs, the product that will deliver the biggest bundle of needs satisfaction will be the most appealing to consumers.

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Analysis

Difficulty: Challenging

### **Case 1-2 Born or Reinvented in the "Foreign" land?: Examining Brands and their Country-of-Origin**

1. *Examine further the "2011 Ranking of Top 100 Brands." Classify these brands while considering the product category/sector and the country of origin. Can you detect a pattern? For example, do you see that strong players in the automotive sector emerge largely in Western Europe?*

<b>Industry/Sector</b>	<b>Country/ Region</b>	<b>Brands</b>
Automobiles	Western Europe (Germany, Italy)	BMW, Porsche (Germany) Ferrari (Italy)
Apparel		

BUSPROG: Reflective Thinking

DISC: International Perspective

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Analysis  
Difficulty: Challenging

2. *List all the brands that you have in your home. Then, research to find the country-of-origin of all the brands on your list. What do you find? How can marketing professionals make use of the information that you have analyzed?*

This exercise will help students create an inventory of brands they interact with each day even without realizing it. Students might notice a pattern regarding the ownership of brands by companies and their corresponding country-of-origin.

<b>Brand</b>	<b>Company</b>	<b>Country/Region (of company headquarters)</b>
Colgate Toothpaste	Procter and Gamble	USA
Oreo cookies	Kraft Foods	USA
Macaroni and Cheese	Kraft Foods	USA

BUSPROG: Analytic  
DISC: International Perspective  
LO: 2-4  
Topic: A-head: Market Characteristics: Market Segments and Product Differentiation  
Bloom's: Analysis  
Difficulty: Challenging

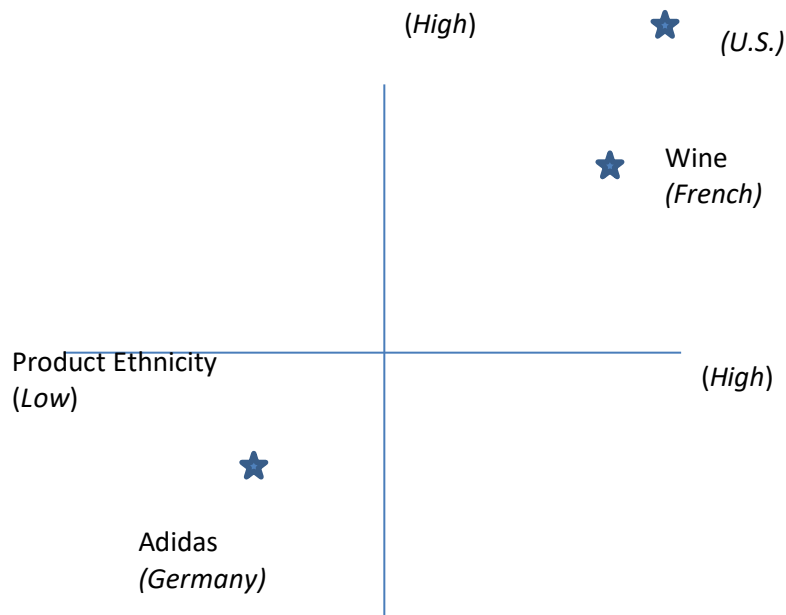
3. *Use the "2011 Ranking of Top 100 Brands" table to test the level of BoK of at least 5 people (excluding yourself). Examine and write a short reflection on how the extent of their knowledge varies with the lifestyles of these individuals.*

This exercise will be an independent quiz that students "play" with other students as if it were a *test your knowledge* game.

BUSPROG: Reflective Thinking  
DISC: Strategy  
LO: 2-4  
Topic: A-head: Market Characteristics: Market Segments and Product Differentiation  
Bloom's: Analysis  
Difficulty: Challenging

4. *Your textbook refers to the concept of perceptual maps. Construct a perceptual map using the following 2 dimensions: (i) product ethnicity (low vs. high), and (ii) level of BoK (low vs. high). Choose to represent at least 10 brands or product categories on the map. You may use the list of brands/categories available at the interbrand website to populate a list for the map. Use the information from c) above to identify average level of knowledge for product ethnicity and extent of BoK.*

**Suggested answer:**



*(Note that the perceptual map above is just one example of student response).*

BUSPROG: Analytic

DISC: Product

LO: 2-5

Topic: A-head: Analyzing Markets with Perceptual Maps

Bloom's: Analysis

Difficulty: Challenging

5. *Using the information in question c) above, how do you think a company can enhance its understanding of market segmentation so as to efficiently target a marketing message to its potential and existing consumers?*

This exercise will help students map consumer personality and habits with level of BoK. After the completion of c) above, students should attention to the personality traits or ownership status of their friends who got most answers correct. For example, if one student was able to answer questions relating to the location of luxury products companies such as Cartier, then it will be interesting to examine the lifestyle pattern of this student – is the student consuming such luxury products and therefore his or her enhanced knowledge over other students? Or, is it that this student has traveled across the globe? It could also be that this student is just interested in such information.

BUSPROG: Analytic

DISC: Customer

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Reflective Thinking

Difficulty: Challenging



### **Case 1-3 DemandTec®: Using Collaborative Analytics in a Fragmented Latin American Market**

1. *Predictive models used by Target®, identified changes in the purchase behavior of female shoppers, which indicated they might be pregnant, including increased spending on supplements important to neonatal development as well as unscented soaps and lotions. What other changes in purchase behavior might indicate that a female shopper is expecting?*

Answers will vary. Students may list types of products an expectant mother might purchase including infrequently purchased items (crib, high chair, car seat) as well as volume purchases of newborn supplies (newborn diapers, baby bottles, formula). Students may also list products which indicate a lifestyle change.

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Application

Difficulty: Challenging

2. *How does the use of collaborative analytics provide value to the consumer and help to facilitate exchanges between buyers and sellers?*

The use of collaborative analytics helps marketers predict and better understand the needs of consumers. Predictive models assist marketers in the creation of a marketing mix focused on the needs of consumers, which creates value. Creating the right marketing mix for consumers facilitates the exchange process.

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-5

Topic: A-head: Analyzing Markets with Perceptual Maps

Bloom's: Knowledge

Difficulty: Moderate

3. *Based on collaborative analytics, Target® created targeted sales promotions for newly expectant mothers, such as mailing coupons to them for purchasing diapers or baby bottles. GPA, in Brazil, uses collaborative analytics to optimize price for their various customer segments. These are only two of the four marketing mix variables. Can you think of other ways that companies might use collaborative analytics to fine tune the other marketing mix variables?*

Answers will vary. Students should demonstrate knowledge of the other two marketing mix variables, which are product and place/distribution. They should also show an understanding of how collaborative analytics work and how it might be used to adapt or adjust the other two variables.

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-5

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Synthesis

Difficulty: Challenging

4. *GPA uses collaborative analytics to look at the shopping behavior of their customers. The next time you purchase food items (groceries), make a list of every item you purchased. Try to organize the items in a meaningful way. Imagine that a researcher was using ethnographic methods to analyze your grocery list. What insights might they have about you based on your purchases?*

Answers will vary. At first, students might list “surface” responses about the types of products they purchased. However, as they start to think critically about the list they may make inferences about lifestyle based on the nature of the products (i.e. natural, healthy, unhealthy, vegan) or the way the products might be used (i.e. for entertaining). This question could be adapted to provide students with a list from an anonymous shopper, which would remove their knowledge of their own lifestyles and purchase behavior.

BUSPROG: Reflective Thinking

DISC: Customer

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Analysis

Difficulty: Challenging

5. *Choose a local retailer that is not part of a national or regional chain. Assume they have decided to expand their efforts internationally and have therefore, enlisted the help of DemandTec®. How will the use of collaborative analytics help them to better understand consumers in this new market?*

**Answer:** Answers will vary. Student answers should demonstrate an understanding of how collaborative analytics works, which would include an explanation about the vast amount of information processed to provide optimized solutions for consumers.

BUSPROG: Diversity

DISC: International Perspective

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation  
Bloom's: Analysis  
Difficulty: Challenging

### **Case 1-4 Sears: A Dying Company?**

1. *Describe how some of the trends mentioned in the textbook are affecting Sears.*

**Answer:** Students may mention many things, but especially the changing economy. The downturn in the economy makes consumers more price conscious thereby putting Sears at a price disadvantage. Students may also mention changing demographics. Today's families are increasingly dual income earners making them more time starved and more apt to appreciate the convenience offered by big box discounters. Also, Sears has been unable to connect with younger consumers who prefer different types of communication (i.e., Facebook and Twitter) than their parents or grandparents did. Finally, the growing popularity of online shopping represents significant technological change.

BUSPROG: Analytic

DISC: Strategy

LO: 2-4

Topic: A-head: Market Characteristics: Market Segments and Product Differentiation

Bloom's: Evaluation

Difficulty: Challenging

2. *Describe the external and situational influences that steer shoppers like Ashley away from Sears.*

**Answer:** External factors would include both social and cultural aspects of consumer life. Today's consumers have a litany of choices when it comes to shopping both brick-and-mortar, and online venues, so competition is a huge external factor. In addition, malls no longer have the same social draw that they did years ago. Consumers are visiting malls less frequently and unfortunately many Sears locations are mall-based. Growing popularity of discount retailers has led to a redefining of value. Consumers now want low prices or great customer service and exclusive brand names leaving little space for mid-priced retailers to compete. Situational factors like time pressure, convenient locations, or money constraints are also valid influences. Consumers today value one-stop shopping because it alleviates time pressures, stores are conveniently located, and prices are very competitive.

BUSPROG: Reflective

DISC: Strategy

LO: 2-1

Topic: A-head: The Consumer Value Framework and Its Components

Bloom's: Analysis

Difficulty: Challenging

3. *Compare and contrast the total value concept for Sears and your favorite retailer.*

**Answer:** Students may mention concepts of utilitarian values like product benefits and features as well as hedonic values like atmosphere, fun, and enjoyment. A student's favorite retailer will probably provide value in terms of varied selection. The store carries the products I need and the brands I want. The products are high in quality and offered at a fair price. In addition, the stores products appeal to them in terms of tastes and design.

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-3

Topic: A-head: Marketing Strategy and Consumer Value

Bloom's: Evaluation

Difficulty: Moderate

4. *What types of utilitarian and hedonic value does Sears presently provide to its customers?*

**Answer:** Sears offers a moderate selection of a broad range of products. A customer could visit Sears to complete a number of tasks. A customer could search for and purchase quality tools or lawn and garden equipment or home appliances. A customer could purchase jewelry, clothing or bedding. These all represent utilitarian value and benefits presently offered by Sears. In terms of hedonic value, Sears does not represent a destination retailer, its location is likely not convenient, and its customer service is not excellent. Sears offers less hedonic value and benefit.

BUSPROG: Reflective Thinking

DISC: Product

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Knowledge

Difficulty: Moderate

5. *Can Sears be revived? If so what should their new value equation be, if not explain.*

**Answer:** Answers will vary but should show what factors they believe comprise value for most consumers. For example, students may suggest Sears refocus on the quality brands they already carry. In addition, a refresh of their stores in terms of location, design, and image are probably in order. Sears would also need to be more competitive

in terms of price in order to attract more consumers. Finally, a stronger Internet presence would be needed.

BUSPROG: Reflective Thinking

DISC: Strategy

LO: 2-2

Topic: A-head: Value and Two Basic Types of Value

Bloom's: Analysis

Difficulty: Moderate

## PART 1 ONLINE CASE ANSWERS

Visit [www.login.cengage.com](http://www.login.cengage.com) to access the online case studies for CB.

### **Total Marketing Strategy: You won't come back by chance.**

1. *What is the perceptual map for the gas station companies in France (Elan, Elf, Total, and the hypermarkets)? What would be the two dimensions you would use to best describe the portfolio of brands that the Total Company has in its market?*

**Answer:** Students can use price (high vs. low) and quality/service (high vs. low) as the 2 dimensions to build the perceptual map. The important point is to clearly position the brand Elf, the brand Total as well as the hypermarkets. Total must be placed at the relatively high price and relatively high quality/service, while Elf and the hypermarkets must be on the low price/low quality/service quadrant.

Students should be able to describe the utilitarian and the hedonic value involved in the choice of a gas station.

Instructors may also encourage students to think about price elasticity in the market, as well as the price delta that can be demand by Total stores. Students might want to use the value function to think about the price point for gas at Total. The instructor could also use this to explain the importance of the coherence among all elements of the marketing mix in line with the company positioning.

2. *Based in the perceptual map, propose a set of marketing actions beyond those that have been mentioned on the case that should be used by Total brand. Use the 4Ps framework to propose these actions and link each action to the CVF framework?*

**Answer:** Students should use the 4Ps framework to propose the actions that would fit the positioning of Total. Instructors might want to reinforce the need of these actions using the customer value framework.

For example, a new payment system for the loyal customers that would recognize the consumers through their loyalty card using the RFID could be interesting. This system

would recognize the customer when she arrives in the pump. When finished, the consumer would be billed at home after putting her digital print just aside the pump. This would allow saving significant amount of time and it would increase the utilitarian value for consumers.

Other propositions like this one should be highlighted by the students.

3. *What are the things that may build utilitarian and hedonic value when consumers go for a gas station? Please, describe how an Elf store might increase value in consumers' shopping experience.*

**Answer:** The instructor may point out that the two positioning goals are delivering utilitarian and hedonic value. The most important issue for the students is to be able to rightly classify what are the elements that are related to both values.

Students should be instructed to brainstorm on whether or not they think Elf could build hedonic value and what kind of actions could be used to make that.

4. *What are the marketing segments that each store is trying to cover? What are the fundamental benefits that consumers in each of those segments are trying to have while choosing a gas station? Do you think Total Company has done a good job identifying market segments and appealing to these segments? Are some segments left unserved by Total?*

**Answer:** The case explicitly identifies the market segmentation. The basic segmentation used by the company was between the rural and urban areas. More relevant to the case study is the segmentation for the urban areas, based on the key benefits consumers are looking for. The first one is the price oriented consumers, who are looking for price and simplicity. The second one is the quality oriented consumers, who are looking for a relationship and services in the store. Students may comment on family oriented segments that just may use the hypermarket more often because they can buy more things with one stop. In addition, the student may mention some business to business possibilities which may fit better with Elan or Elf as opposed to the Total stores.

### **Not Buying Organic? Why not?**

1. *The Consumer Value Framework (Exhibit 2.2) lists consumer psychology, consumer personality, the social environment, and situation as internal and external influences on consumption. How have these influenced the consumer behavior mentioned in this case study? How does organic food provide utilitarian and hedonic value to Jill and her aunt?*

**Answer:**

- Consumer Psychology explains how Jill and her aunt have learned beliefs and attitudes about the food categories of 'organic' and 'not organic,' this information

- is stored in memory and is later used as input into the consumer value equation, e.g., a perceived health benefit is contrasted to the higher cost of organic food.
- Consumer 'Personality' explains why LOHAS consumers pay more for organic than other consumers: LOHAS consumers place great value on being socially and environmentally responsible.
  - The Social Environment explains how Jill interest in organics was probably fostered by her aunt.
  - Situational Influences, such as whether or not Jill has to study for a test, explain her occasional purchase of organic cookies.
  - Utilitarian value: organic food nourishes the body to maintain health.
  - Hedonic value: Jill experiences organic cookies as an indulgent treat. Her aunt feels pride in being environmentally responsible.
- [Note: protecting the environment might seem like a utilitarian benefit, but its not. Environmental protection is a societal benefit, not a benefit that the consumer herself noticeably experiences as a result of a given purchase; instead the consumer obtains the hedonic value of emotional satisfaction from protecting the environment]

2. *What is Jill's Value Equation (Exhibit 2.3) for regular carrots? How do changes in the value equation explain Jill's purchase of mini-carrots over organic carrots? What is an example of your own consumption in which you gave up something to get something else?*

**Answer:**

- Regular carrots represent a basic exchange: the consumer gets sustenance by giving up money.
  - Jill has to pay more for mini-carrots, but that is fully offset by the convenience of pre-prepared carrots. Organic carrots also have a downside of added cost, but this is not fully offset by the perceived health benefit. Jill presumably gets greater value from convenience than a health benefit because convenience provides immediate gratification while the health benefit is only a probabilistic future benefit.
  - Consumers will pay more for packaging, quality, taste, nutritional benefits, brand name, etc.
3. *How is product differentiation and/or relationship marketing used — by farmers, food companies, or retailers — to add value for consumers and thus increase repeat sales in the organic food industry?*

**Answer:**

- Farmers could sell directly to consumers through farmer's markets or CSAs (community supported agriculture) in which a consumer buys a share of everything a local farmer grows. This direct relationship between farmers and consumer allows consumers to know who grows their food and learn more about what they eat.

- Food companies and retailers provide value to the consumer through the practice of branding. Consumers will pay more for brands such as Stonyfield® and Whole Foods® because consumers trust brands to deliver high quality, truthfully-labeled merchandise. Thus, branding differentiates the offerings of these firms from ‘generic’ organics. Firms also differentiate themselves by building relationships with consumers through the use of e-newsletters, special offers for loyal customers, and other personal services. Stonyfield encourages consumers who lack local recycling options to mail yogurt cups back to the firm in return for coupons for future purchases. Whole Foods pays and trains employees well so the every touchpoint between a customer and the store is positive – staff gladly research answers to consumer questions, customers can place custom orders if they don’t find what they want, some stores provide live music at certain times, etc.
- 4 *What kind of information could a researcher find out by engaging in a) quantitative research and b) interpretive research? Are you surprised that surveys reports are biased in that consumers say they are willing to pay a higher price for organic food they actually are?*

**Answer:**

- Quantitative research can identify who does or doesn’t buy organic food. Thus marketers can describe market segments in terms of the consumer’s age, income, gender, lifestyle, and geographic location. Buyers and nonbuyers can be further differentiated in terms of where they like to shop, their beliefs, and their preferences for other product attributes like fair trade certification or recycled packaging. Quantitative research can also produce perceptual maps that show how consumers differentiate between suppliers/retailers of organic food.
- Interpretive research can help a marketer develop hypotheses about organic consumption that can be later tested with quantitative research. Moreover, interpretative research helps researchers understand subjective aspects of consumption that surveys can’t capture, especially when consumers lack insight into their own behavior (as is the case when consumer say they will pay more, but don’t). Thus, interpretive research can help explain Jill’s inconsistencies in behavior or why green products are more successful in some product categories than others. Interpretive research can help uncover deep seated consumer motives, emotional connections, symbolic meaning associated with the product, and how organic products fit into consumers’ lives. For example, one group of consumers might associate organics with purity and simplicity, and thus buy organics as a defense against modernity. Some parents might buy organic baby food regardless of price to lessen the insecurities they feel parenting a vulnerable infant.

**Learning About CB: Is Your Coke OK?**

1. *Define marketing and consumer behavior. Provide your own definition (not the textbook definition) of consumer behavior. How can consumer behavior be applied to your life experiences?*



**Answer:** Both definitions are found in chapter one. When defining marketing, students should describe the 4 P's (Product, Price, Place, and Promotion) and the various names associated with the 4 P's (controllable factors, marketing mix, 3 P's and 1 D). For discussion purposes, the instructor may also explain to students how each of these items may be expanded. For example, Product (products, services, and ideas), Promotion (sales promotions, advertising, direct marketing, internet/interactive, personal selling, publicity/public relations, direct marketing).

Students should differentiate between “controllable” and “uncontrollable” factors.

Instructors may also encourage students to think about these two terms by instructing them to develop their own definitions. The instructor could then share these definitions with the entire class and highlight relevant points.

2. *Compare/contrast human behavior and consumer behavior. Why do marketers study consumer behavior? What activities of Randy would you identify as being examples of consumer behavior and why?*

**Answer:** Students should highlight that human behavior is more broadly defined to include all behavior, while consumer behavior is more narrowly defined in scope and its focus is on the consumer decision-making process. A parallel comparison of social psychology and consumer behavior may also be provided by the instructor.

Students should include the reasons why marketers study consumer behavior. For example, to better understand the actions of consumers in the marketplace.

Students should include several of Randy's activities including his decision to: 1) attend college, 2) purchase his *CB* textbook, 3) enroll in a consumer behavior course, and 4) purchase a Coca-Cola.

3. *What factors do you think contributed to the failure of New Coke and OK Soda? Do you think these products could be successfully re-marketed today?*

**Answer:** Several factors may have led to the demise of New Coke and OK Soda. Plausible answers include; misinterpretation of market research, poor timing, the elimination of a renowned brand, and the competition.

The instructor may also point out to students that consumer behavior is dynamic and consumers often times react in unexpected ways. It may be helpful for instructors to explain to students the purpose of market research, and how, at times, even the best market research may still result in a failed product.

Students should be instructed to brainstorm on whether or not they think these products could be successfully re-introduced.

4. *Keep a log of your daily activities for three days. List and describe those activities which you would categorize as consumer behavior. How might your activities be studied by a consumer behavior researcher?*

**Answer:** This exercise should help demonstrate to students how their daily activities are related to the study of consumer behavior.

### **CVS Case**

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

**Answer:** Utilitarian value is provided when an object or activity allows something else to happen. Examples may include cosmetics, hair care products, hygiene products, and so forth. For instance, soap allows your face to become clean. Hedonic value is the immediate gratification that comes from some activity. Furthermore, hedonic value is emotional and subjective. Examples may include chocolate, candy, and other impulse items sold at CVS.

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

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

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

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

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

**Answer:** Students should address privacy issues, such as identity theft and how to protect customer information in the ExtraCare database against those threats. Another specific ethical issue for CVS is concern over pharmacy transactions. Prescriptions

reflect a customer's medical history and therefore elicit an even higher expectation of privacy.

### **Vous Vois Vision Case**

1. *Using the basic consumption process displayed in Exhibit 1.1, illustrate how a consumer "consumes" eyewear.*

**Answer:** Consumers develop a need for eyewear. They are motivated to consume items that allow them to see more clearly. Without good eyesight, consumers have difficulty functioning or achieving success. However, eyewear is also considered a fashion item, and consumers like to feel good about the items they wear because it brings them self-esteem. These needs drive consumers to want glasses that allow them to see well and make them look fashionable and feel good about themselves. Perhaps this store offers just such eyewear.

Consumer wants will lead them to consider an exchange with this store if their offerings closely match consumer wants/desires.

The decision to participate in an exchange (or forgo one) has costs and benefits. Glasses cost money, and it takes time to purchase them and get fitted with the right prescription. In return, the consumer may obtain better vision and a fashionable appearance.

If the consumer indeed achieves better vision and feels good about wearing the glasses, he or she will react favorably to the purchase and use of the product. The consumer would then experience positive value in this case. If the product does not achieve these ends, then no positive value would be received.

2. *Do you think Vous Vois Vision should adopt a product, production, or market orientation? Explain why.*

**Answer:** A market orientation seems to be the most likely choice. The company operates in a highly competitive market. Furthermore, the company needs to be in close contact with its customer base to determine what designs are fashionable and also fit their particular customers well. If the industry was not competitive, then this choice of orientation would change.

3. *Almost any business involves some ethical questions. In this case, discuss the ethics involved in potentially selling contact lenses or even designer glasses to a consumer who sees well enough not to actually "need" vision correction.*

**Answer:** The question speaks to whether consumers who see well really need glasses. If glasses only addressed the desire for better sight, a case could be made that it is wrong to sell eyewear to people who already see well. However, glasses also satisfy other needs, such as the need to feel good about one's appearance. To the extent that eyewear addresses this need, it may be difficult to make the case that it is unethical to

sell eyewear to these consumers. Chances are that the frames may constitute the major portion of the cost, while the lenses for someone with good vision should cost less than lenses for people with poor vision.

4. *Why might Blaire be interested in hiring a researcher to do some interpretive research about consumers and eyewear?*

**Answer:** Interpretive research may help Blaire understand the inner motivations of eyewear consumers as well as the inner meanings associated with different types of eyewear. For example, what prompts a consumer to desire blue eyes (and thus the purchase of contacts that make eyes appear blue) or prescription sunglasses? This information may make Blaire more effective in identifying a target market and selling products to consumers within that market.

## **PART 1 VIDEO CASE**

To view the Part 1 video case, go to the CB companion website [login.cengage.com](http://login.cengage.com) to select this video.

### **North Face Shopping Experience**

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

#### **Concepts Illustrated in the Video**

- Value
- Consumption
- Consumer value framework
- Relationship marketing
- Relationship quality
- Internal influences
- External influences

#### **Synopsis**

Patrick, a medical school student enters a North Face store. Today, he's shopping for hiking gear for an upcoming trip to the Mount Washington area located in the Northeast. He's planning his trip during the warm summer month of June. Andy, the North Face employee shows Patrick a variety of jackets to fit his needs. The jackets all come with insulation and have lifetime warranties. Price is a concern for Patrick, so he asks Andy to show him alternatives to the original fleece version that sells for \$150. Patrick finally settles on a jacket retailing for \$79 and presents the store with a coupon for added savings. After Patrick's hiking trip, he returned to the store to purchase the original jacket Andy recommended—the \$150 jacket! Ironically, the temperature on the summit had reached a record low of 10 degrees Fahrenheit in June!

#### **Teaching Objectives for the Video Case**

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

### **Critical Thinking Questions – Suggested Answers**

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

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

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

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

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

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