

## SUMMARY OF NEW CLASS MATERIAL FOR FINAL

### Exposure, Attention, and Perception

Background. Our perception is an approximation of reality. Our brain attempts to make sense out of the stimuli to which we are exposed. This works well, for example, when we “see” a friend three hundred feet away at his or her correct height; however, our perception is sometimes “off”—for example, certain shapes of ice cream containers look like they contain more than rectangular ones with the same volume.

Factors in perception. Several sequential factors influence our perception. *Exposure* involves the extent to which we encounter a stimulus. For example, we are exposed to numerous commercial messages while driving on the freeway: bill boards, radio advertisements, bumper-stickers on cars, and signs and banners placed at shopping malls that we pass. Most of this exposure is random—we don’t plan to seek it out. However, if we are shopping for a car, we may deliberately seek out advertisements and “tune in” when dealer advertisements come on the radio.

Exposure is not enough to significantly impact the individual—at least not based on a single trial (certain advertisements, or commercial exposures such as the “Swoosh” logo, are based on extensive repetition rather than much conscious attention). In order for stimuli to be consciously processed, *attention* is needed. Attention is actually a matter of degree—our attention may be quite high when we read directions for getting an income tax refund, but low when commercials come on during a television program. Note, however, that even when attention is low, it may be instantly escalated—for example, if an advertisement for a product in which we are interested comes on.

*Interpretation* involves making sense out of the stimulus. For example, when we see a red can, we may categorize it as a Coke®.

*Weber’s Law* suggests that consumers’ ability to detect changes in stimulus intensity appear to be strongly related to the intensity of that stimulus to begin with. That is, if you hold an object weighing one pound in your hand, you are likely to notice it when that weight is doubled to two pounds. However, if you are holding twenty pounds, you are unlikely to detect the addition of one pound—a change that you easily detected when the initial weight was one pound. You may be able to eliminate one ounce from a ten ounce container, but you cannot as easily get away with reducing a three ounce container to two (instead, you must accomplish that gradually—e.g., 3.0 --> 2.7 --> 2.5 --> 2.3 --> 2.15 -> 2.00).

Several factors influence the extent to which stimuli will be noticed. One obvious issue is *relevance*. Consumers, when they have a choice, are also more likely to attend to *pleasant* stimuli (but when the consumer can't escape, very unpleasant stimuli are also likely to get attention—thus, many very irritating advertisements are remarkably effective). One of the most important factors, however, is repetition. Consumers often do not give much attention to a stimuli—particularly a low priority one such as an advertisement—at any one time, but if it is seen over and over again, the cumulative impact will be greater.

*Surprising* stimuli are likely to get more attention—survival instinct requires us to give more attention to something unknown that may require action. A greater *contrast* (difference between the stimulus and its surroundings) as well as greater *prominence* (e.g., greater size, center placement) also tend to increase likelihood of processing.

*Subliminal stimuli*. Back in the 1960s, it was reported that on selected evenings, movie goers in a theater had been exposed to isolated frames with the words “Drink Coca Cola” and “Eat Popcorn” imbedded into the movie. These frames went by so fast that people did not consciously notice them, but it was reported that on nights with frames present, Coke and popcorn sales were significantly higher than on days they were left off. This led Congress to ban the use of subliminal advertising. First of all, there is a question as to whether this experiment ever took place or whether this information was simply made up. Secondly, no one has been able to replicate these findings. There is research to show that people will start to giggle with embarrassment when they are briefly exposed to “dirty” words in an experimental machine. Here, again, the exposure is so brief that the subjects are not aware of the actual words they saw, but it is evident that something has been recognized by the embarrassment displayed.

## Learning, Memory, and Positioning

Background. Learning involves “a change in the content or organization of long term memory and/or behavior.” The first part of the definition focuses on what we know (and can thus put to use) while the second focuses on concrete behavior. For example, many people will avoid foods that they consumed shortly before becoming ill. Learning is not all knowledge based. For example, we may experience the sales people in one store being nicer to us than those in the other. We thus may develop a preference for the one store over the other; however, if pressed, we may not be able to give a conscious explanation as to the reason for our preference.

Much early work on learning was actually done on rats and other animals (and much of this research was unjustifiably cruel, but that is another matter).

Classical conditioning. Pavlov's early work on dogs was known as *classical conditioning*. Pavlov discovered that when dogs were fed meat powder they salivated. Pavlov then discovered that if a bell were rung before the dogs were fed, the dogs would begin salivating in anticipation of being fed (this was efficient, since they could then begin digesting the meat powder immediately). Pavlov then found that after the meat had been “paired” with the meat powder enough times, Pavlov could ring the bell without feeding the dogs and they would *still* salivate.

In the jargon of classical conditioning, the meat powder was *an unconditioned stimulus* (US) and the salivation was, when preceded by the meat powder, an *unconditioned response* (UR). That is, it is a biologically "hard-wired" response to salivate when you are fed. By *pairing* the bell with the unconditioned stimulus, the bell became a *conditioned stimulus* (CS) and salivation in response to the bell (with no meat powder) became a *conditioned response* (CR).

Many modern day advertisers use classical conditioning in some way. Consider this sequence:

Beautiful woman (US) ---> emotional arousal (UR) in males

Beautiful woman (US) + automobile (not yet CS) ---> arousal (US) [repeated many times]

Automobile (CS) ---> arousal (CR)

(For the exam, you should be able to diagram an example given).

Operant conditioning. Instrumental, or operant, conditioning, involves a different series of events, and this what we usually think of as learning. The general pattern is:

Behavior ---> consequences ---> behavior is more or less likely to be repeated

There are three major forms of operant learning. In *positive reinforcement*, an individual does something and is rewarded. He or she is then more likely to repeat the behavior. For example, you eat a candy bar (behavior), it tastes good (consequence), and you are thus more likely to eat a similar candy bar in the future (behavioral change).

*Punishment* is the opposite. You eat what looks like a piece of candy (behavior), only to discover that it is a piece of soap with a foul taste (consequences), and subsequently you are less likely to eat anything that looks remotely like that thing ever again (changed behavior).

It should be noted that *negative reinforcement* is very different from punishment. An example of negative reinforcement is an obnoxious sales person who calls you up on the phone, pressuring you into buying something you don't want to do (aversive stimulus). You eventually agree to buy it (changed behavior), and the sales person leaves you alone (the aversive stimulus is terminated as a result of consequences of your behavior).

Please note the examples of reinforcement, punishment, and negative reinforcement on the notes handout.

In general, marketers usually have relatively little power to use punishment or negative reinforcement. However, parking meters are often used to discourage consumers from taking up valuable parking space, and manufacturers may void warranties if the consumers take their product to non-authorized repair facilities.

Several factors influence the effectiveness of operant learning. In general, the *closer in time* the consequences are to the behavior, the more effective the learning. That is, electric utilities would be more likely to influence consumers to use less electricity at peak hours if the consumers actually had to pay when they used electricity (e.g., through a coin-slot) rather than at the end of the month. Learning is also more likely

to occur when the individual can *understand a relationship* between behavior and consequences (but learning may occur even if this relationship is not understood consciously).

Another issue is schedules of reinforcement and *extinction*. Extinction occurs when behavior stops having consequences and the behavior then eventually stops occurring. For example, if a passenger learns that yelling at check-in personnel no longer gets her upgraded to first class, she will probably stop that behavior. Sometimes, an individual is rewarded every time a behavior is performed (e.g., a consumer gets a soft drink every time coins are put into a vending machine). However, it is not necessary to reward a behavior every time for learning to occur. Even if a behavior is only rewarded some of the time, the behavior may be learned. Several different *schedules of reinforcement* are possible:

- *Fixed interval*: The consumer is given a free dessert on every Tuesday when he or she eats in a particular restaurant.
- *Fixed ratio*: Behavior is rewarded (or punished) on every  $n$ th occasion that it is performed. (E.g., every tenth time a frequent shopper card is presented, a free product is provided).
- *Variable ratio*: Every time an action is performed, there is a certain percentage chance that a reward will be given. For example, every time the consumer enters the store, he or she is given a lottery ticket. With each ticket, there is a 20% chance of getting a free hamburger. The consumer may get a free hamburger twice in a row, or he or she may go ten times without getting a hamburger even once.

Variable ratio reinforcement is least vulnerable to extinction.

Sometimes, *shaping* may be necessary to teach the consumer the desired behavior. That is, it may be impossible to teach the consumer to directly perform the desired behavior. For example, a consumer may first get a good product for free (the product itself, if good, is a reward), then buy it with a large cents off coupon, and finally buy it at full price. Thus, we reinforce approximations of the desired behavior. Rather than introducing Coca Cola directly in Indonesia, fruit flavored soft drinks were first introduced, since these were more similar to beverages already consumed.

Vicarious learning. The consumer does not always need to go through the learning process himself or herself—sometimes it is possible to learn from observing the consequences of others. For example, stores may make a big deal out of prosecuting shop lifters not so much because they want to stop that behavior in the those caught, but rather to deter the behavior in others. Similarly, viewers may empathize with characters in advertisements who experience (usually positive) results from using a product. The Head 'n' Shoulders advertisement, where a poor man is rejected by women until he treats his dandruff with an effective cure, is a good example of *vicarious learning*.

Memory. There are two kinds of memory. When you see an ad on TV for a mail order product you might like to buy, you only keep the phone number in memory until you have dialed it. This is known as *short term* memory. In order for something to enter into *long term* memory, which is more permanent, you must usually "rehearse" it several times. For example, when you move and get a new phone number, you will

probably repeat it to yourself many times. Alternatively, you get to learn your driver's license or social security numbers with time, not because you deliberately memorize them, but instead because you encounter them numerous times as you look them up.

A special issue in memory are so called "scripts," or procedures we remember for doing things. Scripts involve a series of steps for doing various things (e.g., how to send a package). In general, it is useful for firms to have their brand names incorporated into scripts (e.g., to have the consumer reflexively ask the pharmacist for Bayer rather than an unspecified brand of aspirin).

Positioning involves *implementing* our targeting. For example, Apple Computer has chosen to position itself as a maker of user-friendly computers. Thus, Apple has done a lot through its advertising to promote itself, through its unthreatening icons, as a computer for "non-geeks." The Visual C software programming language, in contrast, is aimed at "techies."

*Repositioning* involves an attempt to change consumer perceptions of a brand, usually because the existing position that the brand holds has become less attractive. Sears, for example, attempted to reposition itself from a place that offered great sales but unattractive prices the rest of the time to a store that consistently offered "everyday low prices." Repositioning in practice is very difficult to accomplish. A great deal of money is often needed for advertising and other promotional efforts, and in many cases, the repositioning fails.

## Motivation, Personality, and Emotion

Perspectives on Consumer Behavior and Motivation. We considered several perspectives on behavior as a way to understand what motivates the consumer. Each of these perspectives suggests different things as to what the marketer should do and what can (and cannot) be controlled. Note that each perspective tends to contain a "grain" of truth and that one should not be too dogmatic in emphasizing one over the others.

- The *Hard Core Behavioral* perspective is based on learning theories such as operant and classical conditioning. These theories suggest that consumers must learn from their own experiences--i.e., in order to avoid getting sick from overeating, a consumer must experience the stomach and other ailments resulting from gluttony rather than merely observing *other people* who overeat and get sick. This suggests, then, that it is important to reward good behavior (e.g., buying our brand) to the extent possible. Money spent on advertising is seen as less useful. Hard core behaviorists tend to look at observable behavior (e.g., buying our brand *or* buying another) rather than trying to find out what is going on inside the heads of consumers--i.e., hard core behaviorists do not like to mess with "mushy" things like attitudes.
- The *Social Learning Perspective*, in contrast, allows for *vicarious* learning--i.e., learning obtained by watching others getting good or bad consequences for behavior. The *models* that may be observed and imitated include peers and family members as well as relevant others that may be observed in advertising. From our study of social influences, we know that certain people are more likely to be imitated than others--e.g., those that are more similar to ourselves based on relevant factors such as age, social status, or ethnic group. Consider,

for example, the poor man who is rejected by women because of his dandruff until he gets "with it" and uses Head 'n' Shoulders shampoo. Other dandruff sufferers are likely to learn from the model's experience. Generally, observations are made of overt behavior, but some room is made for individual reasoning in learning from others. This perspective is clearly more realistic than that of the "Hard Core" view, but it should be noted that the strength of learning tends to be greater for that gained from own experience.

- The *Cognitive* approach emphasizes consumer *thinking* rather than mere behavior--we will encounter this to a great extent when we study decision making and attitudes. Here, the emphasis is on how people reason themselves to the consequences of their behavior. Note that it is often somewhat more difficult to attempt to "get into" a consumer's head than it is to merely observe his or her behavior, and what we "observe" is somewhat more subjective. Note also that a wealth of different factors influence people's thinking, and some expectations and assumptions that we hold tend to be culturally influenced (e.g., an American assumes that hard work will tend to lead to a promotion, while members of certain other cultures believe that personal relationships, and perhaps even luck, tend to be more important).
- The *Biological* approach suggests that most behavior is determined by genetics or other biological bases. By this perspective, it is suggested that consumers eat the foods they eat in large part because the body craves these foods. Note that although craving for fatty foods seems quite maladaptive in today's society, it could have been very adaptive earlier in human history where food was scarce and obtaining as many calories as possible helped ensure survival. Clearly, this perspective is very misleading when one takes it as the *only* explanation of behavior--for example, people in different cultures learn to enjoy various kinds of foods. The main implication of *biological determinism* is that the marketer must *adapt*--for example, food advertisements are more likely to be effective when people are hungry, and thus they might better be run in the late afternoon rather than in the late morning.
- The *Rational Expectations* perspective is based on an economic way of looking at the World. Economists *assume* that people think rationally and have perfect information, even though they know very well that these assumptions are often unrealistic. However, despite the unrealistic assumptions made, economists often make relatively accurate predictions of human behavior. (The Cognitive perspective, however, is able to identify certain significant exceptions to rational behavior, however).
- The *Psychoanalytic* perspective is based on the work of historical psychologists such as Sigmund Freud who suggest that (1) much behavior has a biological basis which is (2) often sexual in nature, and (3) that early experiences in childhood will have a profound, but *unconscious* effect on later life--e.g., people who are rejected in an early, "oral" phase of development may become "oral retentive" and end up as wine *connoisseurs* later in life. Because of societal injunctions against explicit discussion of sexuality in Western society at Freud's time [late 1800s to mid 1900s], many objects were thought to take on seemingly unrelated symbolic meanings--e.g., a tie might become a symbol of a male reproductive organ. Although modern psychologists certainly recognize that early experiences may influence later psychological well being, the

psychoanalytic view has largely been discredited today as being much too centered on the issue of sex. However, this perspective enjoys a great deal of popularity among many advertising executives. It should be noted that Freudian psychology tends to violate the cherished scientific ideal of parsimony, where a scientist is expected to propose the simplest theory that will account for observed phenomena.

Maslow's Hierarchy of Needs. The late Abraham Maslow suggested the intuitively appealing notion that humans must satisfy the most basic objectives before they can move onto "higher level" ones. Thus, an individual must satisfy physiological needs (such as food and liquid) before he or she will be able to expend energy on less fundamental objectives such as safety. Only when basic objectives have been met will a person move on to seek such objectives as love and belonging, and only a small minority of people make it as far as seeking self-actualization.

Maslow's Hierarchy is useful in understanding different needs of consumers across the World. However, one must be careful not to take it too literally, since people may occasionally "swing" between needs. For example, a homeless person who currently does not have shelter may seek that out even though he or she is hungry.

Properties of motivation. Motivation is described through several properties:

- *Motivation is composed of energy and direction.* A person may or may not have enough motivation to engage in a given activity. For example, a person may be motivated enough to go and shop for food, but not enough to engage in a comprehensive exercise program.
- *Motives may be overt, hidden, and multiple.* Some motivations are publicly expressed (e.g., the desire to buy an energy efficient house), while others (e.g., the desire to look wealthy by buying a fancy car) are not. Individuals may also hold multiple motivations (e.g., buy a car *and* save money for retirement) which may conflict.
- *Many motivations are driven by the desire for tension reduction* (e.g., eliminate thirst or hunger).
- *Motivations can be driven by both internal and external factors.* That is, a person may want a painting either because he or she likes it (internal motivation) or because this will give her status among the artistic elite (external).
- *Motivations may have either a positive or negative valence*--people may either be motivated to achieve something (e.g., get a promotion at work) or avoid something (e.g., being hospitalized without having adequate insurance).
- *Consumers are motivated to achieve goals.* Achieving these goals may require sustained activity over time (e.g., exercising every day for months or years) as opposed to just taking some action once.
- *Consumers maintain a balance between the desires for stability and variety.* Most consumers want some variety (e.g., they do not want to eat the same meal every day), but also want a certain stability (they do not want to try an entirely new food every day).

- *Motivation reflects individual differences.* Different consumers are motivated to achieve different things, and it may be difficult to infer motivations from looking at actual behavior without understanding these differences in desired outcomes.

The reality that consumers are frequently motivated by multiple motives suggests a possibility that motives may conflict. Three main types of conflict exists:

- *Approach-avoidance.* One alternative has both positive consequences (that one wishes to seek out) and negative consequences (that one wants to avoid). For example, eating a large banana split is an enjoyable experience ("approach"), but it contains a lot of calories ("avoidance") and may make one feel ill later (another avoidance).
- *Approach-approach.* A consumer wants to do two incompatible things at the same time. A classic example is "Rainman's" desire both to stay with his brother and stay at the institution. Another example is a consumer who only has one week's vacation but wants equally to go to Hawaii and Greenland, but has time and money only for one of the two.
- *Avoidance-avoidance.* A consumer does not want to go for either of two alternatives, but must choose the lesser of two evils. For example, the consumer does not want to pay for car insurance, but does not want to get into an accident or get caught by the police without it. A "work ethic disadvantaged" student does not want to study, but does not want to fail his or her courses, either.

The Means-End chain. Consumers often buy products not because of their attributes *per se* but rather because of the ultimate benefits that these attributes provide, in turn leading to the satisfaction of ultimate values. For example, a consumer may not be particularly interested in the chemistry of plastic roses, but might reason as follows:

Highly reliable synthetic content of roses --->

Roses will stay in original condition for a long time --->

Significant other will appreciate the roses longer --->

Significant other will continue to love one ---> Self esteem.

The important thing in a means-end chain is to start with an *attribute*, a concrete characteristic of the product, and then logically progress to a series of consequences (which tend to become progressively more abstract) that end with a *value* being satisfied. Thus, each chain *must start with an attribute and end with a value*.

An important implication of means-end chains is that it is usually most effective in advertising to *focus on higher level items*. For example, in the flower example above, an individual giving the flowers to the significant other might better be portrayed than the flowers alone.

Personality and consumer behavior. Traditional research in marketing has not been particularly successful in finding a link between personality and consumer behavior. Part of the problem here is that much of the theory has been developed by clinical psychologists who have tended to work with maladjusted people. Not surprisingly,

research that sought to predict, based on standard personality inventories, which kinds of consumers would buy Chevrolets as opposed to Fords was not successful.

*Emotion.* Emotion impacts marketing efforts in several ways. One purpose is to get *attention* to a stimulus (since emotionally charged individuals tend to be less predictable than calmer ones, there has been an evolutionary advantage in paying attention to emotion). Secondly, emotion influences *information processing*. In general, happy people tend to scrutinize arguments given (e.g., purported benefits of using a product) somewhat less, since they do not want to lose their happy moods by doing too much thinking. In general, happy ads are somewhat better *liked*, and may be better *remembered*. *Empathy* may also increase liking for the ad and the sponsoring product.

## Attitudes

Definition. Consumer attitudes are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some object--within the context of marketing, usually a brand or retail store. These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object.

Beliefs. The first component is *beliefs*. A consumer may hold both positive beliefs toward an object (e.g., coffee tastes good) as well as negative beliefs (e.g., coffee is easily spilled and stains papers). In addition, some beliefs may be neutral (coffee is black), and some may differ in valence depending on the person or the situation (e.g., coffee is hot and stimulates--good on a cold morning, but not good on a hot summer evening when one wants to sleep). Note also that the beliefs that consumers hold need not be accurate (e.g., that pork contains little fat), and some beliefs may, upon closer examination, be contradictory (e.g., that a historical figure was a good person but also owned slaves).

Since a consumer holds many beliefs, it may often be difficult to get down to a "bottom line" overall belief about whether an object such as McDonald's is overall good or bad. The Multiattribute (also sometimes known as the Fishbein) Model attempts to summarize overall attitudes into one score using the equation:

$$A_b = \sum_{i=1}^n W_i X_{ib}$$

That is, for each belief, we take the weight or importance ( $W_i$ ) of that belief and multiply it with its evaluation ( $X_{ib}$ ). For example, a consumer believes that the taste of a beverage is moderately important, or a 4 on a scale from 1 to 7. He or she believes that coffee tastes very good, or a 6 on a scale from 1 to 7. Thus, the product here is  $4(6)=24$ . On the other hand, he or she believes that the potential of a drink to stain is extremely important (7), and coffee fares moderately badly, at a score -4, on this attribute (since this is a negative belief, we now take negative numbers from -1 to -7, with -7 being worst). Thus, we now have  $7(-4)=-28$ . Had these two beliefs been the only beliefs the consumer held, his or her total, or aggregated, attitude would have been  $24+(-28)=-4$ . In practice, of course, consumers tend to have many more beliefs that must each be added to obtain an accurate measurement.

Affect. Consumers also hold certain feelings toward brands or other objects. Sometimes these feelings are based on the beliefs (e.g., a person feels nauseated when thinking about a hamburger because of the tremendous amount of fat it contains), but there may also be feelings which are relatively independent of beliefs. For example, an extreme environmentalist may believe that cutting down trees is morally wrong, but may have positive affect toward Christmas trees because he or she unconsciously associates these trees with the experience that he or she had at Christmas as a child.

Behavioral intention. The behavioral intention is what the consumer plans to do with respect to the object (e.g., buy or not buy the brand). As with affect, this is sometimes a logical consequence of beliefs (or affect), but may sometimes reflect other circumstances--e.g., although a consumer does not really like a restaurant, he or she will go there because it is a hangout for his or her friends.

Attitude-Behavior Consistency. Consumers often do not behave consistently with their attitudes for several reasons:

- *Ability*. He or she may be unable to do so. Although junior high school student likes pick-up trucks and would like to buy one, she may lack a driver's license.
- *Competing demands for resources*. Although the above student would like to buy a pickup truck on her sixteenth birthday, she would rather have a computer, and has money for only one of the two.
- *Social influence*. A student thinks that smoking is really cool, but since his friends think it's disgusting, he does not smoke.
- *Measurement problems*. Measuring attitudes is difficult. In many situations, consumers do not consciously set out to enumerate how positively or negatively they feel about mopeds, and when a market researcher asks them about their beliefs about mopeds, how important these beliefs are, and their evaluation of the performance of mopeds with respect to these beliefs, consumers often do not give very reliable answers. Thus, the consumers may act consistently with their true attitudes, which were never uncovered because an erroneous measurement was made.

Attitude Change Strategies. Changing attitudes is generally *very difficult*, particularly when consumers suspect that the marketer has a self-serving agenda in bringing about this change (e.g., to get the consumer to buy more or to switch brands).

*Changing affect*. One approach is to try to change affect, which may or may not involve getting consumers to change their beliefs. One strategy uses the approach of *classical conditioning* try to "pair" the product with a liked stimulus. For example, we "pair" a car with a beautiful woman. Alternatively, we can try to get people to like the advertisement and hope that this liking will "spill over" into the purchase of a product. For example, the Pillsbury Doughboy does not really emphasize the conveyance of much information to the consumer; instead, it attempts to create a warm, fuzzy image. Although Energizer Bunny ads try to get people to believe that their batteries last longer, the main emphasis is on the likeable bunny. Finally, products which are better known, through the *mere exposure* effect, tend to be better liked--that is, the more a product is advertised and seen in stores, the more it will generally be liked, *even if consumers do not develop any specific beliefs about the product*.

*Changing behavior.* People like to believe that their behavior is rational; thus, once they use our products, chances are that they will continue unless someone is able to get them to switch. One way to get people to switch to our brand is to use temporary price discounts and coupons; however, when consumers buy a product on deal, they may justify the purchase based on that deal (i.e., the low price) and may then switch to other brands on deal later. A better way to get people to switch to our brand is to at least temporarily obtain better shelf space<sup>1</sup> so that the product is more convenient. Consumers are less likely to use this availability as a rationale for their purchase and may continue to buy the product even when the product is less conveniently located. (Notice, by the way, that this represents a case of shaping).

*Changing beliefs.* Although attempting to change beliefs is the obvious way to attempt attitude change, particularly when consumers hold unfavorable or inaccurate ones, this is often difficult to achieve because consumers tend to resist. Several approaches to belief change exist:

- *Change currently held beliefs.* It is generally very difficult to attempt to change beliefs that people hold, particularly those that are strongly held, *even if they are inaccurate.* For example, the petroleum industry advertised for a long time that its profits were lower than were commonly believed, and provided extensive factual evidence in its advertising to support this reality. Consumers were suspicious and rejected this information, however.
- *Change the importance of beliefs.* Although the sugar manufacturers would undoubtedly like to decrease the importance of healthy teeth, it is usually not feasible to make beliefs less important--consumers are likely to reason, why, then, would you bother bringing them up in the first place? However, it may be possible to strengthen beliefs that favor us--e.g., a vitamin supplement manufacturer may advertise that it is extremely important for women to replace iron lost through menstruation. Most consumers already agree with this, but the belief can be made stronger.
- *Add beliefs.* Consumers are less likely to resist the addition of beliefs *so long as they do not conflict with existing beliefs.* Thus, the beef industry has added beliefs that beef (1) is convenient and (2) can be used to make a number of creative dishes. Vitamin manufacturers attempt to add the belief that stress causes vitamin depletion, which sounds quite plausible to most people.
- *Change ideal.* It usually difficult, and very risky, to attempt to change ideals, and only few firms succeed. For example, Hard Candy may have attempted to change the ideal away from traditional beauty toward more unique self expression.

One-sided vs. two-sided appeals. Attitude research has shown that consumers often tend to react more favorably to advertisements which either (1) admit something negative about the sponsoring brand (e.g., the Volvo is a clumsy car, but very safe) or (2) admits something positive about a competing brand (e.g., a competing supermarket has slightly lower prices, but offers less service and selection). Two-sided appeals must, contain overriding arguments why the sponsoring brand is ultimately superior--that is, in the above examples, the "but" part must be emphasized.

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<sup>1</sup> This is admittedly easier said than done!

The Elaboration Likelihood Model (ELM) and Celebrity Endorsements. The ELM suggests that consumers will scrutinize claims more in important situations than in unimportant ones. For example, we found that in the study of people trying to get ahead of others in a line to use photo copiers, the compliance rate was about fifty percent when people just asked to get ahead. However, when the justification "... because I have to make copies" was added, compliance increased to 80%. Since the reason offered really did not add substantive information, we conclude that it was not extensively analyzed--in the jargon of the theory, "elaboration" was low.

The ELM suggests that for "unimportant" products, elaboration will be low, and thus Bill Cosby is able to endorse Coke and Jell-O without having any special credentials to do so. However, for products which are either expensive or important for some other reason (e.g., a pain reliever given to a child that could be harmed by using dangerous substances), elaboration is likely to be more extensive, and the endorser is expected to be "congruent," or compatible, with the product. For example, a basket ball player is likely to be effective in endorsing athletic shoes, but not in endorsing automobiles. On the other hand, a nationally syndicated auto columnist would be successful in endorsing cars, but not athletic shoes. All of them, however, could endorse fast food restaurants effectively.

Appeal approaches. Several approaches to appeal may be used. The use of *affect* to induce *empathy* with advertising characters may increase attraction to a product, but may backfire if consumers believe that people's feelings are being exploited. *Fear appeals* appear to work only if (1) an optimal level of fear is evoked--not so much that people tune it out, but enough to scare people into action *and* (2) a way to avoid the feared stimulus is explicitly indicated--e.g., gingivitis and tooth loss can be avoided by using this mouth wash. *Humor* appears to be effective in gaining attention, but does not appear to increase persuasion in practice. In addition, a more favorable attitude toward the advertisement may be created by humorous advertising, which may in turn result in increased sales. *Comparative advertising*, which is illegal in many countries, often increases sales for the sponsoring brand, but may backfire in certain cultures.

## Consumer Problem Recognition and Decision Making

Definitions. Consumer decision making comes about as an attempt to solve consumer problems. A *problem* refers to "a discrepancy between a desired state and an ideal state which is sufficient to arouse and activate a decision process." Thus, problems can be major (e.g., a consumer has been fired and is without a job) or minor (e.g., the consumer lacks an eraser necessary to take an exam the next day), and the broader and more ambiguous a problem is, the more potential solutions are generally available (see class slides for examples).

Consumer Problem Recognition. Consumers often note problems by comparing their current, or actual, situation, explicitly or implicitly, to some desired situation. In terms of the "big picture," what is compared may be the totality of one's lifestyle. Once a discrepancy is found, a determination is found as to whether this is large enough to warrant action, in which case a search for solutions is initiated.

Problems come in several different types. A problem may be an *active* one (e.g., you have a headache and would like as quick a solution as possible) or *inactive*-- you are not aware that your situation is a problem (e.g., a consumer is not aware that he or she could have more energy with a new vitamin). Problems may be *acknowledged* (e.g., a consumer is aware that his or her car does not accelerate well enough) or *unacknowledged* (e.g., a consumer will not acknowledge that he or she consumes too much alcohol). Finally, needs can be relatively specific (generic), as in the need for enjoyment (which can be satisfied many different ways), or specific, as in the need for professional attire to wear at a new job.

Several different methods can be used to detect consumer problems, which are discussed on pp. 508-509 in the text.

Creating problems for consumers is a way to increase sales, albeit a questionably ethical one. One way to create new problems, and resultant needs, is to create a new ideal state. This is often done quite arbitrarily in the fashion industry, as skirt lengths and the appropriate number of buttons on a suit often change arbitrarily up and down. It may also be possible to create dissatisfaction with current states--e.g., a firm may publicize current crime statistics to increase the sales of handguns and alarms. Many vocational training schools advertise that better careers than the consumer's current one are available upon graduation (a promise on which, by the way, they may not deliver in the end).

There are two main approaches to search. *Internal* searches are based on what consumers already know. Thus, it may be important for certain firms to advertise to consumers before they actually need the product. For example, one bail bond company advertised its existence to people "in case you ever find yourself in jail." As another example, if you decide to go out for fast food, you may not consult any directories, but instead search your memory for fast food restaurants conveniently located. A problem is that some excellent ones which are not remembered, or have never been heard of, are not considered. *External* searches get people to either speak to others (getting information by word of mouth) or use other sources (such as advertisements now sought out or yellow page listings). Because the yellow pages are often the first place to which people turn, this medium is able to charge very large advertising rates.

Consumers often do not consider all alternatives. Some are not known (the "unawareness" set), some were once known but are not readily accessible in memory (the "inert" set), others are ruled out as unsatisfactory (the "inept" set--e.g., Glad bags attempts to get "bargain bags" into that set), and those that are considered represent the "evoked" set, from which one alternative is likely to be purchased.

The amount of effort a consumer puts into searching depends on a number of factors such as the market (how many competitors are there, and how great are differences between brands expected to be?), product characteristics (how important is this product? How complex is the product? How obvious are indications of quality?), consumer characteristics (how interested is a consumer, generally, in analyzing product characteristics and making the best possible deal?), and situational characteristics (as previously discussed).

Two interesting issues in decisions are *variety seeking* (where consumers seek to try new brands not because these brands are expected to be “better” in any way, but rather because the consumer wants a “change of pace,” and “*impulse*” purchases. Impulse purchases are, generally speaking, unplanned, but represent a somewhat fuzzy group. For example, a shopper may plan to buy vegetables but only decide in the store to actually buy broccoli and corn. Alternatively, a person may buy an item which is currently on sale, or one that he or she remembers that is needed only once inside the store (remember the Wal-Mart article).

Slide #29 lists different approaches within advertising.

### Diffusion of Innovation

The diffusion of innovation refers to the tendency of new products, practices, or ideas to spread among people. Usually, when new products or ideas come about, they are only adopted by a small group of people initially; later, many innovations spread to other people. The bell shaped curve frequently illustrates the rate of adoption of a new product. Cumulative adoptions are reflected by the S-shaped curve. The *saturation point* is the maximum proportion of consumers likely to adopt a product. In the case of refrigerators in the U.S., the saturation level is nearly one hundred percent of households; it well below that for video games that, even when spread out to a large part of the population, will be of interest to far from everyone.

Several specific product categories have case histories that illustrate important issues in adoption. Until some time in the 1800s, few physicians bothered to scrub prior to surgery, even though new scientific theories predicted that small microbes not visible to the naked eye could cause infection. Younger and more progressive physicians began scrubbing early on, but they lacked the stature to make their older colleagues follow.

ATM cards spread relatively quickly. Since the cards were used in public, others who did not yet hold the cards could see how convenient they were. Although some people were concerned about security, the convenience factors seemed to be a decisive factor in the “tug-of-war” for and against adoption.

The case of credit cards was a bit more complicated and involved a “chicken-and-egg” paradox. Accepting credit cards was not a particularly attractive option for retailers until they were carried by a large enough number of consumers. Consumers, in contrast, were not particularly interested in cards that were not accepted by a large number of retailers. Thus, it was necessary to “jump start” the process, signing up large corporate accounts, under favorable terms, early in the cycle, after which the cards became worthwhile for retailers to accept.

Rap music initially spread quickly among urban youths in large part because of the low costs of recording. Later, rap music became popular among a very different segment, suburban youths, because of its apparently authentic depiction of an exotic urban lifestyle.

Hybrid corn was adopted only slowly among many farmers. Although hybrid corn provided yields of about 20% more than traditional corn, many farmers had difficulty

believing that this smaller seed could provide a superior harvest. They were usually reluctant to try it because a failed harvest could have serious economic consequences, including a possible loss of the farm. Agricultural extension agents then sought out the most progressive farmers to try hybrid corn, also aiming for farmers who were most respected and most likely to be imitated by others. Few farmers switched to hybrid corn outright from year to year. Instead, many started out with a fraction of their land, and gradually switched to 100% hybrid corn when this innovation had proven itself useful.

Several forces often work against innovation. One is risk, which can be either social or financial. For example, early buyers of the CD player risked that few CDs would be recorded before the CD player went the way of the 8 track player. Another risk is being perceived by others as being weird for trying a “fringe” product or idea. For example, Barbara Mandrell sings the song “I Was Country When Country Wasn’t Cool.” Other sources of resistance include the initial effort needed to learn to use new products (e.g., it takes time to learn to meditate or to learn how to use a computer) and concerns about compatibility with the existing culture or technology. For example, birth control is incompatible with strong religious influences in countries heavily influenced by Islam or Catholicism, and a computer database is incompatible with a large, established card file.

Innovations come in different degrees. A *continuous* innovation includes slight improvements over time. Very little usually changes from year to year in automobiles, and even automobiles of the 1990s are driven much the same way that automobiles of the 1950 were driven. A *dynamically continuous* innovation involves some change in technology, although the product is used much the same way that its predecessors were used—e.g., jet vs. propeller aircraft. A *discontinuous* innovation involves a product that fundamentally changes the way that things are done—e.g., the fax and photocopiers. In general, discontinuous innovations are more difficult to market since greater changes are required in the way things are done, but the rewards are also often significant.

Several factors influence the speed with which an innovation spreads. One issue is relative advantage (i.e., the ratio of risk or cost to benefits). Some products, such as cellular phones, fax machines, and ATM cards, have a strong relative advantage. Other products, such as automobile satellite navigation systems, entail some advantages, but the cost ratio is high. Lower priced products often spread more quickly, and the extent to which the product is *trialable* (farmers did not have to plant all their land with hybrid corn at once, while one usually has to buy a cellular phone to try it out) influence the speed of diffusion. Finally, the extent of switching difficulties influences speed—many offices were slow to adopt computers because users had to learn how to use them.

Some cultures tend to adopt new products more quickly than others, based on several factors:

- *Modernity*: The extent to which the culture is receptive to new things. In some countries, such as Britain and Saudi Arabia, tradition is greatly valued—thus, new products often don’t fare too well. The United States, in contrast, tends to value progress.
- *Homophily*: The more similar to each other that members of a culture are, the more likely an innovation is to spread—people are more likely to imitate

similar than different models. The two most rapidly adopting countries in the World are the U.S. and Japan. While the U.S. interestingly scores very low, Japan scores high.

- *Physical distance*: The greater the distance between people, the less likely innovation is to spread.
- *Opinion leadership*: The more opinion leaders are valued and respected, the more likely an innovation is to spread. The style of opinion leaders moderates this influence, however. In less innovative countries, opinion leaders tend to be more conservative, i.e., to reflect the local norms of resistance.

It should be noted that innovation is not always an unqualifiedly good thing. Some innovations, such as infant formula adopted in developing countries, may do more harm than good. Individuals may also become dependent on the innovations. For example, travel agents who get used to booking online may be unable to process manual reservations.

Sometimes innovations are *disadopted*. For example, many individuals disadopt cellular phones if they find out that they don't end up using them much.

### Consumer Decision Making

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Several different strategies for influencing consumer decision making are discussed in the text on pp. 537-541.

### Consumer Outlet Selection

Retail evolution and consumer choice. For many products, consumers frequently have numerous choices as to *where* they are going to actually obtain the product. Although we are used to thinking of buying automobiles only from dealerships, for example, it is today possible to buy them through brokers or fleet sales organizations that may

both (1) offer a lower price and/or (2) provide the help of a neutral third party which does not have a vested interest in the sales of one make over the other.

In general, the evolution of diversity in the retail scene has provided consumers with more choice. In the old days, most consumers had access only to "general" stores for most products. Gradually, in urban environments, specialty and discount stores evolved. Today, a consumer may generally choose to buy most products either at a relatively high price, frequently with a significant amount of service, in a specialty store, or with lower service in a discount store. A special case of the discount store is the *category killer*--a store that tends to specialize in some limited area (e.g., electronics), lacking the breadth of a traditional discount store often undercutting the traditional discount store on price (which they are able to do because of the bargaining power that results from high buying volumes of a narrow assortment of merchandise from the same manufacturer).

"At home" shopping and electronic commerce. During the last several decades, the incidence of "at home" shopping has increased. The growth of catalog sales can be traced to advances in computer technology and subsequent list availability (as we discussed in the section of direct marketing segmentation methods). A more recent development is Internet based marketing. Although sales are modest in this domain at the moment, it is too early to judge the total potential of this medium. Although many of the concerns that consumers hold about computer crime tend to be exaggerated and/or largely unwarranted, public fears are a major holdback. Another problem is the demographics of computer and Internet use--the majority of U.S. consumers, and certainly the great majority of residents of even highly industrialized countries, are not regular Internet users. Certain products specifically aimed at heavy Internet users (e.g., records, software) and products/services that require a high level of customization (e.g., airline tickets) may find good opportunities. An interesting problem with Internet commerce, which may well have spillover effects outside the realm of the Net, is the relative ease with which consumers may compare prices of different retailers, resulting in intense price competition. Note that recent legislation has limited taxation of Internet sales in the U.S., in a sense attempting to "jump start" this innovation.

Store positioning. Positioning of retail stores is essential. In general, stores *which excel on a significant dimension* seem to perform better--for example, Nordstrom's excels through its intense customer service, while Wal-Mart excels through its efficiency and low prices. (In a course on marketing strategy or retailing, you will probably discuss the issue of the importance of *balanced markets*--it is healthier if different firms have different strategies, so that everyone will not be competing intensely on the same variables). Stores which fall somewhere in between--e.g., Sears--tend to do less well since they get "stuck in the middle" and have to compete against both. Obviously, there is a limit to how strongly you can move toward one extreme. For example, if Nordstrom were to double its prices and even double its service, that position would be untenable, and certain extreme discount stores that offer lower prices than Wal-Mart tend not to be successful because they are ultimately not satisfactory to consumers.

### Public Policy Issues

Throughout the term, we have considered marketing practices which may harm consumers. Two main issues are (1) deceptive marketing practices (such as misleading advertising) and (2) the marketing of dangerous or otherwise harmful products (e.g.,

tobacco). The following are some ethical problems that occur in marketing, and the question arises as to which, if any, kind of government intervention is appropriate:

- *Marketing efforts may encourage excess consumption* (e.g., products that consumers cannot afford and do not really need). Note, however, that there are many gray areas--e.g., cosmetics, video games, and even something as politically correct as a gourmet coffee houses. A special case involves marketing to children, whose parents may be coerced, often out of guilt, to buy questionable items aimed at children.
- *Resource depletion and waste disposal issues associated with the above consumption.* Some European countries have mandated that manufacturers be required to take back packaging materials for their products.
- *Deceptive marketing practices:* Products claim benefits which really do not result from use of the product (as is done by numerous manufacturers of nutritional supplements); advertising may be misleading (may not indicate the true cost of a product up front or may contain "fine print" that the consumer is unlikely to see or understand)
- *Products are unhealthy* (e.g., many children's foods contain excessive fat)

Government action is often considered, although it may not always be effective. For example, although the government requires the use of warning labels on some products, manufacturers will often try to "water down" the warnings as much as possible. Further, the prevalence of warning labels today may desensitize consumers since reading all of them carefully would provide the consumer with information overload.

Another issue is anti-competitive behavior. Antitrust laws are generally aimed at prohibiting firms from conspiring to "fix" prices or collectively drop service levels. Antitrust law is, however, a "thorny" area. Consumers may benefit, for example, as some less efficient firms are driven out of business, and may benefit from the efficiencies which may or may not materialize when large firms "gobble up" smaller ones--a defense used in the Microsoft trial.

## Electronic Commerce

Online marketing can serve several purposes:

- *Actual sales of products*--e.g., Amazon.com.
- *Promotion/advertising:* Customers can be quite effectively target in many situations because of the context that they, themselves, have sought out. For example, when a consumer searches for a specific term in a search engine, a "banner" or link to a firm selling products in that area can be displayed. Print and television advertisements can also feature the firm's web address, thus inexpensively drawing in those who would like additional information.
- *Customer service:* The site may contain information for those who no longer have their manuals handy and, for electronic products, provide updated drivers and software patches.

- *Market research:* Data can be collected relatively inexpensively on the Net. However, the response rates are likely to be very unrepresentative and recent research shows that it is very difficult to get consumers to read instructions. This is one of the reasons why the quality of data collected online is often suspect.

There are many obstacles to the growth of e-commerce:

- *Reach:* Although the majority of U.S. households now have computers connected to the Internet, a very large minority does not, and penetration rates are considerably lower in some countries. In foreign countries, even those households that have computers may be reluctant to spend time online due to the per minute charges, which discourage the more leisurely "browsing" American style.
- *Concerns about privacy:* A number of consumers are concerned about giving up information to marketers that can easily be collected electronically. Naturally, few consumers would like information about their medical status widely collected by firms, but many consumers are even reluctant to have marketers know the ages of their children and past book purchase records.
- *Reputational issues:* Although not as much as a problem before, firms operating online or through direct mail have often been viewed with suspicion since consumers may question whether they will be around if they do not deliver satisfactorily.
- *Costs.* During the "boom," Internet firms were not expected to be efficient and thus developed bad habits. Although shipping and handling charges can help cover costs of shipping and administration, these often take away the attractiveness of Internet shopping. The most successful e-commerce firms turn out to be the ones that have been successful doing other kinds of direct marketing (e.g., catalog sales) before and have developed the discipline and efficiency required there. For products that have relatively high absolute margins—e.g., computers—there is more money to cover administrative costs.
- *Language.* Since the Internet reaches around the world, it is often difficult to match viewers with their preferred languages. Because U.S. firms and individuals tended to predominate among those first to occupy the Web, most sites are in U.S. English. British speakers of English generally do not perceive American English as American—they tend to perceive spelling such as "color" rather than their "colour" as misspellings. French consumers do not like to have to click to get from an English language to a French language site. It is estimated that by the year 2007, the majority of web surfers will not be comfortable in English and will want sites in their own languages.
- *Government regulations:* In the U.S., the government has tried to keep its hands off the Net as much as possible to foster its growth as a trade area, and a recently expired moratorium on new sales taxes was even instituted. However, governments in many other countries are more forceful in their regulations. In countries such as China, where sites can be used to spread "subversive" ideas, there is a great deal of government scrutiny and suspicion.
- *Cultural obstacles* are often severe. The whole purpose of the web is to make information readily available. In countries where information is closely guarded, that is a frightening idea. There is often also a desire for

personal interaction, which may be required to establish the trust needed to secure a deal.

- *Payment issues.* U.S. consumers exposed to credit card fraud have very limited liabilities, but these protections do not exist to the same extent in Europe or Asia. In China, much of the purpose of the Internet is defeated with some 80% of transactions being completed off-line, usually with funding instruments other than credit cards.

**Determinants of product suitability for Internet sales.** A number of characteristics of products and the way in which they are bought appear to affect the suitability of the product for sale on the Internet:

- **Bulk-to-value ratio.** If a lot of value is condensed into a small product, it is more efficient to ship directly. Products such as jewelry and software may fit this description.
- **Absolute margins.** There is a significant amount of work involved in handling an order. Even at a low 5% margin, a \$1,000 computer still yields an absolute margin of \$50, which will pay for some work. On the other hand, 50% of \$20 book is only \$10 to cover both shipping and processing.
- **Ability of consumer to evaluate product.** Consumers may feel the need to closely inspect or “pet” certain products—especially clothing—in order to determine quality or suitability. In contrast, certain other products can be more easily evaluated through descriptions—e.g., computer equipment.
- **Impact of delay.** Consumers may shop for certain products well ahead of when they are needed—e.g., a computer. Other products—such as printer cartridges—may be needed immediately and it will be unattractive for the customer to wait for delivery.
- **Extent of customization needed:** Certain kinds of products need customization—e.g., airline tickets or personalized stationery and shirts. Here, it may actually be efficient for the customer to enter the information, saving the work of a clerk. Please note that customization in the sense of making a computer exactly to order (with exactly the features the customer wants) is less likely to be cost effective. It might be cheaper to produce a number of standard models that have a little bit more than the customer wants (e.g., a bigger hard drive).
- **Opportunities for collaborative filtering.** Certain online retailers are able to make recommendations on merchandise likely to be of interest to the customer based on past purchases and purchases by other customers who have bought a similar item. Amazon makes extensive recommendations based on this technology.
- **Dispersion of shoppers.** If shoppers for a specialty product are widely dispersed, it may be unattractive for ordinary stores to carry products. For example, bee keepers are spread over large areas with just a few living within reach of a particular store. Here, it is not particularly efficient to serve the customer, but it becomes less inefficient than retail stores.
- **Receptivity of targeted segments to online commerce.** Some segments may be more comfortable buying online. For example, men may feel more comfortable shopping for certain gifts that way.
- **Level of convenience to shopper.** It may be more convenient for consumers to buy certain product online, and they may be willing to pay a premium for

this privilege. For example, it may be easier for a customer to rent a movie by mail than to have to pick it up and later return it.

There are a number of problems in running and developing web sites. First of all, the desired domain name may not be available—e.g., American Airlines could not get “American.com” and had to settle for “AmericanAir.com.” There is also a question having your site identified to potential users. Research has found that most search engines have a great deal of “false hits” (sites irrelevant that are identified in a search—e.g., information about computer languages when the user searches for foreign language instruction) and “misses” (sites that would have been relevant but are not identified). It is crucial for a firm to have its site indexed favorably in major search engines such as Yahoo, AOLFind, and Google. However, there is often a constant struggle between web site operators and the search engines to outguess each other, with the web promoters trying to “spam” the search engines with repeated usage of terms and “meta tags.” The fact that many computer users employ different web browsers raises questions about compatibility. A major problem is that many of the more recent, fancier web sites rely on “java script” to provide animation and various other impressive features. These animations have proven very unreliable. Sites may “crash” on the user or prove unreliable, and many consumers have found themselves unable to complete their transactions.

**Web site design.** The web designer must make various issues into consideration:

- **Speed vs. aesthetics:** As we saw, some of the fancier sites have serious problems functioning practically. Consumers may be impressed by a fancy site, or may lack confidence in a firm that offers a simple one. Yet, fancier sites with extensive graphics take time to download—particularly for users dialing in with a modem as opposed to being “hard” wired—and may result in site crashes.
- **Keeping users on the site:** A large number of “baskets” are abandoned online as consumers fail to complete the “check-out” process for the products they have selected. One problem here is that many consumers are drawn away from a site and then are unlikely to come back. A large number of links may be desirable to consumers, but they tend to draw people away. Taking banner advertisers on your site from other sites may be profitable, but it may result in customers lost.
- **Information collection:** An increasing number of consumers resist collection of information about them, and a number of consumers have set up their browsers to disallow “cookies,” files that contain information about their computers and shopping habits.

**Building traffic.** The web is now so large that getting traffic to any one site can be difficult. One method is search engine optimization, a topic that will be covered below. Other methods include “viral” campaigns wherein current users are used to spread the word about a site, firm, or service. For example, Hotmail attaches a message to every e-mail sent from its service alerting the recipient that a free e-mail account can be had there. Google offers a free e-mail account with a full gigabyte of storage. This is available only by invitation from others who have such e-mail [accounts](#). [Amazon.com](#) at one point invited people, when they had completed a purchase, to automatically e-mail friends whose e-mail addresses they provided with a message about what they had just bought. If the friend bought any of the same items, both the original customer and the friend would get a discount.

Another method of gaining traffic is through online advertising. Sites like Yahoo! are mainly sponsored by advertisers, as are many sites for newspapers and magazines. Individuals who see an ad on these sites can usually click to go to the sponsor's web site. Occasionally, a firm may advertise their sites in traditional media. Geico, Dell Computer, and Progressive Insurance do [this](#). [Overstock.com](#) has also advertised a lot on traditional TV programs. Conventional advertising may also contain a web site address as part of a larger advertising message.

Viral marketing is more suitable for some products than for others. To get others involved in spreading the word, the product usually must be interesting and unique. It must also be simple enough so that it can be explained briefly. It is most useful when switching or trial

costs are low. It is more difficult, for example, getting people to sign up for a satellite system or cellular phone service where equipment has to be bought up front and/or a long term contract is required makes viral marketing more difficult. Viral marketing does raise some problems about control of the campaign. For example, if a service is aimed at higher income countries and residents there spread the word to consumers in lower income countries, people attracted may be unprofitable. For Google's one gigabyte e-mail account, for example, there are large costs that may be covered by advertising revenues from ads aimed at people who can afford to buy products and services. Advertisers, however, may not be willing to pay for targets who cannot afford their products. It is also difficult to control "word of mouth" (or "word of keyboard"). Measuring the effectiveness of a campaign may be difficult. When a viral campaign relies on e-mail, messages received may be considered spam by some recipients, leading to potential brand damage and loss of goodwill.

**Online promotions.** One way to generate traffic is promotions. Many sites often offer new customers discounts or free gifts. This can be expensive, but sometimes, the gifts can be ones that have a low marginal cost. For example, once the firms pays for the development of a game, the cost of letting new users download it is modest. The U.S. army uses this approach in making a game available. To be allowed to use some of the "cooler" features, the user has to go through various stages of "basic training."

**Search Engine Optimization .** Many Internet users find desired information and sites through search engines such as Google. Research shows that a large proportion of the traffic goes to the first three sites listed, and few people go so sites that appear beyond the first "page" or screen. On Google, the default screen size is ten sites, so being in the top ten is essential.

Because of the importance of search engines, getting a good ranking or coming up early on the list for important keywords is vitally important. Many consultants offer, for large fees, to help improve a site's ranking.

There are several types of sites that are similar to search engines. Directories involve sites that index information based on human analysis. Yahoo! started out that way, but now most of the information is accessed through search engine features. The Open Directory Project at

<http://www.dmoz.org> indexes sites by volunteer human analysts. Some sites contain link collections as part of their sites—e.g., business magazines may have links to business information sites.

Several issues in search engines and directories are important. Some search engines, such as Google, base rankings strictly on merit (although sites are allowed to get preferred paid listings on the right side of the screen). Other search engines allow sites to “bid” to get listed first. Some sites may end up paying as much as a dollar for each surfer who clicks through. If a potential customer is valuable enough, it may be worth paying for enhanced listings. Often, however, it is better to be listed as number two or three since only more serious searchers are likely to go beyond the first site. The first listed site may attract a number of people who click through without much serious inspection of the site.

Some search engines are more specific than others. The goal of Google, Yahoo! and MSN is to contain as many sites as possible. Others may specialize in sites of a specific type to reduce the amount of irrelevant information that may come up.

Search engines often have different types of strategies. Google is very much technology oriented while Yahoo! appears to be more market oriented. Another major goal of Google is speed. Some sites may contain more content of one type than another. For example, AltaVista appears to have more images, as opposed to text pages, indexed.

**Search engine rankings.** The order in which different sites are listed for a given term is determined by a secret **algorithm** developed by the search engine. An algorithm is a collection of rules put together to identify the most relevant sites. The specific algorithms are highly guarded trade secrets, but most tend to heavily weigh the number of links from other sites to a site and the keywords involved. More credit is given for a link from a highly rated site—thus, having a link from [CNN.com](http://CNN.com) would count much more than one from the site of the *Imperial Valley Press*. On any given page, the weight given from a link will depend on the total number of links on that page. Having one of one hundred links will count less than being the only one. One source reports that the weight appears to be proportional so that one out of one hundred links would carry one percent of the weight of being the sole link, but that may change and/or vary among search engines.

**Types of search engines.** Some engines, such as Google, are general purpose search engines. Some are specialized. Some are hybrids, containing some directory structure in addition to search engine capabilities. Some “reward” sites such as [iwon.com](http://iwon.com) attract people by allowing them to enter a lottery when doing a search. Some sites are aggregator sites—they do not have their own databases but instead combine the results from simultaneous searches on other search engines.

**Text optimization.** It is important to repeat important words as much as possible subject to credibility. Search engines today are increasingly sophisticated in identifying “spamming” through frivolous repetition of the same words or early use of words that are not relevant to the main content of the site. Words that appear early in the text and on the index page will tend to be weighted more heavily. For some search engines, it may be useful to include common misspellings of a word so

that the site will come up when that spelling is used. For aesthetic reasons, many firms may object to having much text on the front page, but text may be put below the graphic elements—e.g., see <http://www.LarsPerner.com>. Some web site owners have attempted to include hidden text so that a search engine would find the desired words while the visitor would see something else. Some web designers, for example, would hide text behind a graphic, make the text in a very small font, and/or make the font color the same, or nearly the same, as the background. Other web site designers have made a “legitimate” site, only to have a command to move the visitor to another site when they go to the searched site. Search engines today are increasingly able to detect this type of abuse, and sites may be penalized as a result.

Early search engines relied heavily on “meta tags” where the web site creator specified what he or she believed to be appropriate keywords, content descriptions, and titles. Because these tags are subject to a lot of abuse, these no longer appear to be significant.

**Link optimization.** Many web sites engage in “link exchanges”—that is, complementary sites will agree to feature links to each other. It may be useful for a webmaster to ask firms whose content does not compete for a link. Sites should register with the Open Directory Project at <http://www.dmoz.org> since, if a site is classified favorably, this may help rankings.

**Domain names.** The domain name of a site may be significant in determining ranking. A site at <http://www.Marketing.com> may get a more favorable ranking, with the same information, than a site like <http://www.JoesHosting.com/users/jdoe/>. Google apparently counts a hyphen as a space, so [Marketing-Strategy.com](http://www.Marketing-Strategy.com) would carry both the words marketing an strategy. Using a hyphen is definitely preferable to using an underscore (e.g., [Marketing\\_Strategy.com](http://www.Marketing_Strategy.com)) or unseparated words (e.g., [MarketingStrategy.com](http://www.MarketingStrategy.com)).

There are many obstacles to the growth of e-commerce:

- *Reach:* Although the majority of U.S. households now have computers connected to the Internet, a very large minority does not, and penetration rates are considerably lower in some countries. In foreign countries, even those households that have computers may be reluctant to spend time online due to the per minute charges, which discourage the more leisurely “browsing” American style.
- *Concerns about privacy:* A number of consumers are concerned about giving up information to marketers that can easily be collected electronically. Naturally, few consumers would like information about their medical status widely collected by firms, but many consumers are even reluctant to have marketers know the ages of their children and past book purchase records.
- *Reputational issues:* Although not as much as a problem before, firms operating online or through direct mail have often been viewed with suspicion since consumers may question whether they will be around if they do not deliver satisfactorily.
- *Costs.* During the “boom,” Internet firms were not expected to be efficient and thus developed bad habits. Although shipping and handling charges can help cover costs of shipping and administration, these often take away the

attractiveness of Internet shopping. The most successful e-commerce firms turn out to be the ones that have been successful doing other kinds of direct marketing (e.g., catalog sales) before and have developed the discipline and efficiency required there. For products that have relatively high absolute margins—e.g., computers—there is more money to cover administrative costs.

- *Language.* Since the Internet reaches around the world, it is often difficult to match viewers with their preferred languages. Because U.S. firms and individuals tended to predominate among those first to occupy the Web, most sites are in U.S. English. British speakers of English generally do not perceive American English as American—they tend to perceive spelling such as “color” rather than their “colour” as misspellings. French consumers do not like to have to click to get from an English language to a French language site. It is estimated that by the year 2007, the majority of web surfers will not be comfortable in English and will want sites in their own languages.
- *Government regulations:* In the U.S., the government has tried to keep its hands off the Net as much as possible to foster its growth as a trade area, and a recently expired moratorium on new sales taxes was even instituted. However, governments in many other countries are more forceful in their regulations. In countries such as China, where sites can be used to spread “subversive” ideas, there is a great deal of government scrutiny and suspicion.
- *Cultural obstacles* are often severe. The whole purpose of the web is to make information readily available. In countries where information is closely guarded, that is a frightening idea. There is often also a desire for personal interaction, which may be required to establish the trust needed to secure a deal.
- *Payment issues.* U.S. consumers exposed to credit card fraud have very limited liabilities, but these protections do not exist to the same extent in Europe or Asia. In China, much of the purpose of the Internet is defeated with some 80% of transactions being completed off-line, usually with funding instruments other than credit cards.

As is the case with products and promotion in general, firms need to make choices as to how much they should customize web sites to work across various cultures. A recent study found that consumers in Italy, India, the Netherlands, Switzerland, and Spain showed a more favorable attitude toward web sites that had been adapted for the local culture. Generally, these consumers also reported higher likelihood of purchase, although the magnitude of this effect varied considerably among countries.

Levels of commitment and approaches to international web site presence varies (Siegel 2004). Some firms choose to maintain an exclusively domestic presence. These firms may feel that the work associated with branching out to other countries is not worth the potential returns. If customers in other countries are well served and geographical closeness to the customer is important, it may not be worthwhile to enter into other countries. There may also be considerable paperwork involved in obtaining licenses and other approvals to export and/or to serve customers in different customers. If a physical item is shipped, each individual shipment may also involve a greater deal of paperwork. Some firms choose to operate “passively” on the

international scene—they may take orders from foreign countries but will not actively seek them out. On the continuum between customization and standardization, “glocals” fall toward the customization side. These firms optimize sites for the local situation. “Globals,” in contrast, seek standardization. In practice, most firms need to strike a balance between the two. Singh and Pereira (2005—see also <http://theculturallycustomizedwebsite.com/>) offer suggestions for appropriate adaptations based on cultural characteristics.

**Cyber-consumer behavior.** In principle, it is fairly easy to search and compare online, and it was feared that this might wipe out all margins online. More recent research suggests that consumers in fact do not tend to search very intently and that large price differences between sites persist. We saw above the problem of keeping consumers from prematurely departing from one’s site.

**Dynamic pricing.** By having a record of a consumer’s past purchases, a merchant may be able to fine tune the prices charged—e.g., a consumer who has not bought for sometime may be tempted with a discount while loyal customers are willing to order at full price.

**Online market research.** Online surveys provide an opportunity to collect data from individuals. Often, individuals can be persuaded to fill out a questionnaire in return for some reward (e.g., some personals sites offer an “enhanced” listing in return for participation). An advantage of online surveys is that it is possible to tailor questions to a respondent’s earlier answers—e.g., if the person answers “no” to a question about having shopped for a car during the last six months, he or she is not asked how many dealers were visited. There are, however, some drawbacks to online surveys. One is that people typically are only willing to answer a few questions. Since turnover is quick, it is difficult to administer follow-up surveys to the same people. Also, respondents tend to be unwilling to read and follow instructions. Data mining involves looking for patterns in large amounts of data. For example, it was found that online daters in Portland were more receptive to heavy potential partners than were those in Miami. Some of these relationships, if not hypothesized in advance, may be the results of chance.