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CHAPTER 2 – CUSTOMER BEHAVIOR

KNOWLEDGE OBJECTIVES

1. Identify and describe the three phases of the purchase process.
2. Distinguish among the types of purchases for consumers and for businesses.
3. Understand the role of sensation and perception, learning and memory, motivation, attitudes, and decision making in the purchase process.

CHAPTER OUTLINE

- The Three Phases of the Purchase Process
- There are Different Kinds of Purchases
- The Marketing Science of Consumer Behavior
- Managerial Recap

1. The Three Phases of the Purchase Process

This section relates to knowledge objective #1

TEACHING NOTE: Students can be asked to describe the process in which they bought their laptops or any other similar item. Students should explain their reasons for buying a laptop, how they identified the features they required, how they gathered information regarding product features and prices, why they chose a particular brand, and how they made the purchase (online or at a store). They should also comment on their level of satisfaction with their laptops. This will help students understand all three phases of the purchase process.

Figure 2.1: The Purchase Process

This figure outlines the three phases in the purchase process and the actions taken by consumers during each of these phases.

The three phases of the purchase process are:

A. Pre-purchase: The customer identifies that there is a need or a desire to be satisfied. Once the need is identified, customers begin searching for alternative solutions to fulfill the need.

B. Purchase: The consumer creates a consideration set that includes all those brands that are deemed potential candidates for purchase and excludes those brands that have been rejected. During this stage, consumers also determine the retail channel through which they will make the purchase.

C. Post-purchase: In this stage, buyers assess their purchase and the purchase process. They determine if they are satisfied with the purchase and, if they are, they recommend it to others.

The buying process is consistent whether the buyer is a consumer or a business.

2. There are Different Kinds of Purchases

This section relates to knowledge objective #2

TEACHING NOTE: Students can be asked to describe the manner in which they would buy a packet of detergent, a refrigerator, and a house. Students should explain the factors they would take into consideration and the amount of time they would spend in gathering information for each of these purchases.

This section begins by giving examples of the three different types of purchases: convenience purchases, shopping purchases, and specialty purchases. In the case of business-to-business (B2B) transactions, purchases are categorized as a straight rebuy, a modified rebuy, or a new buy.

Figure 2.2: Types of Purchases in B2C and B2B is a Matter of Customer Involvement

The figure shows the continuum between low customer involvement and high customer involvement in both business-to-consumer (B2C) and business-to-business (B2B) scenarios. As shown in the figure, consumer involvement is the least for convenience items (for B2C) and in the case of a straight rebuy (for B2B). For items that customers care more about, they'll expend some time and effort prior to the purchase. Customer involvement is moderate for a shopping purchase and a modified rebuy while it is the highest for specialty purchases and in the case of a new buy.

The category a brand and target segment is in will suggest the appropriate marketing activities. The marketer can create loyalty programs regardless of the level of customer engagement, but they would take different forms, e.g., price discounts for low involvement purchases vs. brand communities and events for high-involvement products and brands. Low-involvement products need to be widely available so the customer can pick them up without thinking whereas high-involvement products will be sought out by more customer activity. Also, for high-involvement purchases, marketers should provide as much information as possible.

3. The Marketing Science of Customer Behavior

This section relates to knowledge objective #3

TEACHING NOTE: Students can be asked to describe their favorite advertisement and the aspects of the advertisement that capture their attention. This exercise will help students understand the significance of color and sound in attracting the attention of consumers.

This section discusses the concepts of sensation and perception, learning and memory, motivation, attitudes, and decision making which help in understanding consumer psychology.

Sensation and Perception

By using Apple's iPod as an example, the text describes the significance of visible elements (such as the color of the product) in attracting the attention of the consumers. Colors also come to convey cultural meaning. Hence, selecting packaging or logos for multinational brands is a challenging task for brand managers. Using the example of Harley-Davidson bikes, the text describes the significance of sound in marketing a product. The text also describes how smell, taste, and touch can be used to attract the attention of consumers.

The text describes the concept of subliminal advertising. The idea is that an ad can be shown very quickly, on TV or in the movies, so that it doesn't quite meet the threshold of liminal recognition and consciousness, and therefore is said to be subliminal, and yet, somehow the vision is captured subconsciously and marketers hope the message would compel action. In the case of written ads, colors and fonts provide subtle clues to a reader. They make a message seem more professional, more emotional, or more contemporary.

Learning and Memory

Learning is the process by which associations get past the sensory and perception stages into short-term memory, and then with repetition and elaboration, long-term memory.

One of the ways of learning is through classical conditioning. The text describes the experiment conducted by Ivan Pavlov to demonstrate classical conditioning. This theory explains how people come to associate certain logos or symbols with a particular brand and why organizations change their names and logos to change their image.

The second way that people learn is through operant conditioning. The text describes how Skinner boxes can be used to demonstrate the significance of reinforcement. The theory of operant conditioning explains why loyalty programs can increase sales.

Motivation

Figure 2.6: Maslow's Hierarchy of Needs

The figure describes the different levels of needs starting from the basic needs (such as food and water) to the need for self-actualization. One way that marketers use this hierarchy is by identifying their product with a certain level of needs. They use imagery to appeal to those motivations. For example, the entire Volvo brand is positioned for safety.

A great number of brands are positioned to heighten a consumer's sense of belonging, or in the next level, social acceptance and respect. In the higher level, the acceptance, by self (esteem) and others (respect) is often signaled by marketers by pointing a consumer to an aspiration group.

With the help of Mercedes as an example, the text describes how marketers use this hierarchy to offer an extended brand line that encourages a customer to reach ever higher in the pyramid.

Beyond the Maslow pyramid, there are other ways to distinguish needs and motivations. Many consumer psychologists speak of utilitarian vs. hedonic products, fulfilling needs and wants. They also point to the motives that co-exist in all of us, for conformity vs. individuality. If conformity is winning, the consumer buys a popular brand; if individuality is more important, then the consumer finds an atypical, quirky brand. A final means of distinguishing consumer motivations is whether they are risk-seeking or risk-averse.

TEACHING NOTE: Students can be asked to give examples of products associated with each level in Maslow's Hierarchy of Needs. This will help students understand how Maslow's theory is used in marketing.

Attitudes and Decision Making

Attitudes and decision making affect the extent to which consumers will buy a particular brand, repeatedly purchase it, become loyal, and recommend it to others. Attitudes are conceptualized as a mix of beliefs and importance weights. Beliefs are opinions, such as BMWs are fast. Importance weights are things like: I don't care much about whether my car is fast, but I would like it to be attractive. The beliefs and importance weights are modified or strengthened through learning and memory and by appealing to consumer motivations that the brand purportedly satisfies.

In categories with a lot of choices, consumers usually proceed through two stages—in the first, quick stage, they decide which brands should be considered in more detail vs. those that shouldn't make the cut to be in the consideration set. The second stage is relatively more prolonged, during which consumers compare the brands in the set to make a purchase choice. The first stage is thought to be conducted quickly by non-compensatory mechanisms. Non-compensatory means that some attributes are very important, and if the brand has them (or doesn't), then it may be considered further, and if not, the brand is precluded. Once the consideration set has been reduced to a manageable number, consumers use a compensatory model. This model uses a costs and benefits logic, whereby excellence on one attribute can make up for the fact that the brand is not so great in some other ways.

How Do Cultural Differences Affect Consumers' Behavior?

This section describes how consumer behavior is affected by social class and age. Social class and age are among the various socio-cultural factors that impinge upon how buyers form impressions and preferences, collect information, form opinions, and make brand choices.

Social class is a construct that is more complicated than just economic access to resources. Old moneyed people seek exclusivity in their brands, to affirm their special standing in society. In contrast, nouveaux are trying to make purchases to attain their status, the purchases being the so-called status symbols. Designing products, brands, and marketing communications for these two different groups involves different approaches.

Age cohorts also produce reliable, predictable shopping patterns. Age groups are particularly important when they are large in size such as the baby boomer group. Apart from social class and age, gender, ethnicity and country culture also affect consumer behavior.

TEACHING NOTE: Ask students to imagine that each one of them is given \$10,000 to spend only on luxury goods. Then ask them to describe the products they would buy using this money. Different students will want to buy different products or different brands of the same product. This activity will demonstrate how consumer behavior is affected by factors such as social class, gender, and ethnicity.

4. Managerial Recap

The purchase process consists of three stages: pre-purchase, purchase, and post-purchase. In the case of business-to-consumer (B2C) transactions, the three different types of purchases are convenience purchases, shopping purchases, and specialty purchases. These three types of purchases are similar to the three types of purchases in the case of business-to-business (B2B) transactions: straight-rebuy, modified-rebuy, and new buy. The level of consumer involvement depends upon the type of purchase. All five senses of human beings—sight, hearing, touch, smell and taste—can be used to attract their attention to a particular brand but the extent to which consumers are attracted also depends on various other factors such as social class, age cohort, gender, ethnicity, and country culture.

SUGGESTED ANSWERS TO MARKETING PLAN QUESTIONS

Customer

Demographics (e.g., age, income, household composition, ZIP code):	<u>Customer1</u>
Psychographics (e.g., attitude to product, to competition, to ads):	<u>Customer2</u>
Buying behavior (e.g., frequency, only on sale, etc.):	<u>Customer3</u>
Current levels / measures of customer satisfaction:	<u>Customer4</u>
Do we have a loyalty program, efforts at CRM?	<u>Customer5</u>

Why don't non-buyers buy?	<u>Customer6</u>
When our buyers buy, what channel do they prefer?	<u>Customer7</u>
When our buyers buy, do they seem to be price sensitive?	<u>Customer8</u>
What changes have we seen over buyers, expect any in future?	<u>Customer9</u>

Customer

General customer description: young (under 40), middle income, single or with children, urban or suburban

Psychographic: women with active lifestyles and busy schedules

Usage: may or may not currently drink energy drinks on an occasional basis, but may also drink coffee drinks (Starbucks' iced caramel macchiato), if currently an energy drink consumer, may use energy drinks as a mixer with vodka.

Current levels/measures of customer satisfaction: unknown

Loyalty: if currently use energy drinks, typically have a preferred brand – but are open to possible new alternatives.

Why don't non-buyers buy: various reasons, lack of awareness, lack of interest, health concerns

Where do most users buy: multiple outlets-grocery stores, convenience stores, warehouse clubs

Price-sensitivity: energy drinks in general are not heavily discounting although discounting does exist (two for \$)

What changes have we seen over buyers: main change in the market is increased variety, introduction of sugar-free varieties, and continued erosion of market leader's market share

SUGGESTED ANSWERS TO DISCUSSION QUESTIONS

1. If consumers are being deluged by sensory overstimulation, what can a marketer do to cut through the clutter?

Answer:

Some marketers have responded by simplifying (e.g., black and white ads to capture attention). Others just shout louder. Commonly, marketers will try to use offbeat humor to stand out—students should talk about whether that's effective, both in achieving the goal of standing out, as well as presumably the ultimate goal of enhancing attitudes and likelihoods of purchasing.

BUSPROG: Reflective Thinking

Tier II: DISC: Customer

- Tier III:** MBA: Generative thinking
Bloom's: Application
Topic: Sensation and Perception
Difficulty: Moderate
2. Using the principles of classical conditioning or operant conditioning, design a marketing program for a nonprofit or for a political candidate.
Answer:
Many options could be valid here. Classical conditioning would suggest that all a politician needs to do is keep saying he/she is “the candidate for x” and whether he/she puts any thought or resources into x, the association is nevertheless established in the minds of the voter/customer.
BUSPROG: Reflective Thinking
Tier II: DISC: Customer
Tier III: MBA: Generative thinking
Bloom's: Application
Topic: Learning and Memory
Difficulty: Challenging
3. What should ads say to help brands make the first (non-compensatory) cut in decision making to be included in a consumer's consideration set? What should ads say to help a brand be chosen, once in the set?
Answer:
The ad needs to prime the category first, then contrast against the market leader or other competitors.
BUSPROG: Reflective Thinking
Tier II: DISC: Customer
Tier III: MBA: Generative thinking
Bloom's: Application
Topic: Attitudes and Decision Making
Difficulty: Moderate

SUGGESTED ANSWERS TO MINI-CASE: CONSUMER BEHAVIOR

1. Students can make any choice.
BUSPROG: Analytic
Tier II: DISC: Customer
Tier III: MBA: Managing decision-making processes
Bloom's: Application
Topic: The Marketing Science of Customer Behavior
Difficulty: Easy
2. Let the students guess (any answer).
BUSPROG: Analytic
Tier II: DISC: Customer
Tier III: MBA: Managing decision-making processes

- Bloom's:** Application
Topic: The Three Phases of the Purchase Process
Difficulty: Easy
3. The 1st rows to go would be “3-d from an angle” and “flicker” because there is so little variance in these attributes across the TV models. The main point of this exercise is for the students to choose an attribute they care about, or one that doesn't seem to matter (e.g., like this lack of variability), and watch the decision-making process unfold. Thus, in a sense, the outcome is not as important as tracking their progress. However, it's very likely that they'll conclude the LG TV is the best (good attributes and relatively inexpensive).
BUSPROG: Analytic
Tier II: DISC: Product
Tier III: MBA: Managing decision-making processes
Bloom's: Application
Topic: The Three Phases of the Purchase Process
Difficulty: Moderate
 4. Samsung isn't really risky in the sense of being confusing, but it's expensive and yet doesn't rate well on much. Sony rates better but is also expensive. The point of this question is that now the focus is within the brands/columns, whereas previously we were considering/eliminating attributes/rows.
BUSPROG: Analytic
Tier II: DISC: Product
Tier III: MBA: Managing decision-making processes
Bloom's: Application
Topic: The Three Phases of the Purchase Process
Difficulty: Moderate
 5. In this case, the cheapest model gets decent ratings. **BUSPROG:** Analytic
Tier II: DISC: Customer
Tier III: MBA: Managing decision-making processes
Bloom's: Application
Topic: The Three Phases of the Purchase Process
Difficulty: Easy
 6. The LG TV is a good example to stimulate discussion because it “nearly” dominates on both price and some elements of quality (some good attributes). Probably none of the students will want to say they're “cheap” or “price sensitive” (although we all are in products we don't care about). So, probably the students will say the LG choice made the most sense because it was high quality on important attributes.
BUSPROG: Analytic
Tier II: DISC: Customer
Tier III: MBA: Managing decision-making processes

Bloom's: Application**Topic:** The Marketing Science of Customer Behavior**Difficulty:** Moderate

7. See #3 above—3-D from an angle and flicker—sound important, but the TV selections don't offer much choice. In addition, this technology is so new that probably the students won't have a feel for what the possible distortions look like, so they won't seem to be a big deal. It's also possible that some students like cool technology and TVs so much that price won't matter to them. The novelty of the 3-d attribute might overcome any price resistance.

BUSPROG: Analytic**Tier II:** DISC: Customer**Tier III:** MBA: Managing decision-making processes**Bloom's:** Application**Topic:** The Three Phases of the Purchase Process**Difficulty:** Moderate

The first question is just an opportunity for discussion—DID the students narrow down the selection using some attribute or other heuristic? Ask them to talk through how they THINK they did it. How to find out—data collection on this topic is tricky. The students reporting in class after they did this exercise at home had problems of memory, social desirability (look smart to their professor and peers), and of course Nisbett & Wilson would say there are many cognitive processes we don't have good insights into, hence their discussion is a bit of a guess or rationalization. In the lab, voice protocols can be captured—that gets rid of the memory problem, but leaves the other biases. Eye-tracking on a computer screen, to see the information that the consumer views, combined with mouse clicks and choices as they progress through the decision set, is objective, and then the marketer must infer what those data mean.

VIDEO CASE & DISCUSSION QUESTIONS

Consumer Behavior at Scholfield Honda

If you want to study consumer behavior, probably the best place to start would be a car dealership. Cars are a big investment. Most people spend upwards of \$20,000 on a new car and \$6,000 or more on a pre-owned vehicle. In the United States, where we drive pretty much everywhere, your car is your first contact with the world. One look at someone's car and you might get an idea of their politics, bank account, occupation, education, musical tastes, and favorite weekend activities. It's the ultimate fashion accessory. Does it have a lot of cup holders and a DVD player in the headrest? Family car. Cute little convertible? Twenty-five-year old with her first real job. That Italian sports car? Retail therapy for the mid-life crisis. That person in the 2009 Honda Fit hybrid who just stole your parking space? Likely some smug, twentysomething activist.

But looks can be deceiving.

When the Honda Insight, Honda's first consumer hybrid car, hit the market in 2000, Roger Scholfield, owner of Scholfield Honda in Wichita, Kansas, thought he had it all figured out. For one thing, Wichita isn't exactly known as the epicenter of eco-consumerism. He'd probably sell a handful of the hybrid cars to a couple of single, twentysomethings. The car only had two seats and seemed pretty flimsy with its lightweight aluminum body. And with a sticker price of \$20,000, it was pretty pricey.

The first Insight he sold went to a 63-year-old.

The second person to buy one was 65.

As it turns out, Roger's experience was consistent with Honda's market research. They determined that the typical Insight customer was older, highly educated, probably with an engineering or science background—a person who tended to be very research-driven.

Vinnie Koc, a sales consultant at Scholfield Honda, relies more on his experience than the data to sell cars. "The vehicle pretty much sells itself," says Vinnie. "Most of my customers are previous owners or someone in their family owns a Honda that wants them to buy a Honda." Vinnie's customers don't just show up and hop in the first car they see. Most of them have spent time on the Scholfield and Honda websites, researching and comparing models before they come in. They know what they want, are unlikely to be upsold on additional bells and whistles, and are clear on how much they are willing to pay. "Our job is to present the vehicle," says Vinnie. It usually takes a few test drives to complete the sale, but he is patient. It is all part of Scholfield Honda's low-pressure environment.

"I love my Scholfield Honda" is the tagline on many of the dealership's television and radio ads. "The Scholfield reputation is 100 percent why the customers are here," says Koc. In a market where the anonymous experience of shopping online is the norm for so many consumers, providing opportunities for customers to feel special and paid attention to can really make a difference, especially in car sales, an industry where trust so often is lacking. Owner and general manager Roger Scholfield takes the time to meet with customers, and consultants like Vinnie take the time to follow up on every meeting— from test drive to final sale. "If they see that you are able to provide the information they need, they feel comfortable with you and that makes them happy." It is not unusual for Vinnie's customers to drop by on their lunch hour just to say "thanks" and gush about how much they are enjoying their new Honda.

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1. Using the purchase process (*i.e.*, pre-purchase, purchase, and post-purchase), analyze the customer information provided by the owner and employees of Scholfield Honda.

Answer:

Customers go through three predictable stages in making a purchase. In the *pre-purchase stage*, the consumer identifies an unsatisfied need or want. In the *purchase stage*, the consumer is identifying those brands that are potential candidates for purchase and excluding those brands that would not fulfill the unsatisfied want or need. In the *post-purchase stage*, buyers evaluate their purchase and the purchase process.

Customers of Scholfield Honda tend to be very interested in vehicles that are fuel-efficient and environmentally friendly. Thus, it may be inferred that the *pre-purchase stage* is characterized by the consumers' need to minimize fuel expenditures, to minimize their carbon footprint, to fulfill the need or desire to "go green" and contribute to environmental sustainability, etc.

Scholfield's customers tend to be very interested in and knowledgeable about hybrid or alternative fuel vehicles. Thus, in the *purchase stage*, the customers would be considering for possible purchase all those brands that offer fuel efficient and environmentally friendly models. Obviously excluded from consideration would be all brands that are not fuel efficient or environmentally friendly. More importantly, within that set of vehicles that are fuel efficient and environmentally friendly, customers would be comparing the Honda to other models, and even comparing different Honda dealerships. This is evident in the comparison shopping that potential customers do at other dealerships but which ultimately results in them making a purchase at Scholfield.

In the *post-purchase stage*, customer satisfaction can be inferred from the friendly atmosphere and exceptional experience that customers receive at Scholfield Honda.

BUSPROG: Analytic

Tier II: DISC: Customer

Tier III: MBA: Managing decision-making processes

Bloom's: Application

Topic: The Three Phases of the Purchase Process

Difficulty: Moderate

2. Chapter 2 identifies three types of purchase decisions for consumers. Describe the type of purchase decision that characterizes the buying behavior of the customers of Scholfield Honda.

Answer:

The three types of purchase decisions for consumers are: convenience items, shopping purchases, and specialty purchases. *Convenience items* refer to the fairly mindless purchase of standard, frequently consumed products or impulse purchases. *Shopping purchases* require some advance thought or planning prior to making the purchases. *Specialty purchases* are occasional purchases that are frequently expensive, and thus require much more forethought and planning. The buying behavior of the customers who are purchasing a new car would clearly reflect a specialty purchase. Buyers of more expensive used cars would also be making specialty purchases. Buyers of less expensive used cars might be considered to be making specialty purchases but maybe making shopping purchases which one it is depends on the extensiveness of the customer's

information search and planning. Evidence of this is the common knowledge that some people purchase low-end used cars essentially as a transportation commodity.

BUSPROG: Analytic

Tier II: DISC: Customer

Tier III: MBA: Managing decision-making processes

Bloom's: Comprehension

Topic: The Three Phases of the Purchase Process

Difficulty: Easy

3. What attitudes and needs seem to be influential in people deciding to patronize Scholfield Honda?

Answer:

Scholfield Honda focuses on selling new and used cars that are fuel-efficient and environmentally friendly. These product features tap into both the customers' attitudes and their needs. In addition, the dealership provides a friendly atmosphere and an exceptional experience. Customers wish to be treated well and they will have very positive attitudes toward those businesses that treat them well and make them feel welcome. Being treated well in a friendly atmosphere is crucial for customer satisfaction with dealership service subsequent to the purchase.

BUSPROG: Analytic

Tier II: DISC: Customer

Tier III: MBA: Managing decision-making processes

Bloom's: Comprehension

Topic: The Marketing Science of Customer Behavior

Difficulty: Easy

Concepts Illustrated

Stages in the purchase process

Types of purchases

Significance of sensation and perception in marketing

Theories of learning: classical conditioning and operant conditioning

Factors affecting consumer behavior