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Principles of marketing

H. Ali, V. Talwar

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Undergraduate study in
**Economics, Management,
Finance and the Social Sciences**

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THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

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Chapters 1, 2, 4, 9, 11 and 13 contain some material originally written by Rafael Gomez.

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Contents

Chapter 1: Introduction	1
1.1 Route map to the guide.....	1
1.2 Introduction to the subject area	2
1.3 Syllabus.....	2
1.4 Aims of the course.....	2
1.5 Learning outcomes for the course	2
1.6 Overview of learning resources	3
1.7 Examination advice.....	14
Chapter 2: An overview of marketing: history and theory.....	17
2.1 Introduction	17
2.2 Definitions and a brief introduction to the history of marketing.....	18
2.3 A brief history of marketing theory	19
2.4 Exchange	20
2.5 History of business orientations: the triumph of marketing?	21
2.6 Marketing problems.....	25
2.7 Looking ahead: the marketing framework and the ultimate aim of production.....	26
2.8 Overview of chapter	26
2.9 Reminder of your learning outcomes	26
2.10 Test your knowledge and understanding	26
Chapter 3: The marketing environment	29
3.1 Introduction	29
3.2 Types of environment.....	31
3.3 Customers, consumers or clients?.....	31
3.4 Stakeholders.....	33
3.5 Overview of chapter	37
3.6 Reminder of learning outcomes.....	37
3.7 Test your knowledge and understanding	37
Chapter 4: Consumer behaviour	39
4.1 Introduction	39
4.2 Tastes and constraints in explaining differences and changes in behaviour	41
4.3 Prospect theory	44
4.4 The social-psychological approach to consumer buyer behaviour.....	46
4.5 The role of social networks.....	49
4.6 A cognitive versus behavioural approach to consumer decision-making.....	50
4.7 Mechanisms of behavioural/habitual explanation	52
4.8 Applications of behavioural and cognitive principles in marketing	52
4.9 Alternative-based and attribute-based search strategies	54
4.10 Information control.....	55
4.11 Types of buying behaviour.....	56
4.12 The case of advertising: cognitive versus behavioural approaches.....	58
4.13 Overview of chapter	58
4.14 Reminder of learning outcomes.....	59
4.15 Test your knowledge and understanding	59

Chapter 5: Organisational buyer behaviour	61
5.1 Introduction	61
5.2 Characteristics of business markets	63
5.3 The importance of risk	65
5.4 What is risk?	65
5.5 Overview of chapter	69
5.6 Reminder of learning outcomes.....	69
5.7 Test your knowledge and understanding	70
Chapter 6: Market segmentation, targeting and positioning	71
6.1 Introduction	71
6.2 Importance of segmentation	73
6.3 Market segmentation, targeting and positioning	74
6.4 Problems in implementing segmentation.....	76
6.5 Positioning	78
6.6 Overview of chapter	80
6.7 Reminder of learning outcomes.....	81
6.8 Test your knowledge and understanding	81
Chapter 7: Customer relationship marketing (CRM)	83
7.1 Introduction	83
7.2 The development of relationship marketing	85
7.3 Building customer relationships and customer equity.....	86
7.4 Planning marketing: partnering to build customer relationships	86
7.5 The role of trust in relationships	86
7.6 Using relationships instead of markets or hierarchies.....	87
7.7 Networks and relationships	94
7.8 Overview of chapter	96
7.9 Reminder of learning outcomes.....	97
7.10 Test your knowledge and understanding	97
Chapter 8: Branding and product development.....	99
8.1 Introduction	99
8.2 Value.....	102
8.3 Co-creation and value.....	103
8.4 Quality in marketing	104
8.5 Branding	108
8.6 New product development.....	114
8.7 Organisational adoption of innovation	114
8.8 Common design by users.....	116
8.9 Introduction to services marketing.....	117
8.10 Overview of chapter	120
8.11 Reminder of your learning outcomes.....	120
8.12 Test your knowledge and understanding	120
Chapter 9: Product innovation and the life cycle approach.....	123
9.1 Introduction	123
9.2 Product innovation	125
9.3 Modelling the rate of adoption of an innovation.....	129
9.4 Economic perspectives on product success	130
9.5 Informational cascades	133
9.6 What is a product life cycle?	137
9.7 Overview of chapter	141

9.8 Reminder of your learning outcomes	142
9.9 Test your knowledge and understanding	142
Chapter 10: Promotion	143
10.1 Introduction	143
10.2 What is promotion?	145
10.3 Advertising	148
10.4 Sales promotions	149
10.5 Personal selling	151
10.6 Word of mouth	152
10.7 Digital marketing communications	152
10.8 Communications and relationships	153
10.9 Overview of chapter	154
10.10 Reminder of your learning outcomes	154
10.11 Test your knowledge and understanding	154
Chapter 11: Pricing	155
11.1 Introduction	155
11.2 Why is pricing important?	156
11.3 Pricing policies and strategy	166
11.4 Summarising pricing policy in theory	167
11.5 Overview of chapter	169
11.6 Reminder of your learning outcomes	169
11.7 Test your knowledge and understanding	169
Chapter 12: Distribution	171
12.1 Introduction	171
12.2 Why firms use distribution channels	172
12.3 The functions performed by marketing channel members	173
12.4 The importance of power in channel member relationships	177
12.5 Coordination in channel relationships	179
12.6 Channel design and management decisions	180
12.7 Relationship specific investments in distribution	181
12.8 Fairness in distribution channels	182
12.9 Overview of chapter	183
12.10 Reminder of your learning outcomes	183
12.11 Test your knowledge and understanding	184
Chapter 13: Corporate social responsibility (CSR)	185
13.1 Introduction	185
13.2 What ethical and social problems is marketing accused of causing?	187
13.3 Marketisation	193
13.4 Societal marketing (revisited)	194
13.5 Definitions and a brief history of corporate social responsibility (CSR)	194
13.6 Overview of chapter	200
13.7 Reminder of your learning outcomes	200
13.8 Test your knowledge and understanding	200
Appendix 1: Sample examination paper	201
Appendix 2: Activity feedback	203
Chapter 2	203
Chapter 3	203
Chapter 4	204
Chapter 5	205

Chapter 7.....	206
Chapter 8.....	207
Chapter 10.....	207
Chapter 12.....	208
Chapter 13.....	208

Chapter 1: Introduction

1.1 Route map to the guide

This subject guide should be used as a guide to reading and research as opposed to a replacement for it. In the Essential reading section of every chapter, we identify at least one (and sometimes more) Essential readings from the Kotler and Armstrong textbook (see Section 1.6.2). This, along with the subject guide, should form the backbone of your study. Apart from that, we encourage you to seek out the Further readings and electronic sources, such as websites, which provide additional material of relevance to the subject.

In order to succeed in the course you should:

- Work through the subject guide and Essential reading; in each of these identify the relevant chapter and sections of Kotler and Armstrong that you need to read.
- As you read the subject guide chapters, take note of the Further reading and references listed and follow up with information from electronic sources to gain a fuller appreciation of ideas and concepts which appear in each chapter of the guide and textbook.
- When you have finished your readings, you should examine the learning outcomes in the subject guide and check to see if you have understood the material. You may also find it useful to check your understanding by attempting the Sample examination questions at the end of each chapter.

In the next couple of paragraphs we will attempt to show how you can get the best out of this subject guide, Kotler and Armstrong and the other Essential readings. In order to illustrate this discussion, we will take Chapter 5 from the subject guide as an example, but the principles raised here are relevant to other chapters as well.

Chapter 5 of the subject guide deals with organisational buyer behaviour and the Essential reading from Kotler and Armstrong is Chapter 6. The Kotler and Armstrong chapter provides a useful introduction to the topic, which is full of business examples. The chapter then highlights the features of business markets and then deals with aspects of business buyer behaviour, such as the types of buying situation and the business buying process. You'll note that the explanation is essentially descriptive. The text explains what marketers generally do. This is particularly useful since many marketing students who do not work in marketing may sometimes wonder about the business relevance of concepts that they are studying.

However, there is a fundamental limitation with Kotler and Armstrong's coverage. The textbook does not critically examine various concepts and issues. The subject guide complements this approach and examines the extent to which the (often-cited) differences between consumer and business markets are valid. The subject guide then moves onto examining one of the factors that influences business buyer behaviour – risk. This concept is considered in some detail and reference is made to a variety of journal articles. The section also considers how marketers can seek to manage risk. This discussion serves a further use, since it helps to inform the discussion on relationships in Chapter 7 of the subject guide.

This approach will ensure that you are not only familiar with a breadth of marketing topics (through your reading of Kotler and Armstrong), but that you also gain some in-depth insights into key concepts.

1.2 Introduction to the subject area

As the title of the course indicates, the emphasis in this subject guide is on the principles –(that is, the models, theories, concepts and frameworks) rather than just the practice – of marketing.

Although attention will naturally be paid to marketing-based concepts; such as pricing, promotion, distribution and branding, the predominant theoretical insights will be drawn from several disciplines, such as management, economics and psychology. Overall the approach will be conceptual and will better enable you to apply your learning to a broad range of marketing problems.

1.3 Syllabus

General introduction

An overview of marketing: history and theory

The marketing environment

Consumer behaviour

Organisational buyer behaviour

Market segmentation, targeting and positioning

Customer relationship marketing (CRM)

Branding and product development

Product innovation and the lifecycle approach

Promotion

Pricing

Distribution

Corporate social responsibility (CSR)

1.4 Aims of the course

This course aims to:

- introduce you to the fundamental principles of marketing
- give you a broad understanding of consumers and the marketing behaviour of firms
- explore the relevance of other academic disciplines to marketing
- encourage you to question the limitations of marketing management and to suggest ways of overcoming its many problems
- develop your practical skills by applying learned theories to real-world organisational problems.

1.5 Learning outcomes for the course

This course is ideally suited to those who wish to develop a sophisticated and critical understanding of marketing theory. At the end of this course and having completed the Essential reading and activities, you should be able to:

- discuss the function and effect of advertising/promotion from an organisational perspective
- describe the pricing behaviour of firms in an uncertain environment where information may be limited or wrong
- describe and analyse the marketing behaviour of firms and consumers.

These themes run throughout the course. You will be expected to acquire a knowledge and critical understanding of these and other important themes as well as the sub-topics that form a part of each major theme.

1.6 Overview of learning resources

1.6.1 The structure of the guide

This subject guide has three main areas of study:

- A general introduction to marketing giving the historical foundations of the subject as well as the scope of what marketing is all about.
- A focus on understanding consumer and buyer behaviour. This is an essential element, since the hallmark of marketing, as opposed to other management disciplines, is the belief in the sovereignty of the consumer and ultimate strength to an organisation of structuring managerial strategies with the end user in mind.
- A focus on the organisation and on understanding its particular marketing behaviour.

1.6.2 Reading advice

There are many textbooks that cover most of the major themes related to the principles of marketing found in this guide. However, the Kotler and Armstrong text, listed under Essential reading, is the book most often used in university programmes around the world. It also has the virtue of having a dedicated international edition and one of the longest print runs in academic history. As such, although our guide is structured thematically quite differently from the Essential reading textbook, all the chapters of the subject guide have corresponding ones in the textbook. Our subject guide is therefore a complement to and not a substitute for this Essential text.

Essential reading

Kotler, P and G. Armstrong *Principles of marketing*. (Upper Saddle River, NJ: Pearson Prentice Hall, 2012) 14th international edition [ISBN 9780273752431].

Detailed reading references in this subject guide refer to the editions of the set textbooks listed above. New editions of one or more of these textbooks may have been published by the time you study this course. You can use a more recent edition of any of the books; use the detailed chapter and section headings and the index to identify relevant readings. Also check the virtual learning environment (VLE) regularly for updated guidance on readings.

Essential journal articles

Gaski, J.F. 'The theory of power and conflict in channel of distribution', *Journal of Marketing* 48(3) 1984, pp.9–29.

Greatorex, M., V-W. Mitchell and R. Cunliffe 'A risk analysis of industrial buyers: the case of mid-range computers', *Journal of Marketing Management* 8 1992, pp.315–33.

- Mitchell, V.W. 'Buy-phase and buy-class effects on organisational risk perception and reduction in purchasing professional services', *Journal of Business and Industrial Marketing* 13(6) 1998, pp.461–78.
- Noordhoff, C.S., K. Kyriakopoulos, C. Moorman, P. Pauwels and B.G.C. Dellaert 'The bright side and dark side of embedded ties in business-to-business innovation', *Journal of Marketing* 75 2011 pp.34–52.
- Ring, P.S. and A.H. Van de Ven 'Structuring cooperative relationships between organisations', *Strategic Management Journal* 13(6) 1992, pp.483–98.
- Wilson, D.F. 'Why divide consumer and organisational buyer behaviour?', *European Journal of Marketing* 34(7) 2000, pp.780–96.
- Yilmaz, C., E.E. Telci, M. Bodur, T.E. Iscioglu and T. Eker 'Source characteristics and advertising effectiveness', *International Journal of Advertising* 30(5) 2011, pp.889–914.

Further reading

As well as the Essential reading you will find that each subject guide chapter has a reference to Further reading. Usually the texts referred to as Further reading are linked to an activity in that chapter of the subject guide and you are expected to read the relevant parts of the cited article and answer the questions that are asked. You will need to support your learning by reading as widely as possible and by thinking about how these principles apply in the real world. To help you read extensively, you have free access to the VLE and University of London Online Library (see below).

Other useful texts for this course include:

- Aldrich, H. and D.A. Whetten 'Organisation sets, action sets and networks: making the most of simplicity' in Nystrom, P.C. and W.H. Starbuck (eds) *Handbook of organisational design Vol 1*. (Oxford: Oxford University Press, 1981) [ISBN 9780198272410], pp.385–408.
- Baker, M.J. *Marketing strategy and management*. (Basingstoke: Palgrave Macmillan, 2007) sixth edition [ISBN 9781403986276].
- Bauer, R.A. 'Consumer behaviour as risk taking' in Cox, D. (ed.) *Risk taking and information handling*. (Boston, MA: Division of Research, Graduate School of Business Administration, Harvard University, 1967) [ISBN 9780875840635], pp.22–33.
- Boissevain, J. *Friends of friends. Networks, manipulators and coalitions*. (Oxford: Basil Blackwell, 1974) [ISBN 9780631149705].
- Chesbrough, H. *Open innovation: the new imperative for creating and profiting from technology*. (Boston, MA: Harvard Business School Press, 2003) [ISBN 9781578518371].
- Cox, D.F. 'Risk taking and information handling in consumer behaviour – an intensive study of two cases' in Cox, D. (ed.) *Risk taking and information handling*. (Boston, MA: Harvard University Press, 1967) [ISBN 9780875840635], pp.82–108.
- Cram, T. 'Pricing', in Baker, M.J. and S.J. Hart (eds) *The marketing book*. (Oxford: Butterworth-Heinemann, 2008) sixth edition [ISBN 9780750685665].
- Freeman, R.E. *Strategic management: a stakeholder approach*. (Boston, MA: Pitman, 1984) and (Cambridge: Cambridge University Press, 2010) [ISBN 9780521151740].
- Galbraith, K. *The affluent society*. (London: Penguin, 1999) [ISBN 9780140285192].
- Guseman, D.S. 'Risk perception and risk reduction in consumer services', in Donnelly, J.H. and W.R. George (eds) in *Marketing of Services, Proceedings of the American Marketing Association*. (Chicago, IL: American Marketing Association, 1981) [ISBN 9780877571483], pp.200–04.

- Holbrook, M.B. 'The nature of customer value', in Rust, R.T. and R.L. Oliver (eds) *Service quality: new directions in theory and practice*. (Thousand Oaks, CA: Sage Publications, 1994) [ISBN 9780803949201], pp.21–71.
- Homburg, C., S. Keuster and H. Krohmer *Marketing management: a contemporary perspective*. (London: McGraw-Hill, 2009) [ISBN 9780077117245].
- Kay, J. 'A model of product positioning' in *The foundations of corporate success*. (Oxford: Oxford University Press, 1993) and new edition (Oxford: Oxford University Press, 1995) [ISBN 9780198289883], pp.242–50.
- Klein, N. *No logo: no space, no choice, no jobs: taking aim at the brand bullies*. (Toronto: A.A. Knopf Canada, 2000) and (Fourth estate, 2010) 10th edition [ISBN 9780007340774].
- Kotler, P, S.H. Ang, S.M. Leong and C.T. Tan *Marketing management – an Asian perspective*. (Singapore: Prentice Hall, 1996) and (Prentice Hall, 2004) third edition [ISBN 9780131066250].
- Kotler, P *Marketing management*. (Englewood Cliffs, NJ: Prentice Hall, 1991) seventh edition [ISBN 9780135524800].
- Kuhlmeijer, H.J. *Managerial marketing*. (Leiden: Stenfort Kroese, 1975) [ISBN 9789020704600].
- Lambin, J. *Market driven management: strategic and operational marketing*. (Basingstoke: Macmillan, 2000) [ISBN 9780333793190].
- Lambin, J. and I. Schuiling *Market-driven management: strategic and operational marketing*. (Basingstoke: Palgrave Macmillan, 2012) third edition [ISBN 9780230276024].
- McDonald, C. *Challenging social work: the institutional context of practice*. (Basingstoke: Palgrave Macmillan, 2006) [ISBN 9781403935458], p.115.
- Nagle, T. and R.K. Holden *The strategy and tactics of pricing: a guide to profitable decision making*. (Englewood Cliffs, NJ: Prentice Hall, 1994) [ISBN 9780136106814].
- Nagle, T. and R.K. Holden *The strategy and tactics of pricing: a guide to growing more profitably*. (Upper Saddle River, NJ: Prentice Hall, 2006).
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1.6.3 Online study resources

In addition to the subject guide and the Essential reading, it is crucial that you take advantage of the study resources that are available online for this course, including the VLE and the Online Library.

You can access the VLE, the Online Library and your University of London email account via the Student Portal at:
<https://my.londoninternational.ac.uk>

You should have received your login details for the Student Portal with your official offer, which was emailed to the address that you gave on your application form. You have probably already logged in to the Student Portal in order to register. As soon as you registered, you will automatically have been granted access to the VLE, Online Library and your fully functional University of London email account.

If you have forgotten these login details, please click on the 'Forgotten your password' link on the login page.

The VLE

The VLE, which complements this subject guide, has been designed to enhance your learning experience, providing additional support and a sense of community. It forms an important part of your study experience with the University of London and you should access it regularly.

The VLE provides a range of resources for EMFSS courses:

- Self-testing activities: Doing these allows you to test your own understanding of subject material.
- Electronic study materials: The printed materials that you receive from the University of London are available to download, including updated reading lists and references.
- Past examination papers and *Examiners' commentaries*: These provide advice on how each examination question might best be answered.
- A student discussion forum: This is an open space for you to discuss interests and experiences, seek support from your peers, work collaboratively to solve problems and discuss subject material.
- Videos: There are recorded academic introductions to the subject, interviews and debates and, for some courses, audio-visual tutorials and conclusions.
- Recorded lectures: For some courses, where appropriate, the sessions from previous years' Study Weekends have been recorded and made available.
- Study skills: Expert advice on preparing for examinations and developing your digital literacy skills.
- Feedback forms.

Some of these resources are available for certain courses only, but we are expanding our provision all the time and you should check the VLE regularly for updates.

Making use of the Online Library

The Online Library contains a huge array of journal articles and other resources to help you read widely and extensively.

To access the majority of resources via the Online Library you will either need to use your University of London Student Portal login details, or you will be required to register and use an Athens login:

<http://tinyurl.com/ollathens>

The easiest way to locate relevant content and journal articles in the Online Library is to use the **Summon** search engine.

If you are having trouble finding an article listed in a reading list, try removing any punctuation from the title, such as single quotation marks, question marks and colons.

For further advice, please see the online help pages:
www.external.shl.lon.ac.uk/summon/about.php

Unless otherwise stated, all websites in this subject guide were accessed in April 2013. We cannot guarantee, however, that they will stay current and you may need to perform an internet search to find the relevant pages.

1.7 Examination advice

Important: the information and advice given here are based on the examination structure used at the time this guide was written. Please note that subject guides may be used for several years. Because of this we strongly advise you to always check both the current Regulations for relevant information about the examination, and the VLE where you should be advised of any forthcoming changes. You should also carefully check the rubric/instructions on the paper you actually sit and follow those instructions.

The examination for this subject will be a three-hour written examination, in which candidates will be expected to answer **four** questions out of a total of **eight**. Sample examination questions are included at the end of each chapter and a Sample examination paper is located at the end of the guide.

As will be evident upon inspection, the examination questions blend concrete definitional knowledge of the subject (you have to learn and recall what the concepts mean) along with analytical applicability (you have to know how to use the concepts you have learned). In answering any question it is important to utilise concepts from the subject guide, Essential reading and Further reading where applicable. However, what is more important than a vast reservoir of accumulated knowledge is the quality of your arguments. Think of the material in this guide as offering supporting material for your own intelligence and informed opinions. We encourage you to take full advantage of the questions that appear at the end of every chapter in order to conduct self-testing. The 'PRSQT' method is of particular applicability in preparing for the examination in this subject:

- Preview the material you are about to read.
- Read the material.
- Go back and study the material you have read by taking notes.

- Create an inventory of questions that may be relevant to the course.
- Test yourself with the questions you have assembled.

We hope that this subject guide will enable you to enjoy the study of marketing and help you to refine your understanding of the many topics that have an inordinate effect on the way we behave as consumers and how our market-oriented societies are structured.

Remember, it is important to check the VLE for:

- up-to-date information on examination and assessment arrangements for this course
- where available, past examination papers and *Examiners' commentaries* for the course which give advice on how each question might best be answered.

Notes

Chapter 2: An overview of marketing: history and theory

2.1 Introduction

Before we can start discussing marketing theories and concepts, it is useful to understand the origins of marketing and how academics define it today. This will be followed by a discussion of the four main historical business orientations (production, product, sales and marketing) and how marketing fits into this. The chapter will conclude with an examination of marketing problems and how marketing students can draw upon different academic disciplines such as psychology and economics to solve them.

2.1.1 Aims of the chapter

The aims of this chapter are to:

- show how and where the practice of marketing originated
- help ground the study of marketing in its historical antecedents
- identify which academic disciplines are the most important for the study of marketing.

2.1.2 Learning outcomes

By the end of this chapter, and having completed the Essential reading and activities, you should be able to:

- identify different definitions of marketing and the implications of the differences
- explain the meaning of exchange and value in the context of marketing
- discuss the history of marketing theory and the different orientations that firms can follow.

2.1.3 Essential reading

Kotler, P and G. Armstrong *Principles of marketing*. (Upper Saddle River, NJ: Pearson Prentice Hall, 2012) Chapter 1. You should read the entire chapter to familiarise yourself with the Marketing ethos.

2.1.4 Further reading

Vargo, S.L., P.P. Maglio and M.A. Akaka 'On value and value co-creation: a service systems and service logic perspective', *European Management Journal* 26 2008, pp.145–52.

2.1.5 References cited

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2.1.6 Useful websites

www.marketingpower.com/

This is the home of the American Marketing Association (AMA); the oldest marketing association of its kind. There are links to other affiliated marketing associations around the world.

2.1.7 Synopsis of chapter content

This chapter starts by examining the definitions and history of marketing. The importance of the definitions is explored with reference to the concepts of exchange and value. The chapter then examines the notion of exchange in more detail and the implications of the different types of exchange for marketers. We then look at another popular topic in marketing, the orientations or philosophies that firms can follow. Some of the concepts underlying these orientations are also considered; this allows us to distinguish between them more clearly.

2.2 Definitions and a brief introduction to the history of marketing

Ringold and Weitz (2007) make the following, useful, observation

A widely accepted definition of marketing offers marketing practitioners and academics, as well as those with whom they want to communicate, some consensus with respect to what marketing is and is not.

(Ringold and Weitz 2007, p.251)

There are many definitions of marketing. Here we present four of the most widely used versions since the inception of marketing to the present:

- 'Marketing consists of those activities involved in the flow of goods and services from the point of production to the point of consumption.'
(American Marketing Association, 1938)
- 'Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organizational objectives.'
(American Marketing Association, 1985)
- 'Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.'
(American Marketing Association, 2004)
- 'Marketing is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners, and society at large.'
(American Marketing Association, 2007)

Activity 2.1

What substantial differences exist between the first formal definition of marketing (i.e. the AMA's 1938 definition) and the one the AMA provided nearly 70 years later in 2007? What explains the changes, if any, in the definition?

See Appendix 2 for feedback.

Looking at the two most recent definitions of marketing, one sees that they agree on the following points:

- Marketing is a management process.
- Marketing is about giving customers what they want.
- In the AMA 1995 version, marketing is about exchange (namely, of ideas, goods and services).
- The AMA definition also describes the ways in which marketing can stimulate exchange (namely, through conception, pricing, promotion and distribution).

2.3 A brief history of marketing theory

You may wonder why a history of marketing is of interest in the context of more recent developments. To paraphrase Joseph Schumpeter,¹ in order to be a well-grounded social scientist, one needs a command of four disciplines (economics, statistics, mathematics and history). However, if forced to choose just one of these disciplines, Schumpeter always claimed he would have chosen history.

A proper historical account of 'marketing' would begin with early capitalism and sociological theories of the growth of consumerist culture. However, that is a bit beyond the scope of this chapter. Instead, we will briefly trace the growth and emergence of the marketing framework, which began in the 1900s when marketing began to divorce itself from its founding discipline of economics.

We will then go on to show why some marketers argue that the marketing framework is the most 'advanced' of all business orientations.

According to Wilkie and Moore (2012) the development of marketing thought can be divided into four eras:

- **First era:** Founding the field (1900–20): Economists had been focused on production and attention was needed on distribution.
- **Second era:** Formalising the field (1920–50): It was in this period that electricity appeared in the majority of US homes and subsequently the accompanying consumer products. Packaged goods delivered by new retailing concepts like supermarkets, also appeared. Academically the field was spun-off from economics. There was an increased emphasis on the functional approach to marketing (for example, supplying the market, creating opportunities for exchange and undertaking facilitating functions). We will discuss the concept of exchange later in this chapter.
- **Third era:** Paradigm shift (1950–80). Mass marketing dominated. The focus of marketing was to look at the subject from the perspective of the marketing manager. This led to the development of concepts such as the marketing orientation, segmentation, the 4Ps (product, place, price and promotion) and branding.
- **Fourth era:** A fragmentation of the mainstream (1980–present): This era returned to a more economic focus. It was strongly influenced

¹ Joseph Schumpeter (1883–1950) was a well-known economist who developed and popularised a version of business cycle theory based on punctuated spurts of technological advances that is now accepted by economists of the evolutionary school of economics.

by Michael Porter and his five-forces model and the paradigm of competitive advantage. Advances in economic strategy and game theory also influenced the growth of the strategic marketing school. The field has also been influenced by the globalisation of marketing.

You should note that these developments also influenced the adoption of different business orientations at different points in time. So, for example, when the emphasis was on creating large quantities of product, in order to meet customers' unmet needs, the production orientation was popular. However, when supply problems were addressed and product quality became more important, the product orientation became more relevant.

Vargo and Lusch (2004) start with a review of the academic study of marketing. They point out that marketing initially started with a focus on distribution and exchange of commodities. This approach is described as having a 'goods-dominant logic', where units of output are seen as central components of exchange. It was only in the 1950s that the discipline evolved into marketing management (the 4Ps), with an emphasis on decision-making and serving customers. In the 1980s, marketing concepts such as relationship marketing and the market orientation emerged, which were not wholly grounded in microeconomics, the discipline which had initially served as the basis for marketing theories.

In the late 20th century, one of the new areas of research was in services marketing and initially a lot of effort was expended on identifying how services were different to goods. However, an alternative view began to emerge. Customers do not buy goods or services; rather they buy offerings, which provide services to the customers and yield value. Marketing had moved from a 'goods-dominant logic', which emphasised tangible outputs and discrete transactions, to a 'service-dominant logic', which saw intangibility, exchange processes and relationships as being more important. A service-dominant logic implies that firms want to customise offerings, and recognise that the consumer is always a co-creator of value (Vargo et al., 2008). This perspective considers how marketers can help consumers in specialisation and value-creation.

2.4 Exchange

Earlier definitions of marketing included reference to the term 'exchange' and while the relevance of this has recently been questioned, it is nevertheless useful to understand why exchange was considered important. Although written in 1975, Bagozzi's classic article dealing with exchange still offers practical and theoretical insights today. He identifies three different types of exchange.

- **Restricted exchange:** This involves two party reciprocal relationships (e.g. the customer and the salesman), one of whom sells something to the other in return for money.
- **Generalised exchange:** This involves at least three actors. The benefit flows between the parties may be indirect. Bagozzi gives the example of a public bus company that asks a department store for a donation of benches, which are to be used for the benefit of the bus company's passengers. The benches themselves contain advertising and as a result of seeing these, the passengers start frequenting the department store. Therefore, there is not a direct benefit flow from the department store to the passengers, as the latter receive the benefits from the bus company. Similarly the passengers 'reward' to the bus company comes from visiting the department store that is advertised.

The usefulness of this example is that there is no direct exchange between parties, but there is an exchange of interest.

- **Complex exchange:** Bagozzi refers to this as being similar to a distribution channel, where a manufacturer sells to a retailer (so there is two-way exchange between them), the retailer sells to the customer (so there is two-way exchange between them), who in turn sells to a consumer (which is also two-way).

This framework shows that exchanges can vary in terms of whether they are undertaken between two or more parties. Exchanges can also range between being concrete and reciprocal and consummated immediately, to ones where what is being exchanged is more ambiguous and the exchange can take some time to be completed. The exchange can also sometimes be a process, where there may be two groups of people at each end of the exchange and all the others in between add value to the offering before passing it on along the chain by means of exchanges.

The usefulness of these ideas to marketers is that:

- Marketers may need to understand how restricted or generalised the exchange that they undertake actually is. Once marketers do this they may be better able to understand how to manage the exchange in order to undertake it more effectively. In the example of generalised exchange given above, the department store may assess that this method of promoting the store not only has obvious advertising benefits in terms of making potential customers aware of the store, but also that it may encourage customers to think of the department store in a more positive way (that is, as an altruistic company). So with generalised exchanges marketers need to be aware of all the possible monetary and non-monetary costs and benefits of the exchange. Such exchanges can benefit a variety of stakeholders, as well as customers. This can be useful to consider because those other stakeholders may be important now or may become important in the future.
- In complex exchanges, the underlying notion is that each party is adding some value (benefits) to the offering, but it is also imposing certain costs. Marketers may need to assess the benefits that different channel intermediaries add to the benefits received by the final customer and weigh that against any additional costs that they may create. Could other parties in that channel undertake the same tasks (creation of value), but at lower cost? Where consumers buy products direct from manufacturers via the internet, they are foregoing the benefits that intermediaries may have offered (for example, the chance to actually see and touch the product), but they may gain from lower prices, or a more immediate purchase and at least the perception of more choice.

2.5 History of business orientations: the triumph of marketing?

Having described the evolution of marketing theory, we will now look at a brief account of the emergence of the current marketing framework, which has come to dominate certain industries and markets.

There are five main business orientations, each of which has emerged as a response to evolutions in the marketplace. If I were to ask the question: 'What kind of a firm do you work for (or have you in the past)?', the answer is likely to suggest one of these five orientations:

- **Production:** Here the focus is on producing more, selling high volumes, controlling costs and production efficiency. The firm which pioneered this orientation is Ford in the early 1900s, with its adoption of assembly line manufacturing and a standardised product, the Model T, which was famously available in any colour ‘as long as it’s black!’
- **Product:** This orientation moves away from standardised products and focuses on improving quality. The assumption is that customers want a better quality version of the same thing, and are prepared to pay a premium for a differentiated product. This approach was first adopted by General Motors (GM) in the 1930s, which gained market share from Ford in the 1930s by offering customers a diversified product line.
- **Selling:** The selling orientation, as the name suggests, focuses on aggressive sales and promotion to sell whatever the organisation wants to make or distribute. Here the seller’s needs come first, and products are ‘pushed’ under the assumption that if the price is low enough, customers will buy the product whether they like it or not. Examples of this orientation include firms that use door-to-door salesmen to distribute encyclopedias or vacuum cleaners. This orientation has been accurately portrayed in the films, in particular, the 1988 Hollywood movie *Tin Men*, the play and later film adaptation of David Mamet’s *Glengarry Glen Ross* (1992) and more recently in the movie *Boiler Room* (1999), which depicts financial industry salesmen trying to convince prospective investors to buy stock over the telephone.
- **Marketing:** The marketing orientation is one of the most advanced orientations according to marketing founders such as Philip Kotler. They feel this way because marketing, unlike other orientations, focuses on the end user by first defining customer needs and then developing offerings that deliver what the customer wants and needs. In this approach, customers and their needs come first. Can you think of a company that uses this orientation?
- **Societal:** The most recent orientation to have been identified, is the societal orientation where marketers following the marketing orientation also take into account present and future customer welfare, as well as the welfare of the environment. The practical implications of this orientation are, for example, fast food restaurants that offer lower fat options and which use recyclable napkins and mats.

Finally, as will be noted later on in this guide, you should be aware that it is possible for firms to display a combination of orientations. Looking at the actual practices of firms it is often difficult to see if there are any firms who are wholly oriented one way or another. Some aspects of their activities suggest one orientation, while other aspects of their activities suggest another. In general we should view these orientations as ‘ideal’ types and recognise that reality is often some combination of the above and therefore a bit messier.

Case study 2.1: Measuring the marketing orientation

Ajay Kohli and his colleagues developed a measure for assessing the marketing orientation of firms. Understanding what the measure looks at can be a useful means of better understanding what the marketing orientation really is (or one interpretation of it). They identified three basic components of the marketing orientation: intelligence generation, intelligence dissemination and responsiveness.

Intelligence generation involves the firm collecting information about customer needs and there should be a number of different departments doing this. Intelligence dissemination

involves information exchange within the organisation and responsiveness refers to the implementation of marketing programmes based on the intelligence gathered.

In the questionnaire developed by Kohli and his colleagues there were a number of measures of each of the above components. For example, to assess a firm's intelligence generation managers would be asked to respond to statements such as 'In this business unit, we meet with customers at least once a year to find out what products or services they will need in the future'. For intelligence dissemination statements included, 'We have interdepartmental meetings at least once a quarter to discuss market trends and developments' and for responsiveness statements included 'Our business plans are driven more by technological advances than by market research'. The last statement is noteworthy because it shows the trade-off between a marketing orientation and a product orientation. Managers who agree with that statement are reflecting a product orientation and they may well be quite proud of that.

Kohli, A.K., B.J. Jaworski and A. Kumar 'MARKOR: a measure of market orientation', *Journal of Marketing Research* 30 1993, pp.467–77.

Let us now look at the assumptions underlying the different orientations. Table 2.1 shows the different assumptions made about the market and consumer behaviour by firms that follow the different orientations.

If you look at the second column of this table, the production-oriented firm assumes that there is a lack of supply; it is because of this assumption that its focus is to produce as much as possible.

There are obvious examples of markets around the world where this assumption holds and the behaviour of some marketers is evidence of a production orientation. The airline market is a case in point. Some airlines flying between developed countries to destinations in developing countries know that demand for seats is very high (from people wishing to see their families). The number of competitors on these routes is sometimes limited and such airlines know that they do not need to even attempt to provide a good service; they must simply fill seats to ensure that they have enough aircraft flying production-orientation). Contrast this with the extremely competitive London to New York route, with customers having the choice of a number of airlines. In such a situation where supply exceeds demand, a marketing orientation is more likely.

If you look at the second box in the first column of Table 2.1 you will see that as a result of market conditions, it is possible to make assumptions about buyer behaviour. Where supply is limited, customers cannot afford to be choosy and may not be able to consider quality or variety. Rows three and four are important for practical purposes because they identify the situations when the different orientations may be effective and ineffective.

You should also pay attention to the last row in the table. This shows that it is possible for firms to display a combination of orientations. Looking at the practices of firms in real life it is often difficult to see if there are any that are wholly oriented one way or another. Some aspects of their activities suggest one orientation, other characteristics of their activities suggest another. This is why we argue that firms can have combinations of orientations.

The argument presented in the last row of the second main column of Table 2.1 is that some firms may combine elements of the product orientation with the marketing orientation. For example, product development may be undertaken as a result of innovation by the firm's engineers (without prior market research). However, prior to launch the product may be tested among customers.

	Production	Product	Sales	Marketing	Societal
Assumptions regarding market conditions	There is a lack of supply.	There is a lack of quality products.	Oversupply/lack of demand requires additional sales effort.	Oversupply/lack of demand can be overcome if you take into account needs and wants.	As well as products that satisfy needs and wants, should also consider wider issues – in their own right.
Assumptions regarding buyer behaviour	Customers are not concerned about product quality or variety.	Customers are not aware of the possibilities for the product class.	They need to be pushed into buying.	Customers prefer products which cater for their needs and wants and if this is done they may come back. Will need less sales effort.	Customers will buy from marketers with concerns for wider environmental issues. This will also win favour with government.
Situations when effective	When there is a lack of supply – customers will buy whatever is available.	In high technology businesses where there is an asymmetry of information between buyer and seller.	When buyers' behaviour is characterised by inertia.	Where customers have a choice and will prefer those products which cater most closely to their needs.	Where there is pressure to look after the environment and other social issues.
Situations when ineffective	When customers have a choice – they will want quality and variety.	When marketers come to regard themselves in the business of making a particular product and not fulfilling a particular want.	Where focus on selling leads marketers to sell whatever they have rather than consider customers' wants.	Where customers are unable to identify their needs and wants. Where there is a lack of production capability and customers will buy anything.	Where there is no pressure from customers/ government and no long-term benefits and the costs outweigh the benefits.
Combinations of orientations		Plus marketing orientation, to develop a product and then undertake research.	Sell products which people want to buy, but accompany with heavy sales pitch.		

Table 2.1: Assumptions made by firms following the different orientations.

Activity 2.2

Write down examples of firms that in your experience follow the different orientations. Then write down which elements of consumer buyer behaviour or characteristics of the market have encouraged the firms to follow a specific orientation.

You should read the details of the other orientations and consider the advantages and disadvantages of each. You should note that it has been argued that a marketing orientation can lead to problems for marketers since it may lead to them focusing on customers' perceptions of what is required, and for many industries this may lead to cosmetic changes to a product.

See Appendix 2 for feedback.

2.5.1 Other academic disciplines and marketing

Marketing is not itself a unitary theoretical discipline. Rather, it is a framework drawing from many different academic disciplines. Although its roots are in industrial economics, it is actually a composite of three major academic disciplines: economics, psychology and management. Each theoretical approach has its specific contribution to areas of marketing relevance which are summarised in Table 2.2.

Academic discipline	Area of marketing relevance
Economics	Price theory and strategy
	Economic behaviour
	Applied game theory
Psychology	Consumer behaviour
	Advertising messages
	Social psychology
Management	Segmentation strategy
	Demand analysis
	General management strategy

Table 2.2: Academic disciplines and marketing.

2.6 Marketing problems

'Real world' marketing problems involve all three disciplines in varying degrees and proportions. A marketing practitioner has to decide which academic discipline is most relevant to the problem at hand. Marketing problems can essentially be divided into four groups:

- **Operational** marketing problems involve working with existing opportunities; for example, by targeting the product to a specific segment of consumers.
- **Analytical** marketing problems are related to the market structure in which a firm operates, and its effects on the firm's marketing approach.
- **Normative** marketing problems are those which concern themselves with how things 'should be'. An example of this is the emergence of corporate social responsibility and ethical marketing ('no logo' movement).
- **Strategic** marketing problems involve evaluating the needs of customers and evaluating how the company can provide a solution to this need.

Each problem requires a different set of academic approaches. It takes time to develop the requisite skills as a marketing analyst or practitioner in order to know when to use which approach to solve a given problem. In some

cases, even defining what the problem is requires experience and subtle knowledge of the problem at hand.

2.7 Looking ahead: the marketing framework and the ultimate aim of production

We end this chapter on a rather philosophical note. What is the ultimate aim of marketing or of any form of production? The ultimate aim of production is not the production of goods and services, nor the satisfaction of a narrow set of consumer preferences, but rather 'the production of free human beings associated with one another in terms of equality'. This was US philosopher John Dewey's definition, one which he had based from his careful reading of Adam Smith's definition in the *Wealth of nations* (1776). Smith deplored what he called the 'vile maxim' – which amounted to a distortion of true human values in favour of wealth acquisition without an underlying aim other than to gain riches. Marketing, with its focus on solving problems and meeting the needs of end users, would probably have suited Adam Smith.

We mention this in passing because there is a group of marketing scholars and practitioners who believe in something similar called 'social or ethical marketing' and this is one of their ultimate aims. They believe the marketing orientation, with its focus on the end user and the solving of problems for people, can achieve a better society.

2.8 Overview of chapter

Modern definitions of marketing describe it as a management process that involves the identification and anticipation of customer requirements. The development of marketing can be divided into four eras.

Most businesses can be classified into five main business orientations (or some combinations thereof) that evolved in response to changes in technology and society.

2.9 Reminder of your learning outcomes

Having completed this chapter, and the Essential reading and activities, you should be able to:

- identify different definitions of marketing and the implications of the differences
- explain the meaning of exchange and value in the context of marketing
- discuss the history of marketing theory and the different orientations that firms can follow.

2.10 Test your knowledge and understanding

1. a. Define marketing. (5 marks)
- b. How has the definition of marketing evolved? (10 marks)
- c. What is the implication of the replacement of the term 'exchange' with that of 'value'? (10 marks)
2. a. Distinguish between the different types of exchange as identified by Bagozzi. (10 marks)

- b. Give examples of each of these types of exchange. (5 marks)
- c. Discuss the advantages and disadvantages to firms of using generalised exchanges. (10 marks)
- 3. a. Explain what is meant by the term product orientation. (5 marks)
- b. Under what circumstances would you expect firms to use this orientation? (10 marks)
- c. What are the possible disadvantages of following this orientation? (10 marks)

Notes

Chapter 3: The marketing environment

3.1 Introduction

This chapter focuses on the environmental factors that affect the marketing activities of organisations. Such factors include demographic changes, changes in fashions, changes in consumption due to economic development and political changes. How marketers cope with such changes is also covered. Another important theme that runs throughout this course is the fact that marketers have to be aware of changes that take place in the marketing environment, since these can have a major impact on how marketers change and evolve their own marketing strategies.

You should note that while this chapter and the accompanying material in Kotler and Armstrong (2012) draw attention to specific aspects of the political, economic, social and technological environments, these are all dynamic areas and for examination purposes you need to have your own examples that illustrate, for example, how specific changes in the economic environment have had an influence on marketers. Clearly there is a similarity in concepts and their study in this chapter will repay when you reach the end of the course. Finally, you should remember that study of the marketing environment is important insofar as the environment can have an important impact on the activities of marketers. For this reason this topic has important, though often unstated, links with the other topics in this subject guide. You should be aware that examination questions on any of the other topics may require you to have an awareness of the issues addressed in this topic.

3.1.1 Aims of the chapter

The aims of this chapter are:

- identify the different elements of the marketing environment
- describe and distinguish between the marketing environment's elements
- distinguish between the terms customer, client and consumer and highlight the implications for marketers
- provide a framework for assessing stakeholders.

3.1.2 Learning outcomes

By the end of this chapter, and having completed the Essential reading and activities, you should be able to:

- explain the difference between the micro and macroenvironment of a firm
- describe how the different elements of the micro and macroenvironment affect firms' marketing activities
- explain the difference between the terms consumer, client and customer and understand the debate surrounding the use of these terms in certain professions
- outline the basis on which marketers prioritise certain stakeholders over others.

3.1.3 Essential reading

Kotler, P and G. Armstrong *Principles of marketing*. (Upper Saddle River, NJ: Pearson Prentice Hall, 2012) Chapter 3. You should read the sections headed: 'The company's microenvironment' and 'The company's macroenvironment'. However, you do not need to read the sub-section 'The changing American family', 'Geographic shifts in population', 'A better educated population' or 'Increasing diversity'. You also do not need to read the section titled, 'Responding to the marketing environment'. Although the material in Kotler and Armstrong is essential to your study, it is also conceptually easy and for that reason it is not explained further in this chapter of the subject guide.

3.1.4 Further reading

Chakravorti, B. 'Stakeholder marketing 2.0', *Journal of Public Policy & Marketing* 29(1) 2010, pp.97–102.

Mitchell, R.K., B.R. Agle and D.J. Wood 'Toward a theory of stakeholder identification and salience: defining the principle of who and what really counts', *Academy of Management Review* 22(4) 1997, pp.853–86.

Smith N.C., M.E. Drumwright and M.C. Gentile 'The new marketing myopia', *Journal of Public Policy & Marketing* 29(1) 2010, pp.4–11.

3.1.5 References cited

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Freeman, R.E. *Strategic management: a stakeholder approach*. (Boston: Pitman, 1984).

Gundlach, G.T. and W.L. Wilkie 'Stakeholder marketing: why "stakeholder" was omitted from the American marketing association's official 2007 definition of marketing and why the future is bright for stakeholder marketing', *Journal of Public Policy & Marketing* 29(1) 2010, pp.89–92.

Kennedy, C.R., F. Harris and M. Lord 'Integrating public policy and public affairs in a pharmaceutical marketing program: the AIDS pandemic', *Journal of Public Policy & Marketing* 23(2) 2004, pp.128–39.

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McLaughlin, H. 'What's in a name: 'Client', 'Patient', 'Customer', 'Consumer', 'Expert by experience', 'Service user' – what next?', *British Journal of Social Work* 2008, pp.1–17.

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Nguyen, N.H., M. Skitmore and J. Kwok Wai Wong 'Stakeholder impact analysis of infrastructure project management in developing countries: a study of perception of project managers in state-owned engineering firms in Vietnam', *Construction Management and Economics* 27 2009, pp.1129–40.

Redding, P. 'The evolving interpretations of customers in higher education: empowering the elusive', *International Journal of Consumer Studies* 29(5) 2005, pp.409–17.

3.1.6 Synopsis of chapter content

This chapter briefly describes the marketing environment and then distinguishes between customers, consumers and clients. The second main topic this chapter covers is stakeholder analysis and the basis by

which marketers can categorise their stakeholders. The chapter ends with a broad assessment of the ways in which marketers can influence their stakeholders – these approaches will be illustrated in more specific ways in later chapters that deal with the marketing mix and corporate social responsibility.

3.2 Types of environment

Companies interact with two types of environment: the ‘microenvironment’ and the ‘macroenvironment’. The microenvironment comprises the company’s suppliers, customers, marketing intermediaries and competitors. The macroenvironment is made up of wider forces which affect demand for a company’s goods. These forces include demographics, economics, nature, technology, politics and culture.

The microenvironment¹ consists of five major factors:

1. The marketer’s ‘internal environment’ (namely, its own management structure).
2. The ‘marketing channel’ used by the firm (for example, its suppliers).
3. The markets in which the firm may be selling (these may be consumer, producer, reseller, government or international markets).
4. The firm’s competitors.
5. Groups of people who have an interest in the marketer’s ability to achieve their objectives. As well as obvious groups such as shareholders, interested publics can also include local interest groups who may have concerns about the marketer’s impact on the environment or on local employment. The characteristics of the firm’s internal environment affect its ability to serve its customers.

¹ Those of you who studied SC1021 Principles of sociology should recall the coverage of ‘Elements of organisations’. That topic considered the role of ‘missions and goals’; these are an important element of the internal environment for an organisation. For example, the mission of an organisation explains what the organisation is about and what different stakeholders can expect from it.

3.3 Customers, consumers or clients?

In standard marketing texts there is an initial distinction made between business buyers and consumers. **Consumers** are people who buy for their own use, whereas **business buyers** make purchases in order to help with their sales to their own customers. Within discussions relating to consumer markets, there is another distinction that is made between consumers and customers (which is unrelated to the business buyer and consumer distinction).

Consumers are understood to be people who actually use a product or service and **customers** are the people who pay for these. To take a simple example which highlights the difference between the two roles, the parent is the customer for baby food because they make the purchasing decision and the payment, but the baby is the consumer. This distinction is important because the customer will be making decisions about what to buy, based on what they think the consumer will want. In the case of babies, marketers will need to make appeals to the customer (parent), but in the case of young children, marketers have found that it can make sense to have advertising appeal to the consumer (the child) who can then ‘pester’ the parent to make the ‘right’ decision!

There is also a distinction between ‘customers’ and **clients**. Customers are considered to be people who have a relatively high ability to define what they need and want, and the marketer has to respond to these needs and wants. In contrast the term ‘client’ is generally associated with the provision of professional services (such as accountancy and legal services). In these businesses, it is the marketer who is often in a position to advise

their customer as to what their needs and wants are, and then charge fees for delivering services that meet these needs. The power balance between the marketer and the people they are undertaking exchanges with is quite different according to whether the latter are customers or clients. Although Kotler and Armstrong take the term 'customer' for granted, you should be aware that the very notion of calling people 'customers' has attracted debate in recent years. Since the 1980s when there was a move in developed countries to privatise industries and organisations that were previously under government ownership, there has been an ideological move towards introducing business concepts into such organisations.

The move has become more widespread with organisations still under government ownership taking on business concepts and ideas as a means of improving efficiency and responsiveness to the needs of the people they deal with. One of the developments has been that such people are referred to as 'customers', with the idea being that this will encourage staff to be more focused on addressing people's needs.

However, in the fields of health, education and social work, for example, there has been a debate about the role of the service provider and the people that they are trying to serve. Indeed the very notion of referring to people as 'customers' or 'clients' has been questioned. According to McLaughlin (2008), in a paper dealing with social work, people inside and outside the social work profession have challenged the term 'client'. Within the profession, there was a concern that the notion of a 'client' represented an objectification of the social work relationship whereby it was assumed 'power laid with the professional to identify what the passive client needed'. In this context the term 'client' was considered to be a negative – because it would lead to clients of social services feeling disempowered. This may be a sensitive issue in a profession where service providers deal with vulnerable sections of society, such as the disabled.

In the education context, there has been a debate as to whether students can meaningfully be referred to as 'customers'. Redding (2005) says: 'Customer-related truisms commonly touted in business include: "the customer knows best". Yet academics ... are all quick to point out that this is not, nor should it be the case with students.' There is a perception that the term 'customer' is misapplied in a context where there is a significant information asymmetry between provider and receiver.

Finally, in the field of health, Deber et al. (2005, p.350) conclude:

The results show that the respondents from the four clinical populations (breast, prostate, fracture, HIV) tended to reject most of the labels suggested to replace 'patient' (customer, survivor, consumer, partner, client). It must also be recognised that the term patient tends to be moderately preferred, rather than achieve strong support. Yet our results suggest that the individuals we surveyed still place high value on a relationship with their provider that is based on a model other than that between buyer and seller. It seems to be captured by the label "patient".

The essence of this debate is captured in the following quotation:

The words we use to describe those who use our services are, at one level, metaphors that indicate how we conceive them. At another level such labels operate discursively, constructing both the relationship and attendant identities of people participating in the relationships, inducing very practical and material outcomes.

(McDonald 2006, p.115).

The point you should take away from this discussion is that there will invariably be a variety of ways in which marketers can refer to people with whom they are exchanging goods and services. The term 'customer' is not always a neutral one and it has connotations that not all people in all organisations will appreciate.

Activity 3.1

Consider the case of a charity. The organisation collects donations from people who want to help others, the people who work for the charity are volunteers who give their time free of charge. The charity's users are the people who make use of its services.

The question is 'who is it that can best be identified as its customers?'

In order to answer this question you will find it helpful to consider again the concept of exchange discussed in the previous chapter.

See Appendix 2 for feedback.

3.4 Stakeholders

Stakeholders have been defined as: 'any group or individual who can affect or is affected by the achievement of an organisation's objectives', (Freeman, 1984, p.46). This definition means that a broad array of people and groups in an organisation's microenvironment can be considered to be stakeholders and not just customers.

Smith, Drumwright and Gentile (2010) argue that this broader view is very important:

Marketers suffering from the new marketing myopia view the customer only as a 'consumer' – a commercial entity seeking to satisfy short-term, material needs through consumption behaviors. The customer is not viewed as a citizen, a parent, an employee, a community member, or a member of a global village with a long-term stake in the future of the planet ...
 . We are arguing for a more sophisticated understanding of consumption that takes into consideration a wider set of stakeholders who are concerned about a company's social and environmental impacts and recognizes that customers also wear some of those other stakeholder hats.

(Smith et al. 2010, pp.4–5)

This may involve organisations engaging with groups that managers sometimes view as adversaries, such as activists, scientists, politicians and the local community.

The role of customers themselves is changing and they are no longer passive recipients of products and services; they are now involved in the value creation process. From banks and supermarkets that allow self-service, to airlines whose passengers can undertake their own online check-in and boarding pass print out, customers are increasingly doing what they may have previously expected the marketer to have done. This refers to the concept of co-creation which we saw in the last chapter and which is covered in more detail in Chapter 8 on products, services and branding.

Moreover, third-party entrepreneurs, inventors and others who have historically not been considered stakeholders, have an opportunity to affiliate with the company (Chakravorti, 2010, p.97). There are additional drivers encouraging such change. With increasing use of social media, stakeholders are now in a stronger position to collaborate and exert

influence on marketers. For example, after campaigning by individuals on Facebook where worker deaths had been attributed to the process, Versace stopped sandblasting its jeans (Milligan, 2011).

Thus, a stakeholder-oriented view of marketing management appears (1) to complement extant conceptions of marketing, (2) to be consistent with emergent thinking in marketing management, and (3) to follow logically on emergent trends in our culture and economy.

(Gundlach and Wilkie 2010, p.91)

We will discuss this topic in more detail later.

3.4.1 Framework for prioritising stakeholders

Chapter 3 of Kotler and Armstrong (2012) provides a fairly standard approach for assessing the marketing environment. This involves describing the different elements of the microenvironment and is a staple of all marketing textbooks aimed at undergraduates. Below we look at a framework that extends this approach and provides a basis for prioritising stakeholders.

Stakeholder marketing has been described as, ‘a balanced positioning to connect with multiple parties with potentially differing contexts, objectives, and beliefs’ (Chakravorti, 2010, p.99). Why should marketers prioritise the needs of stakeholders? ‘For managers with limited resources, correctly identifying the organization’s stakeholder set and accurately prioritising stakeholder claims are key processes in the successful management of organizations’ (Neville et al. 2011, p.357).

The following quotation about the pharmaceutical industry provides an acute example of competing claims by different stakeholders:

These diametrically opposed viewpoints have produced confrontational relationships among the stakeholders that are primarily motivated by market forces, the employees and stockholders of pharmaceutical firms, and those with overriding social and humanitarian concerns, represented by governments and key NGOs. When the pricing and distribution of lifesaving drugs to the poor are the focal points of contention, the emotional intensity of anti-industry sentiments is particularly strong. A major strategic risk for pharmaceutical companies is that an environment of confrontational politics over the distribution of lifesaving drugs may engender a broad-based public affairs and public policy backlash.

(Kennedy, Harris and Lord 2004, p.131)

In a seminal article dealing with distinguishing stakeholders (from non-stakeholders) and further identifying those stakeholders ‘who really count’, Ronald Mitchell et al. (1997) identified three criteria:

1. Stakeholders’ power to influence the firm

In their framework ‘a party to a relationship has power, to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship’ (Mitchell, Agle and Wood, 1997, p.865) with the company (even though the power may be temporary). Politicians in countries that have strong governments may be able to exercise power over businesses. Nhat Hong Nguyen gives the example of the construction industry in Vietnam:

All respondents share the view that project clients have the highest power. This can be explained by the fact that most

construction projects for upgrading infrastructure in Vietnam have been funded either by the Vietnamese government or by provinces' authorities. Therefore, in these projects, the clients not only have the power of those who provide finance, but have also held the political power in the national management system to formally approve and decide whether the project is to be implemented or changed.

(Nguyen et al. 2009, p.1136)

This would have implications, for example, for the sales staff of international firms trying to do business in Vietnam, with the efforts made to woo government requiring more resources than may be the case in other countries.

2. Legitimacy of the stakeholders' relationship with the firm.

Legitimacy is 'a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Mitchell, et al. 1997, p.866). For example, a local community, which is otherwise relatively powerless, in a developing country may have clearly legitimate concerns if, for example, the activities of a mining company will interfere with their traditional lifestyle. Following protests regarding the activities of Monterrico Metals plc on local populations in Peru:

In co-ordination with medical staff from the Ministry of Health...the Company provided basic hygiene packs which included, amongst other things, a toothbrush, toothpaste and, in some cases, medicines.

(Monterrico Metals Annual Report, 2005, p.21)

3. Urgency of the stakeholders' relationship with the firm.

Urgency is the degree to which stakeholder claims call for immediate attention; for example, an accident caused by an enterprise may require immediate action. Environmental disasters provide the most obvious example of situations calling for a corporate response. The above three attributes determine stakeholder salience – within which stakeholders are either latent, expectant or definitive.

3.4.2 Salience

Salience is the degree to which managers give priority to competing stakeholder claims. There are other views regarding stakeholder salience, however. For example, although some stakeholders may lack power or legitimacy, they may, nevertheless be important to a marketer because they may represent a source of power in the future. In countries where governments are changing there may be constituencies that are currently ignored but which in future may be quite important. In addition, an organisation's brand values may mean that it feels it should deal with a stakeholder group even though it represents no threat.

Based on the above criteria, Mitchell et al. (1997) identified different categories of stakeholders based on their possessing one or more of each of the above categories.

1. **Latent stakeholders.** Low salience involves the possession of only one of the attributes (whether power, legitimacy or urgency).

Latent stakeholders may likely be ignored and managers may not even be aware of their existence. For their part such stakeholders

may not give any attention to the firm. Within the latent group of stakeholders are those described as being dormant. They have power, but it is unused. However, marketers need to remain cognisant of such stakeholders because they may choose to exercise their power at some future point in time because they acquire urgency or legitimacy. Following the financial crisis of the late 2000s, which resulted in economic austerity, pressure groups emerged that challenged the tax affairs of various British companies, because they were felt to be paying too little tax. The protests became so acute that Vodafone, a leading national telecommunications company, was forced to make public announcements regarding its position; for example: www.vodafone.com/content/index/press/press_statements/statement_tax.html

2. **Discretionary stakeholders.** They only have legitimacy.

Discretionary stakeholders may receive what Mitchell et al. (1997) refer to as discretionary corporate social responsibility namely, firms do not have to engage with such stakeholders, but may do so anyway). Demanding stakeholders have urgent claims. They may be bothersome, but have neither legitimacy or power.

3. **Expectant stakeholders.** Moderate salience involves possession of two attributes.

Expectant stakeholders are distinguished from latent stakeholders because they may be 'expecting' something and as such their stance is active rather than passive (the latter being a feature of latent stakeholders). Dominant stakeholders are powerful and legitimate. Firms usually have mechanisms in place to deal with the interests of these groups: for example, investor relations, staff and public affairs departments. Firms may also proactively produce reports to meet the information needs of such stakeholders. Dependent stakeholders lack power but have urgent and legitimate claims. Mitchell et al. (1997) argue that such stakeholders will often rely on others to exercise power on their behalf; for example, the media or politicians or the benevolence of the firm's management. Sometimes none of these are present, as the residents of Bhopal, in India, found to their cost, when the local Union Carbide plant had a catastrophic accident. In addition such stakeholders may use the power afforded by new technologies in order to collaborate and collectively bring pressure to bear on organisations. One such organisation is www.sharesoc.org which lobbies on behalf of small private investors. Dangerous stakeholders have urgency and power and these may be expressed via terrorist acts, sabotage and strikes. Huntingdon Life Sciences in the UK undertook vivisection of animals, a legal activity, but was forced to shut down its operations as a result of violent action against it and its staff.

4. **Definitive stakeholders.** High level of salience requires possession of all three attributes.

Such stakeholders are likely to be dominant stakeholders, who subsequently have an urgent claim. The reaction of various governments to the banking crisis and their direct intervention in the affairs of some banks, showed how they were banks' definitive stakeholders.

There has been substantial analysis of this framework following its publication. A recent example is the work of Neville et al. (2011). One of their observations is that as far as legitimacy is concerned, managers need to distinguish between the legitimacy of the claim and the legitimacy of the organisation making the claim. For example, if a

protest group decides to pursue violent action in pursuit of a legitimate claim, managers should nevertheless pay attention to the claim because other groups are likely to take up the claim if it is not addressed.

Another aspect of the framework to attract attention is that Mitchell et al. (1997) considered salience in terms of the presence or absence of urgency, legitimacy and power. (Their definition and typology, however, are not able to capture varying levels or degrees of the attributes), (Neville et al. 2011, p.367). They go on to argue that while power and urgency can be continuous, studies dealing with legitimacy vary in terms of whether it is something which exists in terms of varying degrees or whether it is something that is either present or not present. Neville et al. conclude that it is both dichotomous and variable. These and other considerations lead them to give an alternative definition of salience:

Stakeholder salience is the prioritization of stakeholder claims by managers based on their perception of the degree of power of the stakeholder and the degree of moral legitimacy and urgency of the claim.

(Neville et al. 2011, p.369)

3.5 Overview of chapter

The firm is affected by both its microenvironment and the macroenvironment. The characteristics of the marketer's microenvironment affect its ability to serve its customers. The macroenvironment comprises the wider societal forces which determine the opportunities and threats facing a firm. Prioritising stakeholders can be undertaken using a framework.

3.6 Reminder of learning outcomes

Having completed this chapter, and the Essential reading and activities, you should be able to:

- explain the difference between the micro and macroenvironment of a firm
- describe how the different elements of the micro and macroenvironment affect firms' marketing activities
- explain the difference between the terms consumer, client and customer and understand the debate surrounding the use of these terms in certain professions
- outline the basis on which marketers prioritise certain stakeholders over others.

3.7 Test your knowledge and understanding

1. a. What are the main components of the microenvironment of marketing? (5 marks)
- b. With respect to each of these components identify the major questions that the marketer should be asking him/herself when carrying out an audit of the microenvironment. (20 marks)
2. a. Distinguish between the terms customer, client, customer. (10 marks)
- b. Why may certain professions prefer the people they serve not to be referred to as clients or customers? (15 marks)

3. a. Explain what is meant by the terms power, legitimacy and urgency, when assessing the importance of stakeholders. (15 marks)
- b. What other considerations should marketers take into account when using this framework for assessing stakeholders? (10 marks)

Chapter 4: Consumer behaviour

4.1 Introduction

In a sense, everything an organisation does (whether it is a private for-profit enterprise, a non-profit entity or a governmental organisation) hinges on the assumptions the organisation holds about customers' buyer behaviour. In marketing we tend to think only of the profit-making private sector, but whether they want to admit it or not, governmental organisations and non-profit organisations also engage in marketing exercises. The goal of marketing is determining wants and satisfying them, and this essentially is what government services are about as well. So, the importance of knowing how people will behave is tantamount to knowing the 'secret to organisational success'.

So let us begin with the simplest description of consumer behaviour. Consumer behaviour is simply the individual purchasing and/or consuming decision of an individual – and/or household – whoever buys goods and services for personal consumption (Kotler and Armstrong, 2012, p.160). That purchase can be the consumption of a good or service in the marketplace or can even include the purchase of a stock and other investment decisions as well. This good or service can be either publicly supplied or privately produced by the organisation.

Consumer behaviour can be modelled from a number of perspectives. As pointed out by Kotler and Armstrong (2012, p.161), consumer purchases are influenced by forces such as:

- **cultural:** the set of basic values, perceptions, wants and behaviours learned by an individual from being a member of society
- **social:** the influences of social factors such as the consumer's relation to small groups, family and social roles
- **individual:** the characteristics of the individual such as the consumer's age, economic situation and occupation
- **psychological:** the motivation, perception and beliefs and attitudes¹ of the consumer.

It is not our intention in this brief introduction to explain each of the factors affecting consumer behaviour in great detail, as the Kotler and Armstrong text does a very good job of this already. We will start by presenting a relatively stylised economic interpretation of consumer behaviour and then we will see what implications this has for the marketing decisions of an organisation. We will then contrast this economic version with the social and psychological approaches.

4.1.1 Aims of the chapter

The aims of this chapter are to:

- explain why the study of consumer behaviour is so central to the marketing framework
- convince you of the importance of understanding buyer behaviour from a multi-dimensional perspective
- present the various social-psychological, psychological and economic theories of how consumers make their choices.

¹ Those of you who have studied MN2079 Elements of social and applied psychology will recall that Stockdale et al. deal with 'attitudes'. This is an important topic in marketing, specifically in terms of consumer behaviour and also for understanding the differences between consumers and different countries; indeed the link between attitudes and culture is discussed in more depth in Section 9.8 of that subject guide. The uni-dimensional model described by Stockdale et al. refers to attitudes as: 'a general enduring positive or negative feeling about a person, object or issue.'

4.1.2 Learning outcomes

By the end of this chapter, and having completed the Essential reading and activities, you should be able to:

- explain why the study of consumer behaviour is so important to marketing
- explain why economics differs from social psychology in its explanation of consumer behaviour
- identify some different characteristics of consumers' social networks and the impact of these on buyer behaviour
- discuss the differences between cognitive and behavioural theories of consumer behaviour
- outline the types of consumer behaviour based on the concepts of setting, involvement, information gathering and perceived brand differences.

4.1.3 Essential reading

Kotler, P and G. Armstrong *Principles of marketing*. (Upper Saddle River, NJ: Pearson Prentice Hall, 2012) Chapter 5. Note: the entire chapter is important.

4.1.4 Further reading

Choi, J.A., M. Koo, I. Choi and S. Auh 'Need for cognitive closure and information search strategy', *Psychology and Marketing* 25(11) 2008, pp.1027–42.

Darley, W.K., C. Blankson and D.J. Luethge 'Toward an integrated framework for online consumer behaviour and decision making process: a review', *Psychology and Marketing* 27(2) 2010, pp.94–116.

Dimofte, C.V. 'Implicit measures of consumer cognition: a review', *Psychology and Marketing* 27(10) 2010, pp.921–37.

Huang, P., N.H. Lurie and S. Mitra 'Searching for experience on the behavior for search and experience goods', *Journal of Marketing* 73 2009, pp.55–69.

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Tversky, A. and D. Kahneman 'The framing of decisions and the psychology of choice', *Science* 211(4881) 1981, pp.453–58.

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Geanakoplos, J., M. Magill and M. Quinzil 'Demography and the long-run predictability of the stock market', *Cowles Foundation Discussion Paper 1380* (August 2004); <http://ideas.repec.org/p/cwl/cwldpp/1380.html>

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Kapeller, J. and S. Puhringer 'The internal consistency of perfect competition', *Journal of Philosophical Economics* 3(2) 2010 pp.134–52.

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- Modigliani, F. and R. Brumberg 'Utility analysis and the consumption function: an interpretation of cross-section data' in Kurihara, K.K. (ed.) *Post- Keynesian economics*. (New Brunswick, NJ: Rutgers University Press, 1954), pp.388–436.
- Peter, J.P. and J.C. Olson *Consumer behavior and marketing strategy*. (New York: McGraw-Hill, 2005).
- Prescott E.C. 'Why do Americans work so much more than Europeans?', *Federal Reserve Bank of Minneapolis Quarterly Review* 28(1) 2004, pp.2–13.
- Thaler, R. 'Toward a positive theory of consumer choice', *Journal of economic behaviour and organisation* 1 1980, pp.39–60.
- Wu, L-L. and J-Y. Lin 'The quality of consumers' decision-making in the environment of e-commerce', *Psychology and Marketing* 23(4) 2006, pp.297–311.

4.1.6 Useful websites

www.consumerpsychologist.com/ (last accessed 11 June 2013). The site contains a useful listing of many consumer behaviour websites.

4.1.7 Synopsis of chapter content

This chapter deals with an economic-based approach to understanding consumer behaviour; we then look at the social-psychological and psychological approaches. Within each of these approaches you will come across models that are also covered in Kotler and Armstrong, but the perspective taken here is to give a deeper conceptual and theoretical grounding to the models; for example, the self-concept and information search are considered in some detail.

Activity 4.1

Before we give you the analytical tools of economics, think about why the following countries differ in their consumption or purchase of leisure.

	Actual labour supply*	Tax rates
Germany	19.3	0.59
France	17.5	0.59
USA	25.9	0.4
*hours worked per person per week		

Table 4.1: Actual labour supply and tax rates.

(Source: Prescott E.C. 'Why do Americans work so much more than Europeans?', *Federal Reserve Bank of Minneapolis Quarterly Review* 28(1) 2004, pp.2–13.

See Appendix 2 for feedback.

4.2 Tastes and constraints in explaining differences and changes in behaviour

Traditionally, economists (if asked) would explain consumer behaviour in three steps:

1. The first step is to examine consumer preferences (easier said than done). For practical purposes this just means what a consumer would theoretically prefer, disregarding prices and income.
2. The second step is to acknowledge that consumers do in fact face budget constraints that restrict the quantities or amounts of goods and services that can be consumed.
3. The third step is to put consumer preferences and budget constraints together to determine choices. Economists do this by assuming that people maximise their satisfaction by combining a set of goods and

services. Graphically they are able to represent this via the use of indifference curves² and budget lines³ as depicted in Figure 4.1. The point A, at which the indifference curve touches or is tangent to the budget line (that is, the point of tangency) is where our theoretical consumer apportions his consumption of goods X and Y.

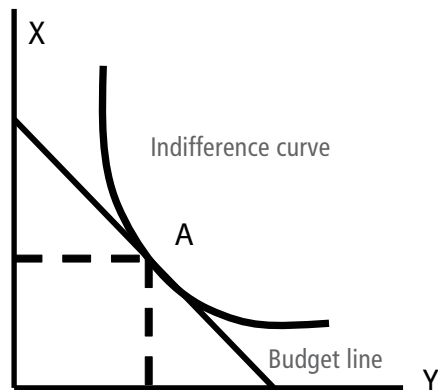


Figure 4.1: Indifference curve and budget line.

There are also economic assumptions made purely about consumer preferences that need to be stated to make the approach more complete. These are that:

- individuals are able to make choices and rank their preferences for different goods and services
- individuals are rational in the choices they make
- more is preferred to less
- consumer preferences can be considered in terms of whether a bundle of goods provides more utility (or satisfaction) than another. How much more utility it provides does not matter. Since the emphasis here is on ordering bundles of goods, this kind of utility is known as ordinal utility.

We can arrive at several theorems of consumer behaviour, but we will just draw your attention to one of the key assumptions about the psychology of consumers of which you should be aware (the fourth bullet point above), which is known as the principle of diminishing marginal rate of substitution. Put simply, it states that as more and more of one good, service or attribute is consumed, we would expect that a consumer would prefer to give up fewer and fewer units of a second product to get additional amounts of the first.

So as we move along the indifference curve and as the consumption of one good increases, the consumer's desire for more still should diminish. Thus he/she should be willing to give up less and less of good X to obtain additional good Y. This assumption is what gives the indifference curve its bowl-like shape.

Activity 4.2

Where does the principle of diminishing marginal rate of substitution break down? And what are the reasons for this?

See Appendix 2 for feedback.

So what implications can we draw from this simple view of consumer behaviour? Remember that marketers are interested in two things: why consumer choices differ across consuming agents (this could be between

² An indifference curve represents combinations of two goods that provide equal levels of satisfaction for the consumer.

³ Budget lines map the maximum amount of consumption possible based on the price and quantities of each product consumed.

two people, or the average consumption patterns of two consumer segments or even two nations); and changes in the consumption behaviour of the same consumer over time (again, a person or groups of persons with similar consumption patterns).

The reason why these consumption patterns may differ, based on the economic model presented above, depends on two things: preferences (sometimes referred to simply as tastes by economists) and/or constraints (typically budget-related but there can also be physical, geographic and even social constraints that economists would consider as binding). Based on these two reasons, economists typically argue that models where constraints differ are the more interesting cases since these are more likely to be measurable by a researcher and subject to observable change. What happens to tastes and preferences (the psychology of the consumer) is often hard to determine and therefore not theoretically of interest to mainstream economists, since it is very hard to test these theories with the large-scale empirical data that economists normally have access to. Here are two possible ways of representing tastes and preferences:

Model 1: Consumer behaviour is some function of tastes and constraints. In this model both are variable.

Model 2: Consumer behaviour is some function of tastes and constraints. In this model only constraints are variable.

Economists think that they can explain most consumer behaviour in terms of Model 2 and more precisely looking at constraints in terms of prices and income. They even translate non-economic constraints into costs. This has important implications for marketing (as seen in the alcohol consumption case below). Two famous economists, Gary Becker and George Stigler, have even argued that ‘tastes neither change capriciously nor differ importantly between people’.

4.2.1 Stability of tastes and the economic explanation of custom and tradition

In many cases we observe stable behaviour that we attribute to cultural factors. For example, for as long as anyone can remember, consumption of wine has been higher in France than in Germany, where beer is consumed more than wine. What explains this and other national differences?

The ‘common sense’ answer would be that there is a custom of beer consumption in Germany and a custom of wine consumption in France. But to prove this assertion, we need to show that prices and incomes (the environment) have not remained stable. In other words, only when we observe stable behaviour in the face of prolonged or severe changes in the environment can we then say that custom or tradition are important factors in determining choices.

The economic answer to stable patterns of consumer behaviour relies on the cost (price) of decision-making. The making of a decision is costly, because in order to make a decision one requires information, and the information must be analysed. Therefore, the price of a good or service has to incorporate the cost of search as well as the market price. When a temporary change takes place in the environment, perhaps in price or in income, it generally may not pay to disinvest in the knowledge or skills that one has acquired. As a result, behaviour will appear stable in the face of temporary changes and will reinforce the popular perception that culture is the causal factor.

So returning to our example of wine and beer consumption in France and Germany, is it tradition or some other constraint that is at work? And more

importantly, what use can this debate have to marketing departments? It could be argued that in France people have more information about the quality of wine than beer, and consequently they will not switch to beer without:

- a. a huge increase in information (translation for marketers: huge advertising campaign)
- b. a large drop in the market price of beer to counteract the information search costs.⁴

Now what about ‘permanent or long-lasting changes’ in the environment; for example, the shift to a market economy in the former Soviet Union? Typically, one observes a heterogeneous response. The younger generation usually responds to these changes to a greater extent than older persons. Why? The popular press account is that young persons are more readily seduced away from old customs by the glitter of the Western-style consumer environment. In the economic interpretation, it has nothing to do with fickle or immutable taste differences between old and young; rather it has to do with the cost to older persons of disinvesting in the knowledge of how to do things under the old environment. The older one is, the fewer years one has to collect the returns from investments in certain patterns of behaviour. Young persons on the other hand are not so encumbered, not because they are more flexible or adaptable to changes in the environment; they simply have a greater incentive to invest in new knowledge and new skills.

⁴ When consumers are prompted to search for more information about a product or service. Information search can be costly in terms of time or the purchase of some market research (e.g. the purchase of a consumer reports magazine).

Activity 4.3

What implications does the above view of consumer behaviour have for marketers of fast foods who are entering countries where people are not accustomed to eating the types of foods these companies sell. Should they:

- a. Engage in a highly visible and expensive advertising campaign aimed at everyone over 40, extolling the virtues of their food?
- b. Use that same money and invest it in sales promotion campaigns?
- c. Enter the market with relatively low prices.

What would have a bigger impact on people’s commitment to the new regime?

See Appendix 2 for feedback.

A more trivial application (or confirmation) of this theory is the discounts given to senior citizens for the cinema. If preferences really differed, then there would be no need to lower the price of cinema tickets if you were over 65 years of age. What you would do is produce films that catered to that group, or you would engage in publicity campaigns aimed at changing their attitudes. Instead, the price cuts apply to all films but are targeted to a consumer group less likely to step out of the house.

This particular economic view of consumer behaviour has very powerful implications. It says that we are the same – old or young, non-market or Western. What differs is the incentive we have to behave in a certain way or consume a certain good.

4.3 Prospect theory

Prospect theory offers various insights into the anomalies and contradictions in buyer behaviour and in particular about decision-making under conditions of risk.

According to utility theory, two choices with the same expected utility will be given the same preference by rational decision-makers. When they are faced with a choice the consumer will prefer the option that offers the

highest expected utility. However, as Kahneman and Tversky (1981, p.454) argued, 'people exhibit patterns of preference which appear incompatible with expected utility theory'. Moreover, if people always made decisions on a utilitarian basis, there would be little need for marketing!

Prospect theory shows that where people face gains and losses their decision-making will not be symmetrical. This is illustrated in Figure 4.2, where the value function is s-shaped. The loss of the same size as a possible gain is considered to have more impact and more effort will be expended in avoiding it. This is because people make decisions based on emotion and also because they may not completely understand the decisions they are about to make.

Why do consumers deviate from rational economic behaviour? The answer may lie in how people value prospects. According to Gourville (2006), four characteristics that define human behaviour have been identified.

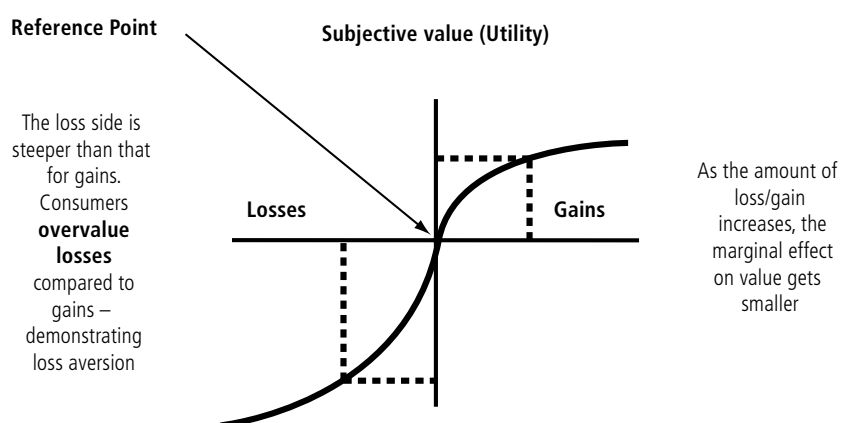


Figure 4.2: A value function.

The first characteristic is individuals' reliance on perceived value rather than objective or actual value. Secondly, when considering the value of a purchase, people use a reference point and that will often be something that they own already. This means that we may assess whether or not the price of a new smartphone is attractive, depending on what we paid for our current model and the prices that we have recently seen in advertising and stores. Thirdly, where value exceeds this reference point it is considered to be a gain and where it falls short it is considered to be a loss. Finally, when people consider possible gains or losses, they are likely to attach more weight to the possible loss. People have loss aversion and prefer not to take bets that have an equal probability of a loss or gain of an equal amount of money.

In a US proposal to pass onto consumers some of the costs of using credit cards, people representing the credit card industry asked that the price difference between using cash or using credit cards should be shown by shops as a cash discount for using cash, rather than as a surcharge for the use of credit cards. The difference in labels was important because it established a different reference point in customers' minds. Losses seem bigger to people (than gains of the same size). As a result people are less willing to accept a surcharge, than give up a discount of the same value. The concept of loss aversion also means that people tend to value things that they already own more than those that they do not have. To put it in even more explicit terms, people put more value on goods that they own, than they would put on the same goods were they to have to purchase them. This is referred to as the **endowment effect**. In marketing the

examples of this affect being used are where firms who process photographs will process those that have not been exposed correctly and will offer customers the chance to have a refund. Many customers do not choose to take up this offer – due to the endowment effect, customers prefer keeping the photograph that they have already, rather than the possibility of another one in the future. Another application is the offer to customers of a trial period for a product, with the option for the customer to get their money back if they are not happy with it.

As Thaler (1980) explains, in this instance the marketer is taking advantage of two decision points facing the customer. In the first decision point customers assess the costs to themselves in terms of the transactions costs of buying the goods and the amount of time and effort that will be spent in taking the goods back to the shop if they are not satisfied with them. Where people attach little value to these transaction costs, they will go ahead and make the purchase. The second decision point comes two weeks later when the customer has to make the decision as to whether or not to return the goods to the shop. If the customer has been making use of the product and has adapted to it, they will view the cost of keeping the good as an opportunity cost and will likely keep it.

4.4 The social-psychological approach to consumer buyer behaviour

Let us begin with the simplest contrast between economic and social-psychological views. In the economic view, one assumes that consumers have fixed preferences, are self-interested in that they feel better or worse depending on what they do rather than on the outcomes of others. Sometimes economists even use a utility function to show how simple their model of human behaviour is:

$$U(x, y)$$

where x and y represent a bundle of goods/services. Consumers gain more utility U whenever they consume more of x and y . The trick for the firm is merely to supply the consumers with what they want.

The social-psychological view assumes that consumers are not exclusively self-interested in that the utility function encompasses many things including other consumer goods, and that preferences may change over time such that the firm might induce purchases by ‘socialising’ consumers. A firm might try to influence preferences in order to achieve the goal of increasing sales. In the economic view, that goal is achieved normally through price cuts.

In short, there is a sharp contrast in explaining consumer behaviour through the extrinsic motives such as prices and costs (assumed by economists) and the intrinsic motives such as preferences and attitudes (assumed by social-psychologists).

It may make sense to enhance the economic view with the social-psychology view by using (broad-minded) utility-maximisation models, but this is not standard as social psychologists talk about personalities and the self (not ‘preferences’) and the process of self-creation, through socialisation, in order to explain people’s choices.

4.4.1 The socialisation process

There are three basic feedback loops that social psychologists use to explain not just consumer behaviour but human behaviour more generally. These models are shown by diagrams developed by James Montgomery of the University of Wisconsin (Figures 4.3, 4.4 and 4.5). The self-concept

comprises a cognitive and an affective understanding of who and what we are. Among the forms that it can take are the 'actual self' and the 'ideal self'. The actual self represents our perceived reality of ourselves (that is, who and what I think I am now). In contrast, the ideal self represents our construction of what we would like to be or to become. Consumers achieve self-congruence by consuming a brand with a personality that we consider to represent either the actual or ideal self. Actual self-congruence reflects the consumer's perception of the fit between the actual self and the brand's personality, whereas ideal self-congruence is the perceived fit of the brand personality with the consumer's ideal self. An actually self-congruent brand reflects who the consumer actually is ('this brand's personality is like who I really am'), whereas an ideally self-congruent brand reflects who the consumer would like to be ('this brand's personality is like who I would like to be').⁵

This concept is important in marketing because as Malar et al. argue the self-concept can influence brand attachment. The latter concept is explained in the following way:

In psychology, attachment is an emotion-laden bond between a person and a specific object In a marketing context, people can also build and maintain emotionally charged relationships with brands ... Thus, emotional brand attachment reflects the bond that connects a consumer with a specific brand and involves feelings toward the brand. These feelings include affection, passion, and connection ..., which represent 'hot' affect from the brand's linkage to the self

(Malar et al. 2011, p.36)

There is the basic feedback loop where the numbers refer to the causal ordering, as shown in Figure 4.3 below:

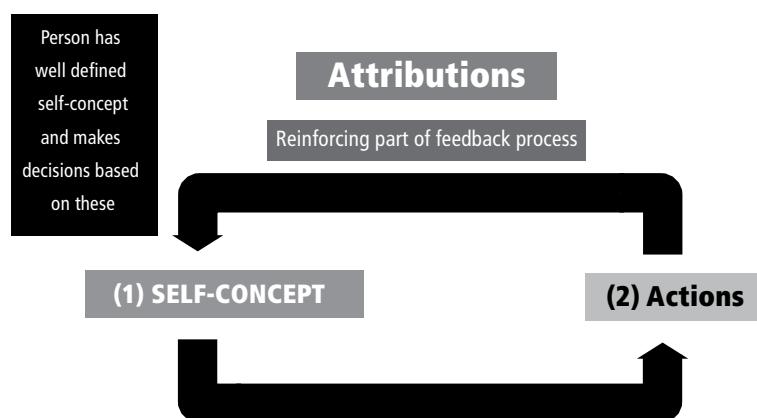


Figure 4.3: Basic feedback loop.

This is where a person has a well-defined self-concept or personality,⁶ and makes choices and undertakes actions based on this set of psychological characteristics (Kotler and Armstrong, 2012, p.176). The attributions⁷ are the reinforcing part of the feedback process, and these usually can be both external and internal, meaning that they are either made by a third person observing some action or by the person undertaking the action. For instance, if a person is aggressively competitive, is this because of the kind of person he/she is, or is the person reacting to situational pressures? If a student fails a test, does s/he have low ability, or is the test unfair? In both examples, the questions concern the causes of observed behaviour and the answers of interest are those given by the person and external observers because these can serve to reinforce or to change the self-concept.

⁵ Those of you who have studied MN2079 Elements of social and applied psychology will recall that Stockdale et al. (2005) discuss the 'functions of the self'. This topic has an important link with marketing, because as they point out, 'beliefs about the ideal self reflect a person's hopes or wishes as to how they might or could be'. In social psychology one of the purposes for understanding the function of the self is to assess the impact on individuals of differences between the actual self and the ideal self. A possible result of such differences can be social anxiety. In marketing, the reason for understanding the function of the self is to see how it impacts on individuals' consumption of brands, for example.

⁶ The distinguishing personal psychological characteristics that lead to relatively consistent and lasting predictions of an individual's responses to their environment.

⁷ Attributions are the causal explanations people use to explain behaviour either of themselves or of others

In the realm of consumer theory this model states that if I am consistently buying Starbucks coffee when there are other coffee choices available to me, then I am more than likely doing so because I am a ‘Starbucks lover’. However, if I regularly buy coffee from Starbucks, but the nearest competing coffee chain is one hour away, then there are two possible attributions: I like Starbucks, or I actually prefer another coffee but can’t be bothered to drive an hour to get it.

There are also alternative specifications of the above feedback loop such as dissonance theory. This is where people take actions and only later construct reasons for their actions (see Figure 4.4).

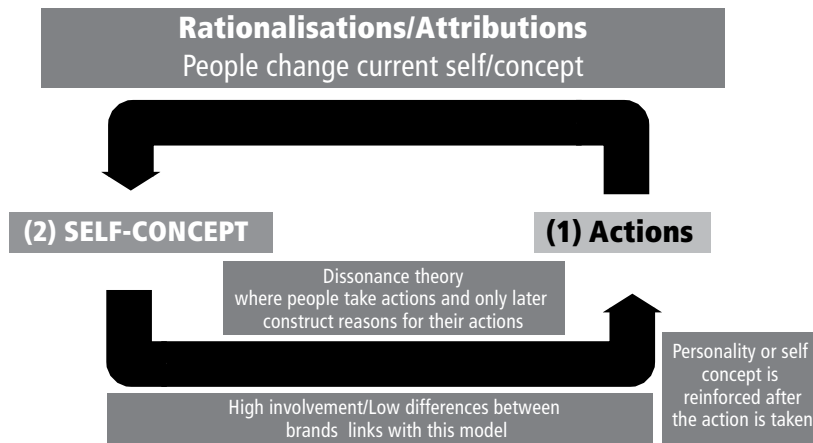


Figure 4.4: Dissonance theory feedback loop.

Here the personality or self-concept is solidified after the action is taken. There is quite a bit of experimental evidence suggesting that individuals often attempt to justify past effort/actions, effectively changing their current self-concept. This internal justification occurs especially when there is no fixed external justification. Consumers often face this kind of dissonance after making a high-involvement purchase decision (see below), where there are no a priori differences in the brands (refer to Kotler and Armstrong, 2012, p.178).

Finally, there is the case where culture and social forces can play a big role on the individual’s personality and actions. This is where the self-concept is actually the result of a set of social roles or norms (see Figure 4.5).

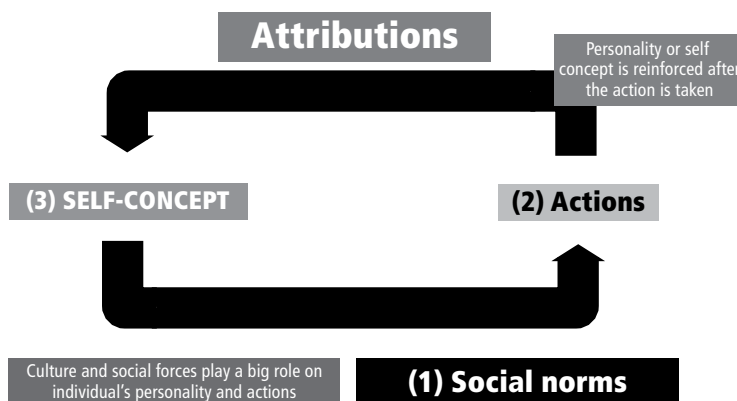


Figure 4.5: Influence of social pressures on the feedback loop.

Here social factors are very important determinants in individual actions and ultimately shape behaviour and personality. Take, for example, our discussion earlier about French wine drinkers and German beer drinkers. In this model, in each society there are social pressures that act as an

inducement, usually early on in life, and which solidify later on through the life course and become personality traits and preferences that are hard to dislodge.

This is perhaps why marketers spend such an inordinate amount of time and energy trying to target advertisements to the young rather than to the old, because the self-concepts of the old are already set, while those of the young can still be influenced.

4.5 The role of social networks

Influence within social networks takes place between the individuals within these networks. There are a number of ways by which the influence can be transmitted, and it does not just have to be through conversation, it could be through seeing someone with a product or information about another person who uses a product. 'Social influence can occur through the transmission of information that reduces uncertainty and search effort, through normative and social pressure, or as a result of network externalities.' (Nitzan and Libai, 2011, p.24).

Some of the mechanisms of social effects are as follows: **tie strength**, **homophily** (social similarity) and **degree of centrality**.

Tie strength refers to the idea that consumers may be more affected by people with whom (they perceive) they have closer relationships. The strength of tie may signify the intensity and tightness of a social relationship. Relationships may range from strong, primary ones, such as a spouse or close friend, to weak, secondary relationships, such as seldom contacted acquaintances.

Similarity (in terms of beliefs, education and occupation) between consumers and others is referred to as homophily. Customers are more likely to trust the opinions of people whose preferences they share and, conversely, people who recommend products are more likely to share their opinions with people who are similar to them. The measure of homophily reflects the level of similarity between two people who take part in a social tie; that is, how alike they are with respect to their personal attributes.

Degree centrality refers to someone's degree of connectivity, which is the number of other people directly related to the focal individual (the person whose network we are discussing). Highly connected customers are typically considered to have the opportunity to affect others' behaviour. People with numerous connections might also be more strongly affected by the behaviour of others. But there is a counter-argument to this. People have a limited amount of time and attention to give to any one person or activity. So a customer with a greater number of connections may devote, on average, less attention to each connection and, as a result, a customer with more connections might actually have a weaker effect on the decisions of others.

Possessions and behaviours can act as signals of identity and group membership and this marking function has important implications for the interaction between consumers (Malär, Krohmer, Hoyer and Nyffenegger, 2011). Sometimes brands and other items of consumption can be used to denote membership of a social group. There can be two groups of people who seek to do this: people who really are members of such a group and those who aspire to be. In addition, consumers have the choice of either using explicit signals (large ostentatious brands) or subtle signals. Explicit signals make it clear the more visible the consumption is (for example, visibility of brand names) the easier it is to use consumption as a means of

communicating with others either within one's network or those outside it. However, explicit signals (the ostentatious wearing of brands) also have downsides. People sometimes adopt products or brands associated with other groups, however, in an attempt to gain the signal value associated with them. People often aspire to be like particular outgroups (social groups with whom one does not identify); this would apply to teenagers who come from educated and professional, middle-class, backgrounds, but who buy clothes and accessories associated with young people who are from more deprived backgrounds.

This situation is likely to apply to explicit signals. More visible brand logos make it easier to identify someone, but they also make it easier for other people who aspire to become members of a social group to determine which brand is the aspiration group's symbol and to adopt it themselves. In contrast, members of a social group may have subtle signals that are harder for others to recognise, but are still observable to insiders who have the necessary connoisseurship to decode their meaning. Such insider knowledge allows group members to recognise even inconspicuous ingroup markers that outsiders might miss.

So, if outsiders or mainstream individuals use explicit signals, insiders may avoid such symbols so that they do not look like outsiders trying to imitate. By choosing subtle signals instead, insiders can differentiate themselves, facilitating the expression of identity and desired interactions with similar others. Selecting subtle signals may even be a deliberate strategy to restrict imitation by outsiders by making in-group tastes hard to copy.

Activity 4.4

Apply this assessment of social networks to your own.

- a. Who do you share information with? How does it depend on tie strength?
- b. Are you relatively highly connected in your network, and how does this affect the flow of marketing information?
- c. How does social similarity affect the flow of information?

See Appendix 2 for feedback.

4.6 A cognitive versus behavioural approach to consumer decision-making

Now we will look at the psychological model (as opposed to the social-psychological approach seen above) of consumer decision-making. It involves two concepts (the environment and the cognitive process) which are not all that dissimilar from the 'constraints and taste' approach of consumer theory in economics.

Psychological explanations of consumer behaviour, which emphasise environmental factors, are called behavioural or habitual explanations. Theories that emphasise internal mental processes are called cognitive explanations. You can see in Table 4.2 that the behavioural approach is quite close to the strict economic interpretation with its emphasis on external factors (constraints); whereas the cognitive approach has a closer resemblance with a new branch of economics that is called quasi-rational economics, which attempts to integrate the ways in which consumers process information into economic models.

Positions and assumptions	Behavioural approach	Cognitive approach
Emphasis on explaining	Observable behaviour	Mental constructs
Role of environment	Predominant controlling variable	One influence among many
Role of cognitive factors	Mediators	Predominant controlling variables
View of freedom and discretion	All behaviour is controlled by environmental factors	Humans are autonomous, independent agents of action

Table 4.2: Comparison of behavioural and cognitive approaches.

Source: Table created using data from Kotler and Armstrong (2004, p.197)

Several points need to be raised regarding this rather simple classification system. Notice the resemblance between the behavioural approach and the constraints-based approach of economists like Becker and Stigler (refer back to Section 4.2 on the tastes and constraints view of buyer behaviour). Second, in this division we can see that the behavioural approach is akin to saying that ‘actions speak louder than words’. Third, one can think of situations, experiments and examples of consumer behaviour that confirm both views.

So how can we make these concepts measurable in order to better understand how to implement marketing strategy? The psychological model after all is aimed at explaining consumer behaviour (brand loyalty, choices, etc.). Cognitive approaches emphasise how people store, process and use information and how they create beliefs and form attitudes and values. Behavioural approaches really look at observable associations between behaviours and their environmental stimuli.

According to Dimofte (2010) many constructs are assumed to represent stable mental representations (or in the case of attitudes, consistent evaluations) that are stored in memory. However, another view is that when both the initial and a newly formed attitude towards the same object are stored in memory, a dual attitude can result. This can apply particularly where people are consuming goods they would not admit to in public. In this example, explicit attitudes may involve an individual’s conscious acknowledgment that engaging in an ‘unhealthy’ behaviour is bad, whereas implicit attitudes point to a more positive underlying assessment. For example, a KFC customer, who has recently received health promotion information about the health risks of consuming fast food (for example, increased obesity levels or risk of heart disease), may increase their negative explicit attitudes toward the brand and how much they buy from the chain. However, it is also possible that the individual will continue to demonstrate a positive attitude towards the brand and perhaps still have a yearning as they go past a KFC restaurant and smell the enticing smells wafting from within. So while a communications campaign may encourage a consumer’s explicit, conscious attitudes towards a brand to become more negative, as in this example, implicit or non-conscious attitudes may yet retain their pre-existing brand associations. This duality challenges the view that people hold only one set of attitudes at a time.

4.7 Mechanisms of behavioural/habitual explanation

Let us begin with how behavioural explanations work. The classic work in this field was Pavlov and his explanation of salivation in his pet dog. Salivation is an innate response to the smell of food. Pavlov rang a bell every time the dog was fed the food. Over time the dog came to associate the bell with the smell – so when Pavlov stopped pairing the bell with the food, the dog still salivated. The bell became what is called a discriminative stimulus in the environment.

The above is an example of classical conditioning, which can be defined as a process by which a previously neutral stimulus (the bell), by being paired with an unconscious stimulus (food) comes to elicit a response (salivation) very similar to the response originally elicited by the unconditioned stimulus. Operant conditioning differs from classical conditioning in that the operant behaviours are elicited because of stimuli elicited after the behaviour has taken place. Marketers use this information concerning human behaviour to design fixed-ratio schemes (for example, a pizza chain gives a free pizza after 10 purchases; a coffee shop stamps a card each time you come in and then the tenth time you get a free coffee).

4.8 Applications of behavioural and cognitive principles in marketing

In the next chapter we will look at the notion of perceived risk in more detail. Here we will give a brief explanation of the concept, since it will make the following discussion of the consumer decision-making process model clearer. Cho gives the following succinct explanation of risk from a consumer context:

Individuals tend to define a decision situation as risky when they have a lot to lose if they make a poor decision, in particular if this loss will have a considerable impact on their financial situations.

(Cho and Lee 2006, p.114)

4.8.1 Consumer decision-making process model

John Dewey initially developed a precursor of the five-stage buyer process model in 1910; it was subsequently adapted for use in marketing by Engel-Kollat-Blackwell and is sometimes referred to as the EKB model (Darley, Blankson and Luethge 2010). The five stages are as follows:

1. Problem recognition
2. Search
3. Alternative evaluation
4. Purchase
5. Outcomes.

A basic explanation of this model is given in Kotler and Armstrong (2012). Here we will focus on some interesting issues related to specific stages of the model. Cho and Lee explain the motivation behind information search in the following way:

high perceived risk puts consumers in a distressed and anxious state, which in turn motivates them to engage in problem-solving activities to resolve it; consumers employ information search as a problem-solving strategy to reduce perceived risk.

(Cho and Lee 2006, p.115)

This is one of two possible ways of dealing with such risk. One is to reduce uncertainty through information search and the other is to reduce vulnerability by lowering the amount at stake.

Huang et al. (2009) state that one way of distinguishing between different aspects of information acquisition by consumers is to consider the difference between 'search' and 'experience'. All products are said to contain search and experience attributes. Search refers to the assessment of product quality without the customer interacting with the product. Experience refers to situations where product quality can best be assessed by actually using the product. The impact of the internet on consumer information search can be considered in terms of search and experience. For example, a well-designed website that sells premium cameras can provide much richer information about the cameras, such as their specifications, how they can be used and the resulting photographs, expert opinions and consumer feedback, than the information available from a salesperson in a traditional retail shop. In addition, consumers shopping for cameras can read extensive product reviews from other consumers and thus can 'experience' these products before purchase.

The internet can be used to present information about search attributes, such as price, colour, shape, dimensions and other standard product specifications and this should require less time to obtain and process on the part of consumers. Comparisons between brands can be facilitated through the use of comparative tables in online reviews.

Although perhaps surprising, the web can also be used to gather experience information. This can be elicited via ratings provided by people who have bought and used the product. Qualitative buyer feedback (their written descriptions) can also be useful. Buyers can also make assessments on the basis of evaluating videos or three-dimensional demonstrations of the product, and for certain products potential buyers can download digital samples from the website; they can also refer to third-party product tests and recommendations.

However, the information that potential buyers receive about experience attributes may be different between each of the sources of information that they use. This is due to differences in customers' product experiences and the way that these are described in reviews. There are three possible solutions to this problem: firstly, consumers can synthesise information from different sources; for example, different sources may have a greater variety of opinions. Secondly, consumers can evaluate product attributes at a more abstract level; for example, one source of information may refer to one measure of picture quality for a camera and another source may use another measure; the assessment could be made at the more general level of picture quality. The third approach would be to restructure information from different sources in order to make it comparable. For example, reviews of products could be made more comparable by identifying what they have to say about specific attributes.

Online sellers can invest large sums on websites that facilitate consumer information searches. However, the risk they face is that websites will be used by potential buyers in order to gather information, but once buyers have done this, they will use search engines in order to find outlets that provide the same goods at a lower price. This is an example of a free-rider problem and how the internet can exacerbate it.

Purchasers of experience goods may be less likely than purchasers of search goods to engage in free-riding behaviour. This could be because greater effort is required to evaluate experience attributes and because

information on experience attributes is likely to be presented through interfaces that are unique to each website; the initial learning costs of using a particular website to acquire experience information will be higher. This should lead to 'experience effects' that reduce incentives to learn new interfaces and increase cognitive lock-in, thus reducing free-riding behaviour.

One of the reasons for a pre-purchase search is to reduce the perceived risk associated with purchasing a product online. A characteristic of search attributes is that information provided by sellers reflects objective facts; and consumers will generally consider such information to be true and unbiased. In contrast, this level of trust may not hold information about experience attributes because that is subjective and based on individual judgment and the heterogeneous tastes of consumers. For this reason, a buyer is more inclined to buy experience goods from a trusted seller, and in many cases, this trusted seller will be the website that provides the buyer with the most extensive product information.

From the preceding discussion we can see that the effect of the above mechanisms is likely to be greater for consumers searching for experience goods. Information about search attributes can be effectively delivered in a simple manner because such information is more likely to be factual and basic. So buyers of search products will be less likely to spend time viewing multimedia content or reading lengthy reviews; instead they may simply gather what limited information they need from shopping bots (price comparison websites). In contrast, consumers of experience goods are likely to spend more time at high-quality websites.

4.9 Alternative-based and attribute-based search strategies

Choi et al. (2008) illustrate the difference between alternative- and attribute-based search strategies in the following way. Suppose you want to choose a laptop computer from three alternatives, and you decide to consider three attributes for each laptop. One way in which you can make the comparisons is to examine all three attributes of a laptop and then consider another laptop using the same attributes. An alternative approach is to examine all the possible laptops for a given attribute and once that has been done to then consider all laptops in terms of the next attribute. The former search strategy has been referred to as the alternative-based search, while the latter approach has been labelled the attribute-based search strategy.

Whether one chooses the alternative-based or the attribute-based search strategy is closely related to one's decision rule. A compensatory rule will involve adopting the alternative-based search than the attribute-based search. A non-compensatory rule will yield an attribute-based search over the alternative-based search. Table 4.3 illustrates this.

Type of rule	Compensatory	Non-compensatory
Search	Alternative-based search	Attribute-based search
Trade offs	Between attributes – compensation for weakness on one dimension is made up by strength on another.	Strength on one dimension cannot compensate for the weakness on another. For example, if an alternative has a lower value than a threshold for one attribute, the alternative is eliminated from further consideration even though the alternative may have the highest additive-sum value among all options.
	Final decision depends on each alternative's balance of values on all attributes considered.	
	Chosen alternative is superior to other alternatives in sum of weighted utilities of all attributes.	Chosen alternative is superior to the other alternatives only by virtue of its most important attribute(s).
	Seeks best choice. Regarded as more rational.	Seeks good enough choice. Regarded as less rational.
	Conflict-confronting – since one makes a choice by considering all attributes and trades off each alternative's weakness with a strength.	Conflict-avoiding – since one focuses only on the attribute(s) considered to be the most important and compares all alternatives on that dimension only.
Cognitive effort	More (since trade-offs cause cognitive and emotional difficulties).	Less.

Table 4.3: Alternative-based and attribute-based search strategies.

Source: This table is created from text contained in Choi et al. (2008).

4.10 Information control

This is the degree to which an information seeker can decide what information content to read (or to listen to), how long to read it (or to listen to it) and in what order to read it (or to listen to it). Information control varies by type of media. Television has lower information control than newspapers, which allow people to freely choose the order in which they read the news and when they read it.

There are different levels of information control on the internet. Information display models can be categorised as either pull or push, and this reflects high and low levels of information control respectively. Push is when an information provider sends (that is, pushes) information to information seekers without them requesting it. Examples of these are pop-up advertisements on the internet. In contrast, the pull model applies where it is the information seeker who makes the initial request for the process of information display, and can select information content, display order and reading time according to his/her preferences.

Given that both levels of information control are present on the internet, the question is: How can the levels of information control be properly applied to generate better service for different kinds of consumers who seek product information and make purchase decisions on the internet?

The effects of information control on consumers' information processing are as follows: A negative view of this concept holds that the act of information control is indeed a cognitive process that utilises part of the cognitive resources. Because these resources are limited in the working memory, and people perform two tasks simultaneously when given information control (namely, seeking target information and information control), the cognitive resources of information processing are reduced. Therefore, the performance of information processing should deteriorate due to information control.

A more positive view is that a high degree of information control can provide information based on personal preferences to satisfy the information needs of the decision-maker. For example, if an information seeker requires more time to digest information, s/he can extend the information display time under high-control conditions, which should facilitate information processing.

The positive effects can be improved by matching the degree of control to individual characteristics (including ability, self-efficacy, motivation, etc.). If a person with low technical skills were given increased power to control what information they receive about technical products their ability to make better decisions would not necessarily increase simply because of being given more control. It is even possible that, because they overloaded by being in control, their productivity would decline. On the other hand, if a person with high abilities was given such control, it is very likely that their decision-making would improve.

4.11 Types of buying behaviour

Buying behaviour differs greatly for different types of products and services. Table 4.4 shows types of consumer-buying behaviour based on a buyer's involvement and the perceived differences among brands. You should note that while it may seem as if some products are always high involvement and some are low involvement, this need not necessarily be the case. The reasoning behind this is as follows. According to Celsi and Olson (1988, p.211), 'a consumer's level of involvement with an object, situation, or action is determined by the degree to which s/he perceives that concept to be personally relevant'.

So an individual's perception of their involvement in a product depends on them as individuals rather than being an invariable attribute of the product itself. Although there are products that on average (across various consumers) are high or low involvement, the actual level of involvement is still defined individually. In other words, involvement resides within the consumer but is influenced by the product. For example, for any marketer of low involvement products, there will be some people for whom they will be low involvement, but there will be others for whom the decision represents a higher level of involvement – for example, those people who such firms use on a regular basis to provide feedback on their products or those who are buying the same product as a gift.

Differences in brand	Involvement	
	High	Low
Significant differences between brands	Complex buying behaviour (cognitive process).	Variety-seeking buying behaviour (primarily behavioural with some cognitive).
Few differences between brands	Dissonance-reducing buying behaviour (primarily cognitive with some behavioural).	Habitual buying behaviour (behavioural process).

Table 4.4: Types of buying behaviour.

Complex buying behaviour results from situations where involvement is high and where there is a high degree of perceived difference among brands. The involvement may arise from uncertainty of the product's quality and/or a high price, or a number of other factors such as personal factors related to whether the product's image and the needs it serves are congruent with a consumer's self-image, values and needs. Also, the more socially-visible a product is, the greater the involvement. Once in this situation, a consumer will attempt to learn about a product and then assimilate the information into beliefs about the product's quality and possible benefits. This type of behaviour is cognitive in nature and marketers must usually respond with promotion that is information-rich (that is, using print media with long copy).

Dissonance-reducing buying behaviour is normally associated with products that are risky, purchased infrequently or expensive (making them high-involvement goods) but where there is little perceived difference among brands. Consumers may shop around for the best price but buy relatively quickly and often can be affected by environmental (behavioural) factors such as convenience. After the purchase, however, the consumer might experience post-purchase dissonance, believing that there was actually something better on the market. So this type of behaviour represents a mix of cognitive and behavioural factors.

Habitual buying behaviour occurs under conditions of low consumer involvement and little significant brand differences. In these cases, often for goods that are purchased frequently (for example, toothpaste), behaviour does not pass through the standard cognitive process of belief–attitude–behaviour formation. Instead, consumers passively receive information as they watch television or surf the internet. Unconscious advertising repetition creates familiarity, which often translates into a brand purchase when the consumer is deciding which brand to buy. This is almost pure behavioural decision-making and hence advertising tends to be focused on classical conditioning, in which buyers are taught to identify a certain product by a single symbol repeatedly attached to it.

Variety-seeking buying behaviour occurs in situations where there are low-involvement purchases but significant differences in brands. In this situation, rather than engage in lengthy pre-purchase surveys, consumers, if curious about a new brand or dissatisfied with the product choice, engage in switching to another brand. In such situations the advertising approach differs across firms. Market leaders often want to encourage habituation and therefore employ conditioning strategies; whereas challenger firms rely instead on inducing consumers to switch and therefore employ more cognitive approaches; these appeal to consumers on the basis of reasons for making the switch.

4.12 The case of advertising: cognitive versus behavioural approaches

You may well be familiar with advertising which says very little about the product or service being promoted. Clearly such advertising is not about information dissemination. It is about creating discriminative stimuli rather than giving information to customers about the product or service. This type of behaviour modification is commonly done by advertising the brand and pairing it with something else that consumers regard as positive – beer with nice music, toilet paper with a pleasant landscape. Over time consumers come to associate these positive elements with the product. Sometimes the images the company uses are designed to align the company's values with those of its customers.

Certain advertising media are better at this than others. Film, television and the internet are all multi-sensual media. They are better because they appeal to more than one sense at a time (this is how you get pairing). It is much harder to pair when it appeals to only one or two senses.

The concepts of setting and involvement displayed in Table 4.5 may help us understand when the two views are most appropriate. Setting refers to the environmental control available to a consumer in a given purchasing decision. When a consumer is inside a supermarket we say that this setting is closed because the firm has almost complete control of the environment – from the music, temperature, arrangement and size of the store. In an open setting, consumers have more control of the variables such as when making investment choices on a Sunday afternoon in the kitchen.

Involvement, as we saw before, refers to the state of awareness that motivates consumers to seek out, attend to, and think about product information prior to purchase. When involvement is low, advertising tends to be highly persuasive. Combining both setting and involvement, we gain an appreciation for what kind of psychological approach is most effective in advertising. Open situations with high involvement rely more on cognitive features of advertising techniques (information and comparison shopping); whereas in low-involvement situations with open setting, the advertising relies on persuasive advertisements with some cognitive element (for example, advertisements with clever situations that offer comedy and intellect).

Involvement	Setting	
	Closed	Open
High	Behavioural advertising with some informative content.	Cognitive advertising with substantial informative content.
Low	Behavioural persuasive advertising.	Cognitive persuasive advertising.

Table 4.5: Advertising as a function of involvement and setting.

4.13 Overview of chapter

This chapter has dealt with an economic-based approach to understanding consumer behaviour. We then looked at the social-psychological and psychological approaches. Within the economic approach we specifically looked at the importance of preferences and constraints. The insights offered by prospect theory were also considered. Within the social-psychological approach we looked at three feedback loops that explain

buyer behaviour and also consider the broader notion of the self-concept and the role of social networks. Finally, we looked at psychological approaches to buyer behaviour and within this looked at the decision-making process model and specifically information search activity by consumers.

4.14 Reminder of learning outcomes

Having completed this chapter and the Essential readings and activities, you should be able to:

- explain why the study of consumer behaviour is so important to marketing
- explain why economics differs from social psychology in its explanation of consumer behaviour
- identify some different characteristics of consumers' social networks and the impact of these on buyer behaviour
- discuss the differences between cognitive and behavioural theories of consumer behaviour
- outline the types of consumer behaviour based on the concepts of setting, involvement, information gathering and perceived brand differences.

4.15 Test your knowledge and understanding

1. a. Describe the basic, dissonance reducing and social factors feedback loops. (10 marks)
- b. Using examples, explain how consumers' social network characteristics will have an impact on their buyer behaviour. (10 marks)
- c. Why may consumers prefer to use subtle signals with members of their social networks? (5 marks)
2. a. Describe the five stage consumer buyer process model. (5 marks)
- b. Explain why consumers' information search processes will be different between experience and search goods. (10 marks)
- c. Critically discuss why customers may use this model for the purchase of high involvement goods. (10 marks)
3. Ruritania is a country where traditionally everyone drinks tea. Using an economic explanation of custom and tradition, explain how a firm may try and introduce a new type of soft drink into this country. (25 marks)

Notes