11

Issues and Trends (expanded)

Brands on the balance sheet, intellectual property, databases, information warehouses, intellectual capital, the ‘learning company’ – buzz words such as these all reflect the IT revolution’s far-reaching effects on business. Don’t underestimate it. But don’t be fooled by it either. Its profoundest effects are likely to be precisely opposite to those suggested by the new conventional wisdom.

The fundamental shift is not towards a so-called information age, but an imagination age. For all the breakneck advance of modern computing and communication technologies, what’s really driving commercial success – including the performances of companies – is not hardware and software, but ‘wetware’: people and their ability to ‘sense, judge, create and build relationships’.

Fundamentally, it opens up new dimensions for branding: What drives businesses internally increasingly sells them externally too. As customers seek out the people ‘behind’ the brand, the most powerful communication channel moves from media to flesh and blood contact with customers through day-to-day operations. Brands which lack this contact risk being seen as two-dimensional. For brands which have it, management becomes an altogether more all-embracing, challenging and fascinating task.

As we look at the world of business today, we see national borders blurring; suppliers and customers are everywhere. Lurking right beside them are our competitors. In business the race is not always to the swift, but that is the way to bet. The company that knows where customers are going and can supply them with the ever-changing needs of the trip in the twenty-first century will be the victor.

Product development for the twenty-first century will be most effective when the marketing, R&D, manufacturing and engineering functions cooperate and when they understand one another.

In the twenty-first century, marketing will experience as much pressure as the factory to improve productivity. Zero-defect principles applied to marketing’s processes offer the promise of re-engineering systems for the benefit of both the firm’s customers and its own sales and marketing work force.

As we approach the twenty-first century, the economic borders of the world are shrinking, and the need for competitive awareness on a global perspective has increased.

Ironically, marketing as we know it today could disappear as a distinct function with its own box on the corporate organisation chart.

The best days for the business marketing function lie ahead, but getting there won’t be half the fun. To prosper in the next millennium, companies serving business customers will face major changes in the way they go to market. Current trends have eroded the established role of marketing in the industrial firm, pushing it to the forefront of corporate business strategy. By the mid-1990s, down-sized corporate staff, leaner marketing budgets, global marketplaces, and parsimonious buyers forced smarter firms to adopt new tools for battling price erosion, channel discord, foreign competition and finicky customers. The future suggests that companies following the traditional model in years to come won't be around to see how it all turns out in the twenty-first century.

Robust fundamental issues help keep the field of marketing centred on its essentials and lessen susceptibility to distraction. The four fundamental issues have shown their versatility by guiding the field through past transformations. But what of the future? Will the non-linear, disruptive 'new economy', based on silicon, computers and networks, so change the ground rules these questions are no longer useful? Five themes are emerging that are especially salient to markets and marketing:

- The connected knowledge economy
- Globalising, converging and consolidating industries
- Fragmenting and frictionless markets
- Demanding customers and consumers and their empowered behaviour
- Adaptive organisations

Thus, the field of marketing should be pursuing many new directions as it starts the millennium.

(M) *Problem 11.1* PBM^2 Process-based marketing management

Introductory comments

The marketing function is in the middle of a revolution. A few years ago influential advisers like McKinsey and Coopers & Lybrand were arguing that marketing was in a 'mid-life crisis' or 'at the crossroads'.

In addition, a veritable army of trends, business buzz words and new concepts look set to transform the face of marketing. Recession and cost cutting was leading to the downsizing and de-layering of the marketing department. Business process re-engineering and Total Quality Management (TQM) would mean that the marketing department would be absorbed into horizontal processes such as order generation and order fulfilment.

Cross-functional team working would leave marketing increasingly as a secondary, support function. The rising importance of the delivery channel would prompt the increasing integration of sales and marketing. Internationalisation and global branding was forcing national marketing departments to cede their territorial powers to global centres of strategic brand management, leaving local marketers as mere tactical implementers. And, of course, the rise of pan-company marketing would end up with the diffusion of marketing across the whole company.

Looking back, it's easy to see that not all of these trends could come to pass: Many contradict each other. Yes, there have been some high-profile reorganisations. For example, Unilever subsidiary Elida Gibbs caused quite a stir when it abolished the role of marketing director and re-divided the marketing department up into brand development, innovation and category management.

Far from dying, brand managers (or to be more exact, product managers, who outnumber brand managers 10 to 1) are not only alive and kicking, but increasing their influence within the organisation: tradition rules OK.

Despite widespread talk about the downgrading of the product manager's role, the opposite appears to be happening. The revealed trend is one of increasing responsibility, particularly business or profit responsibility. This is particularly the case in industrial and business-to-business firms where it is pushing them towards the leading edge in terms of future developments of the role.

Much of the debate about 'the future of the marketing department' and 'death of the brand manager' has been FMCG centric. Later adopters of product management are seeing things turn out differently.

Many of the best performers are the ones who haven't taken their eye off the ball with reorganisations and restructurings but have simply continued doing a classical job classically well.

Many companies have introduced well-meaning vision and mission changes only to find their implementation stifled by traditional organisational structures which simply cannot get to grips with the changes that are needed.

However, there's an alternative explanation; that is, successful change is so damned difficult.

There's invariably a curve. Where major changes are involved it takes some time for people to understand it and accept it. This is especially the case if it could be construed as a paradigm shift. There is no single way forward or no obvious place for people to look for a model.

Revamping the marketing department may have turned out to be more difficult and more confusing than once it appeared, but it is still firmly on the agenda (Mitchell 1996).

Say goodbye to the old, dry, inward-looking distinctions between marketing subdisciplines such as advertising, direct mail and sales promotion. And say hello to the rich and fascinating world opened up by the new process view of marketing: the world or reputation management, solution design, brand experience delivery, customer acquisition and Customer Relationship Management (CRM).

Ever since the concept of process management – the idea that rather than flowing up and down functional department, decisions and actions should flow horizontally across an organisation from supplier inputs to customer outlets – hit business, the marketing department has been a prime candidate for re-engineering.

'Upstream' processes like New Product Development (NPD) begin to look very different to 'downstream' customer-facing activities such as customer service; strategic issues such as market segmentation and targeting find themselves separated from operational tasks such as pricing and promotions.

Traditional distinctions between product, service and delivery/distribution dissolve into new all-embracing concepts like 'customer solutions'. Familiar job titles disappear to be replaced by a bizarre assortment of new tags such as 'development manager, market to collection'; or 'manager, customer satisfaction, quality and re-engineering'. In short, the marketing department of old finds itself sliced, chopped and dispersed across the whole business.

Organisational boundaries are becoming less important. What are the hallmarks of the new process-driven business? One of them is an intense struggle to work out what it really means to be facing the customer.

For example, IBM has created a number of customer-focused business units. These include industry solution units which focus on the needs of larger customers within specific sectors such as banking or retailing, and which operate on a regional or even global basis; product sales units which specialise in particular technologies and a global services unit which is, effectively, a consultancy.

Two key points. First, each of them *does* their own marketing. They have their own budgets, and most activities of the traditional marketing department are dispersed across them, popping up as elements of customer relationship management.

Some specialist marketing units, such as IBM Direct (which works with segment managers to execute customer communication initiatives), and specialist training programmes like IBM's 'marketing profession'.

Second, the centrifugal tendencies created by myriad different business units have to be countered. For IBM, CRM is a part of the answer, designed to offer customers the full power of IBM's global resources. At the same time, the job of brand management and advertising strategy has been seized back by head office.

One by-product is that advertising is now all but completely separate from the marketing department. The marketing director now focuses primarily on sales channels plus a relatively small number of specialist marketing support functions, such as a fast-growing telemarketing operation.

Whether process-oriented structures will last is an open question. All of these companies stress the fluidity of organisational structures and job titles, and even though they have scattered much of the traditional marketing department's work across business units and processes, they all recognise the need for integration when it comes to branding and strategy.

One key issue is agility and flexibility. Another is the danger that processes also spawn their own inefficiencies. The development of marketing skill also remains a critical issue. New processes and new cross-functional teams could lead to the slow erosion of the specialist expertise that creates competitive edge.

All organisations are compromises, and processes are constantly developed and refined (Mitchell, 1996).

Problem – example (1)

Xerox's struggle to be customer focused has also led to the development of a number of product units, responsible for everything from NPD to final delivery of products such as printers or networked copiers. There are also special 'small-is-beautiful' customer business units whose task is to keep close to customers in relatively small geographical areas, or at a corporate level such as Siemens in Germany or Thomson in France. Getting the 'conversion layer' between production-oriented management decisions and customer-facing units is critical.

Xerox has four key processes: 'time to market', which is responsible for upstream product development including working out what the market wants; 'supply chain', which includes manufacturing and physical distribution; 'market to collection', which includes most other traditional operational marketing and selling activities, plus installation and after-sales administration and finally 'customer service'.

There are also supporting structures such as a management layer, and an infrastructure layer which includes market communications. And again like IBM, Xerox found the need to stop product and customer business units from becoming, as it were, *too* customer focused. Having experimented with dispersing the role of a strategic marketing planning group across these units, it has now recreated one because there is a marketing process which you can call integration. You need this sort of umbrella to make sure that market gaps are identified on one hand and that efforts are not duplicated on the other.

If we are going to segment our market and organise ourselves to deliver to those segments through different channels and selling cycles, we have to have a coordinating and integrating function. That is now a national-level activity organised on process lines: market understanding, channel management and planning and forecasting.

Problem – example (2)

Other companies, such as Xerox and Unipart, have struggled with many of the same issues – and come up with similar answers. Both of them, for instance, are devoted to the creation of pan-company marketing cultures focused on a single corporate brand which is managed centrally, and separately, from most other marketing activities.

Likewise, Unipart group chief executive John Neill is famous for his backing of the thesis that marketing is too important to be left to the marketing department.

Like IBM, both companies have also struggled with that it means to be customer facing. As a result, their marketing activities are now dispersed across a range of business units with the help of centralised strategic brand communication and tactical marketing support units. To face the customer in the best way, Unipart has created separate divisions, each with their own marketing departments. One focuses on relationships with major car company clients; a 'demand chain management' division offers integrated logistics services; and Unipart International is responsible for designing, developing, and marketing its branded automotive parts.

The core operational marketing activity for its spare parts business is now conducted not by a marketing department but by eight different 'cells' which bring engineers, purchasing staff and product managers together into cross-functional teams. These cells make key decisions relating to range, price, packaging, promotion and specification.

Questions

1 What is the main goal of PBM[2]?
2 What is the underlying reasoning behind the concept of process-based marketing management?
3 Name, and evaluate some of these critical 'break-the-mould' new management processes which would then be activated by new dedicated clusters of cross-functional teams within organisations.
4 What is the link between process-based marketing management and the construct of customer satisfaction?

(I) *Problem 11.2* The study of consumer behaviour trends and econographics

Introductory comments

HOW TO ANALYSE TRENDS: ECONOGRAPHICS

A new discipline to analyse the trends that will help companies build the right foundation for strategic plans is econographics. It monitors how the world and industries are changing and predicts how consumer behaviour will change as a result. Econographics provides a more complete picture of tomorrow's consumer than most trend analysis models used today.

Futurists, demographers and advertisers each claim that they can unlock the mysteries about tomorrow's consumers. Demographic predictions about consumer behaviour are based on the theory that new generations will respond in the same way as past generations. However, the predictions often ignore the influence of the changing world of today. For example, today's teens and young adults are tech-kings; boomers, the first credit-card generation, will continue to want instant gratification as they age. Advertisers claim that psychographics can provide us with better insights about tomorrow's consumers because consumers buy what they think they want, not just what they need. However, psychographics, like demographics, explains only one dimension of an increasingly complex, harder-to-know consumer.

Econographics monitor all the key drivers that influence behaviour: the economy, technology, globalisation, government, environment, demographics, the consumer psyche, wellness and retailing. When advertisers and marketers review this list they will question why their programs or campaigns are not on it. Tracking trends in each of the nine key drivers gives a macro, big-picture view of what influences consumer behaviour, such as whether beer sales will go up or down, and also how advertising and marketing programmes influence micro marketing.

The study of econographics should be the first step in the strategic planning process. It can also help establish the right platform before embarking on major marketing research initiatives. Without econographics, companies might focus on the wrong products and ask consumers the wrong questions. A manufacturer may dedicate all of its investment dollars to the middle class, even though this market will have less spending power in the years ahead. Questions asked of consumers now will not provide a true measure of how their needs are, lifestyles and attitudes will change once they become wealthier or poorer. Nevertheless, manufacturers need to know no what products will be in demand 5 or 10 years from now.

In a global world we not only have to show responsible behaviour as before but must also meet the challenge of a growing and generally increasingly wealthy world population. Given faster moving and more widespread international competition, we must move more quickly if we are not to be overtaken. We must be alert to the rapid pace and wide reach of innovation.

Therefore, globalisation means greater international competition, better buyer information and increasingly better logistics, which will bring more uniform and lower prices. To this we have to add a consumer who is increasingly better educated and far more sceptical. Consequently, brand loyalty is becoming harder and harder to maintain. We have to ensure that we know how to adapt to the rapidly changing environment and that we know our customers' main trends.

Consumer behaviour is undergoing continuous change. Consumers all over the world are becoming more affluent and have less time. Anticipating and responding efficiently and effectively to changing consumer needs in an increasingly competitive, global marketplace will be fundamental to the future success of our companies.

A detailed analysis of trends is the first step to arrive to our profit targets. That is why today most companies need to develop a disciplined approach to tracking the trends that will have an impact on their customers or clients.

The second step to success is to identify trends. We can do this with an analysis of the historical patterns, with an analyse of the changes that have already started, scheduling future changes, analysing the logical emerging changes or even analysing the changes that conflict with historical patterns.

The third step is to identify and analyse the main trends in our particular industry and in the global economy.

Finally, and after knowing the main trends in our industry in particular, and in the world in general, it is, therefore, important to analyse these trends before developing our strategic plan and for that we have econographics. It monitors how the world and industries are changing and predicts how consumer behaviour will change as a result. Econographics provide a more complete picture of tomorrow's consumer than most trend analysis models used today.

The concept of a 'consumer' is a century old. In an economy of scarcity, the challenge is to survive and fill basic needs. With increasing discretionary income, consumers became free to make choices about what and where to buy. Consumers became more powerful. And nowadays, with the development of new interactive media, consumers have become even more powerful.

Therefore, it is important to gain insight into consumer behaviour to help explain why people buy certain products and why they do not consider buying other products. Why do they buy at certain places but not at others? What do they do with the product/service after acquiring it, and how are preferences built?

Besides this, I would note four major developments in our economy that make managers think and act differently and faster. First, there is globalisation, which for companies means more markets, different markets, different customers and different competition. Second, we see that global oligopolies are replacing national oligopolies. Third, you have financial changes and a gradual move towards currency areas and 'passport currencies' such as the Euro which facilitate economic exchanges. Information technologies come fourth, encouraging efficiency, bringing ever-faster information on customers, suppliers and competitors, and facilitating purchasing pools and more efficient global supply and distribution.

All these changes in our actual economy make us understand how important it is nowadays to stay ahead, to know the main trends in consumer behaviour, to identify them, to analyse them and to evaluate them.

THE NEW WAVE OF CONSUMERS

Consumer behaviour is undergoing continuous change. Consumers all over the world are becoming more affluent and have less time. They are shopping differently, eating less formally and eating out more. Anticipating and responding efficiently and effectively to changing consumer needs in an increasingly competitive global marketplace will be fundamental to the future success of our companies. Understanding the forces driving changes in this new wave of consumers emerging is, therefore, critical. Hence, these are some of their main characteristics:

- Media junkies are emerging, speeding up new product penetration levels, but shortening product life cycle.
- There is a growing segment of control seekers who value their personal time.
- A new segment of ultra-sophisticates is emerging.

- Information-hungry consumers are on the rise.
- There is a new class of money emerging that values functional, everyday luxuries, rather than special occasions, traditions and history.
- Human contact is a growing need in our high-tech, high-speed world.
- There is a new breed of affluent and authoritative women emerging.

TRENDS IN CONSUMER BEHAVIOUR

Why would we have to evaluate trends?

Most senior executives today understand the important role trends play in their strategic direction. Yet most executives pay only cursory attention to these same trends. They follow predications of trends in their industry closely and read the news about how globalisation and technological innovations are changing our world. But while they follow what others foresee, they don't bother to analyse the trends that affect them. As a result, they seldom drill down far enough to discover how consumers will change and what impact those changes will have on their business. For example, the retail industry keeps track of whether consumer confidence is moving up or down, rather than how income shifts among the poor, middle class and wealthy will affect the very standards consumers use to evaluate merchandise.

A detailed analysis of trends often takes a backseat to the pursuit of profit targets. Yet by doing so, a company risks tomorrow's profits. Even when senior executives conduct a trend analysis, it often gets mired in the vast quantity of data that is available, especially from the Internet. That is why today, most companies need to develop a disciplined approach to tracking the trends that will have an impact on their customers or clients.

How to identify trends?

The next question, after understanding how important it is to evaluate trends in our strategic direction, is how to identify these trends?

The most common way of identifying trends is to analyse historical patterns. But to look around the world and observe the main changes of societies is another alternative. Thus, we have discussed some topics that are considered important in that any manager should not forget the following:

Changes that have already started. These are the changes that signal the emergence of an important trend. Sales and marketing research studies tracked over time are the most common information sources for this type of change.

Scheduled future changes. These provide valuable clues of emerging trends. For example, the deadlines set by APEC for completing agreements that affect half the trade of goods and services in the world – 2010 between developed countries and 2020 for developing countries – help confirm that we are only at the early stages of the transition to a global marketplace.

Logical emerging changes. These are the ones that are motivated by human nature, self-interest or the power and resources of key players, and are a logical outcome. For example, pharmaceutical companies, motivated by increasing profit targets, can be expected to introduce drugs that will improve the quality and length of our lives.

Changes that conflict with historical patterns. These are harder to uncover but important to watch for because they help identify new markets. For example, most people today are too busy and lack the discipline to adopt a healthy lifestyle. After all, French fries continue to top the list of menu items (source: CRFA and NPD Group of Canada). And yet more people will adopt a healthier lifestyle because the medical profession is now placing as much emphasis on preventing disease as it is on curing it.

Main trends in consumer behaviour

The prosperous 1990s created an indulgent society that had endless wants. Consumers became experience seekers as they focused on enjoying the pleasures of life on their home turf and anywhere in the world that suited their fancy. Their worst war was the tug of war between work and leisure time. With safety threatened and a recession looming, once confident and often arrogant consumers now embrace a back-to-basics outlook on life. They have become fort builders, as they hunker down until the storm passes, and are reassessing their priorities for how they save, invest and spend their money.

It is obvious already that the travel, tourism, accommodation and conference industries will be hit hardest as safety concerns override the quest for new experiences and the need for business travel. Also, consumers and businesses will throttle back their spending on large ticket items in these uncertain times. However, some businesses will fair well. Here is a list of how fort builders are likely to spend their money:

The reluctance to travel. This may be the saviour of the telecommunications industry as the demand for teleconferencing, Internet services and other telecommuting tools increases. Long-distance telephone calls and private jet services also ought to see an upsurge.

Investors will be much more risk averse. They now understand the meaning of the work risk. Cash, fixed income and blue chip dividend-paying stocks will be in favour. Bargain hunters will also be waiting in the wings for a broader range of securities once they see early signs of a recovery and an upper hand over terrorism.

TV ought to see increased viewership. This would benefit news, sitcoms and biographies, but viewers will lose their appetite for violence and reality television. Home videos, newspapers and magazines may also see an increase in demand as people spend more time in their fort. Marketers may achieve a greater return on their advertising investment.

It is back to basics for retail purchases. Family apparel necessities will still be in high demand, but high fashion may take a nose-dive.

A return to family values and traditions. This will turn Thanksgiving and Christmas into larger events. This is good news for retailers in what would otherwise be a softening forecast. Altruism is back so volunteerism and donations to charities will be higher priorities. Greeting cards ought to see an upsurge as the importance of families' increases.

Adding comfort to the family fort will be a higher priority. Small home repairs, decorations and home electronics will be in vogue, but not major renovations that require large capital outlays. Pets will continue to grow in popularity because they make the fort enjoyable.

Small indulgent luxuries. These may get a boost, as they did in the 1990–1991 recession, as consumers try to forget their troubles for just a while. Chocolates, flowers, wine and fragrances are poised for an increase. However, large indulgent luxuries, such as a day at the spa or a new luxury vehicle may not make it to the top of consumers' priority list. Although some consumers will postpone their purchase of a new car, the demand for auto repairs will increase as more people choose to drive than fly.

Grocery stores. These may gain over the restaurant industry in share of food expenditure as consumers spend more time in their fort. Casual and fine-dining restaurants will be hit hardest, but lower-priced family and quick-service restaurants ought to see business as usual.

Safety will be a higher priority. Therefore, home security systems, security guard services and cellular phones will see an increase in demand.

While we are in very uncertain times, what is certain is that fort builders will spend their money very differently than experience seekers. Tracking and responding to trends in your industry will be necessary to avoid disaster.

Problem

INFLUENCING CONSUMER BEHAVIOUR TOWARDS SUSTAINABLE TOURISM

An Asian proverb says, 'Tourism is like a fire; you can use it to cook your soup, but it can also burn down your house.' On every continent there are now several houses burned almost beyond recognition.

From a sustainability perspective, feeding tourist fantasies and demands for familiarity and comfort is a costly business.

In the typical destination area, the natural ecosystem is levelled, paved, and then landscaped with lawns and a handful or two of nursery-grown tree and flower species; landmarks and neighbourhoods central to the local community's sense of place are replaced by cookie-cutter hotel and recreation developments; scarce water is diverted for swimming pools and tourists' long, hot showers. Ecological thresholds are routinely crossed, and in many destinations, international human rights standards are daily violated. Indigenous peoples are particularly vulnerable to market-driven tourism, losing their customary lands and resources, religious freedom, and ultimately their cultures and capacity for self-sufficiency. Women and children are also at high risk, where tourism economies are built upon exploitative labour practices, and where sex tourism occurs.

The average consumer resists acknowledging this dark side of tourism. The apathy stems from promoting individualism, with purchasing power the measure of success. However, our consumer-savvy business and political systems also reinforce it. Both, together with the media, deliver abbreviated interpretations of global crises, alleviating any direct sense of complicity. Consequently, there is little impetus for consumers to address in any meaningful way the exponential costs of tourism like climate change or the loss of biological and cultural diversity.

Most consumers are ignorant of the connectedness between ecosystems and human activities, and related issues like equity; we live in a monetary society, often removed and detached from the places and people that sustain us. Tourism, involving a highly buffered and short-term experience of other locales, tends to reinforce this insular perspective. As tourists we can play and then leave, remaining isolated from any negative impacts at the local level. We can suspend common sense and codes of conduct, without being accountable for what is damaged or who is hurt.

The problems associated with market-driven tourism are well documented. These problems include the following:

The distorted notion of rights among consumers. Vacation time is legislated and compensated for, making travel a right as opposed to a privilege in the mind of most consumers. Yet the tourism industry generates vast pollution and waste, eroding the health and food security of not only local communities, but also present and future generation's worldwide as hydrological cycles and other ecosystem processes are irreversibly altered. Furthermore, it caricatures and commercialises indigenous cultures and traditional lifestyles, to provide consumers with the desired 'exoticism'. In these instances, there is rarely informed consent or benefit sharing; therefore, where poverty is prevalent, locals have little recourse against consumer demands or industry-controlled terms of trade.

The wilful ignorance of consumers. Tourists generally disregard the need for behavioural change if the proposed cutbacks would threaten their own access to luxuries. The majority view vacationing as an opportunity to sample a lifestyle more lavish than their own, regardless of whether either level of consumption is sustainable. Illustrating this trait is tourist's resistance to seeing the dynamics that facilitate 'affordable' travel in some destinations; most seek out cocoon environments to avoid confronting questions like what constitutes a 'fair' exchange. Only about 5 per cent of tourists seek out explicitly educational travel opportunities.

The high demand for affordable travel. While household incomes are declining, industry sales projections continue to grow, indicating not only 'business as usual', but an increasingly competitive business environment. In this age of warehouse and catalogue merchandising, the consumer mind is set on discount prices and 'buy now/pay later' options. This attitude poses a serious threat, given that industry prices already lag far behind any realistic accounting of tourism costs and impacts. The 1 per cent profit margin of most tour companies precludes much 'giving back' to communities and ecosystems.

The prevalence of 'unsustainable' products. Although 60 to 70 per cent of participating in consumer surveys typically profess a willingness to pay more for 'sustainable' products, most will only selectively change their spending habits. Tourism, marketed as escapism, is an area where such pledges are highly inconsistent. The so-called ecotourist will normally take a short 'ecotourism' excursion within a larger mainstream holiday. Alternatively, she or he will buy a costly safari that supports local parks and conservation initiatives, and then for the next trip book a generic holiday to Palm Springs or Hong Kong. The desire for prestige or adventure is more of a factor in such consumer purchasing patterns than altruism.

The absence of effective regulation. Tourists shopping for escapism generally abide by one fundamental consumer ethic: receipt upon payment. Consumer advocates like the Better Business Bureau may intervene where inferior customer service is delivered. However, the sustainability of corporate practices is self-regulated. This conflict of interest within industry, and consumers' low awareness of tourism impacts, have led to widespread abuse of 'green' labelling on the market.

The misrepresentation of 'ecotourism'. Consumer demand for ecotourism is growing at 3 to 4 times the pace of regular tourism. Although much promise initially surrounded the ecotourism concept, most ecotourism today is merely a market brand, with the same damaging characteristics. In fact, ecotourism impacts can be even more acute due to the ecologically and culturally sensitive areas targeted. As a result, most ecotourism destinations face ruin within near future. Consumers, meanwhile, become de-sensitised to what constitutes a viable ecosystem or community.

With tourism ranking as the world's largest industry, and tourism business thriving on the basis of high-volume sales, the well-documented impacts of tourism are now haunting the industry itself. Coastlines in parts of the Mediterranean, the Caribbean, and Hawaii are so polluted from over-use that swimming poses a serious health risk. Golf tourists are contracting illnesses from the chemicals heavily used for pest and weed control. It is this spill-over of impacts into the realm of the tourist and tourism businesses that has brought visibility to the need to influence consumer behaviour towards more sustainable tourism. Neither industry nor governments readily responded to concerns or needs expressed by local communities, though these communities constitute the 'early warning systems' for unsustainable tourism.

Example

CONSUMER BEHAVIOUR IN FOODS

Consumer behaviour is undergoing continuous change. Consumers in the United States and Europe are becoming more affluent and have less time. They are eating less formally and are eating out more. Their eating and shopping habits are being reflected in corresponding changes in eating and shopping venues. Anticipating and responding efficiently and effectively to changing consumer needs in an increasingly competitive, global marketplace will be fundamental to the future success of the Irish food and drink industry. Understanding the forces driving changes in consumer behaviour is, therefore, critical. Among the key drivers that lead to changes in consumer behaviour are the following:

Health, including food safety. Concerns about food safety have been highlighted by continual media attention on food scares. Similarly, changing lifestyles are accompanied by an increased awareness about diet and health – 'You are what you eat';

Convenience consumers. This type of consumers have less time and less developed culinary skills. Changing household structures, with more single-person households (the proportion of single households in the United Kingdom has doubled to 28 per cent since 1961 and is expected to grow to a third in 10 years time) and increased participation by women in the workforce, are combined with a faster pace of life involving less formal, more frequent and individual eating occasions at more and more different locations.

Indulgence. The 'sensory experience' is increasingly becoming a major changing force of an even more demanding consumer. A wider exposure to international cuisine and ethnic diversity is fuelling the choice available to consumers. Busy lifestyles justify the need for comfort and reward and provoke a greater sense of adventure in the eating experience. Overall, consumer eating and shopping habits are being reflected in changes in eating and shopping venues.

Value for money. As consumers grow more discerning about quality, they also continue to seek out better value. This is reflected in the growth of discounting in Europe, the development of value lines by mainstream retailers, and price promotions competing with everyday low prices. The share of personal consumer expenditure on food in Ireland has halved, to 13 per cent, over the past 20 years, and competition for the Food Pound was never more acute. Consumers are, of course, not homogeneous, and the concept of the average consumer is increasingly less relevant. The traditional approach to segmenting consumers along demographic lines (e.g., the ABC1s) is being replaced by criteria that more accurately reflect changes in lifestyle and in society. Lifestyle segmentation, for example, documents the progress of family formation from the DINKYs (double income, no kids) to the *pester power* of children, to the *empty nesters*. Similarly, increasing media attention on how food is produced, further heightened in the light of BSE (bovine spongiform encephalopathy or, more generally, mad cow disease) and Foot and Mouth disease, highlight potential conflict in consumer choice between green and natural on one hand and cheap food on the other.

Routes to market. Food suppliers have a range of routes to market to choose from in order to access the consumer. Notwithstanding the pressures to achieve ever-increasing efficiencies in the food chain, the interface with the consumer is being concentrated on one hand and fragmented on the other. Retailers and foodservice operators are concentrating and internationalising. At the same time, the range of shopping and eating venues is increasing. From petrol forecourt to the Internet, and from sandwich bars to book shops, consumers have the opportunity to shop and eat wherever they happen to be. Choosing and serving the appropriate route to market, whether retail, foodservice, ingredients or e-tailing, requires adherence to a set of business and marketing disciplines which share some common features but many important differences. For the agencies supporting the sector, as much as for the companies themselves, evaluating the key trends and implications of the different routes to markets, and shaping and coordinating programmes accordingly, is fundamental to supplying a consumer- and market-oriented approach to development.

Questions

1. Define the concept of econographics.
2. Discuss and elaborate your ideas with regard to trends in consumer behaviour when applied to the critical and emergent field of sustainable tourism.
3. What specific policies and strategies could be developed by key stakeholders and partners when confronting the impacts of tourism and its sustainability?

(A) *Problem 11.3* Prosumption

Introductory comments

TRANSACTION PERSPECTIVE: BUYING AS INVESTMENT AND PROCUREMENT AND CONSUMPTION AS DEPLETION

Traditionally, the consumer has been viewed as a buyer who acquires a ‘bundle of benefits’ created and made available by manufacturers and middle mend in the value chain. The value of this bundle of benefits is at its maximum when the offering embodying the value is made available. Buying activities can be conceptualised as consisting in investment and procurement activities that allow the acquisition of the good and, in some instances, may represent certain self-sacrifice (Miller 1998). Because the resources required for investment (money) and the acquisition (primarily time and transportation costs) represent sacrifices on the part of the buyer, which do not add to the value of the offering, any rational consumer should minimise their magnitude. Because resources spent on the procurement activities are not retained in the value of the offering, they will reduce the total value at the point of transaction. Thus, the marketer can increase the total value by either offering 'good value' and/or by facilitating the procurement activities. The value present at the point of transaction is in most cases subject to depreciation over the consumption period due to decay (as in the case of housing) or depletion due to consumption. In certain situations the value can increase, but primarily due to properties of the good (e.g. wine that needs ageing) or market forces (the offering becoming more abundant/rare or more or less popular over time). In some instances, the value may increase or decrease over the consumption period due to unforeseen changes in the consumer's own values and preferences. Uncertainty stems first of all from the product (functional uncertainty) and the market place and can be lowered by means various types of guarantees and warranties. The outcome resulting from the bundle of attributes acquired is under high degree of volitional control (Howard and Conway 1986), as the outcome is determined by information and values, more than will power and competencies over which the consumer may have less control.

Value in the sense used here resides in the object of transaction and in the sacrifices necessary to procure the offering. The decision to acquire an offering is typically assumed to be based on considerations of 'give' and 'get'. What do I have to contribute in terms of monetary and non-monetary values to obtain the value inherent in the offering? The search for a precise definition of value has proved an enduring endeavour for a wide range of philosophers and researchers. Zeithaml (1988) reviews this literature extensively and identifies four common uses of the term: value is low price; value is whatever I want in a product; value is the quality I get for the price I pay; value is what I get for what I give. She argues that these four expressions of value can be captured in one overall definition: perceived value defined as the consumers' overall assessment of the utility of a product based on the perception of what is received and what is given. She further specifies that the benefit components of value include product attributes, perceived quality and other relevant higher-level abstraction. The sacrifice components of perceived value include monetary prices and non-monetary prices, as shown in Figure 11.1.

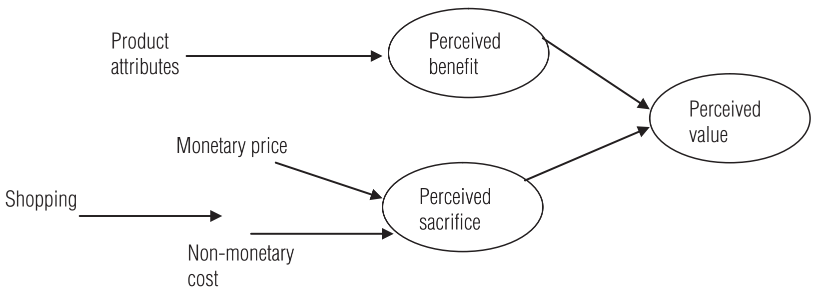

Figure 11.1 Perceived value under the transaction perspective.

Consumers' perceived value of purchasing a product will be an overall utility assessment based on the trade-off between the benefit components and sacrifice components. Zeithaml's definition of perceived value is consistent with what we can label an economic view. From an economic perspective, the benefit components of perceived value come mainly from product attributes. And the sacrifice components of perceived value include both monetary prices and non-monetary prices (e.g. time and energy).

The use of 'attitude' models like 'attitude toward the object' is typical for the transaction perspective (Fishbein and Azjen 1974). Value resides in the attitude object itself. In order to account for the influence of situational and contextual constraints on the value of acquiring the object, attitude-toward-the-act models can be employed as well.

The 'transaction perspective': Manufacturers and distributors add value to their products before making them available to consumers, so curve 'a' increases at this stage. When the product is available in the market, consumers will form an overall utility assessment based on the trade-off between the benefits that can be provided by using the product, the price they need to pay and the costs associated with procuring the offering. Consumers' expense of time and energy is treated as a sacrifice component of perceived value; thus, this curve decreases during the shopping process. According to curve 'b', consumers' perceived value at the point of purchase consists of two components, V1 and V2. The component V1 is the perceived value based on the trade-off between benefits provided by using the product and the price needed to pay, which is consistent with the economic view of perceived value. The component V2 is the perceived value based on the trade-off between the benefits provided by shopping activities and the non-monetary price (e.g. time and energy) that consumers need to pay. V2 can be further divided into utilitarian shopping value and hedonic shopping value. The utilitarian shopping value is realised when the needed product is obtained. The hedonic shopping value is realised when the needed product is obtained. The hedonic shopping value results from the immediate personal gratification derived from the emotional and psycho-social benefits and entertainment provided by shopping experience (see Figure 11.2; Bellenger, Steinberg and Stanton 1976).

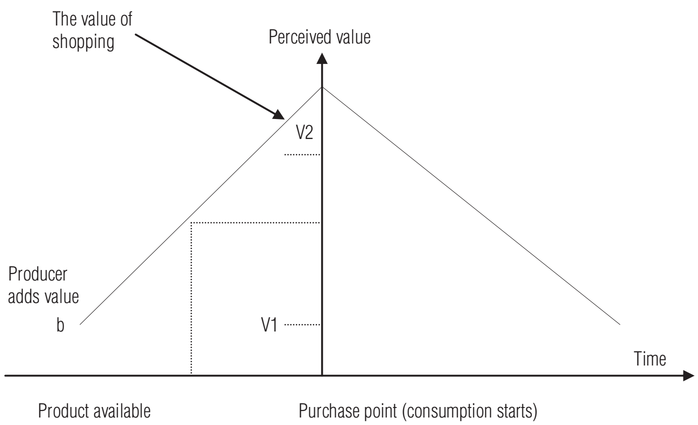

Figure 11.2 Buying as investment and shopping as pleasure.

The prosumption perspective

Most products require some activity on the part of the consumer to provide value: Chewing gums need to be chewed; cars need to be driven, maintained and serviced to provide the benefits desired; food items have to be assorted, combined, transformed and presented in order that nutritional and psycho-social values of various kinds can be produced. Thus, the buyer is, as coined by Alvin Toffler (1980) in his book, *The Third Wave*, not just a consumer, but a 'prosumer' who has to produce in order to be able to consume. The transition from consumption to prosumption is both required and facilitated by modern technology and production methods. Furniture and computer companies often require self-assembly (e.g. IKEA and Dell). Just-in-time production principles allow car buyers to not just choose among finished alternatives, but to participate in 'designing' and customising vehicles prior to delivery. Household versions of industrial production tools allow the consumer to make their own caffe cream, pasta, bread, music CDs and furniture and allow them to engage in a variety of other productive activities.

Prosumption activities thus are both required and facilitated by marketers. From the perspective of the consumer they are desirable and constitute an important aspect of quality of life. Prosumption allows the consumer to produce benefits and values over and beyond those that are passively contained in the tangible products. Through prosumption consumers can use a car to deliver transportation. Furthermore, according to Douglas Holt (1995), activities that consumers enact can enhance their own self-image, communicate their identity to others, can be enjoyable for their own sake and allow consumers to share experiences with others. Just as shopping enables consumers to acquire products, so does self-production enable consumers to extend the production and value chain to generate benefits. As shown in Figure 11.3, the value of self-production can be represented by V3.

At the point of consumption, consumers' perceived value consists of three components, V1, V2 and V3. V1 and V2 are perceived values based on the product itself and consumers' shopping experiences, as we discussed above. The component V3 is the perceived value based on the trade-off between benefits provided by self-production

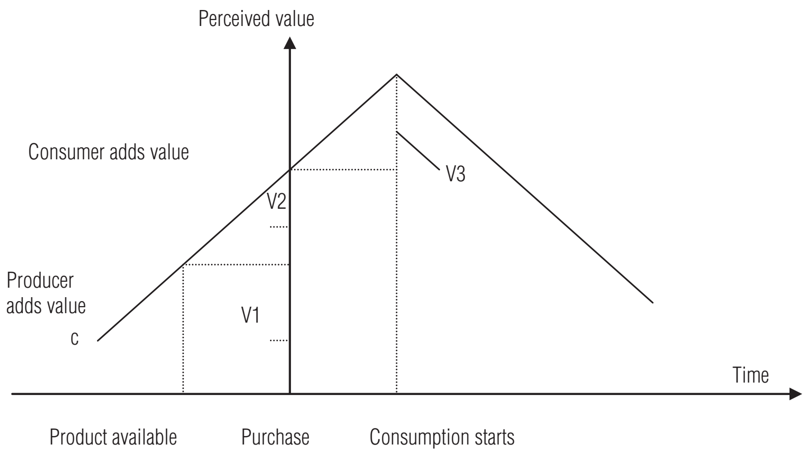

Figure 11.3 Prosumption perspective on consumption.

activities and the non-monetary price (e.g. time and energy) that prosumption requires.

Like the value of shopping, the value of self-production V3 can also be utilitarian and hedonic. Cooking requires shopping, assorting, combining and preparing before consumption. The whole process can provide both utilitarian (nutritional) and hedonic value for consumers and can lead to personal gratification and self-fulfilment. The psycho-social value of a happy meal may never depreciate totally, and we may expect that V3 has a different decaying curve than V1. For a comparison of the prosumption perspective and the two others, please see Figures 11.1 to 11.3.

Paradoxically, the more activity required by the consumer to produce desired outcomes, the lower the degree of volitional control. The reason for this is that self-production may require will power, competencies and self-efficacy (Bandura 1977, 1997), which is beyond the control of the person. For this reason, prosumption may be a question of 'trying' more than a question of enacting specific behaviours with known and foreseeable outcomes (in contrast to what is assumed under the transaction perspective). Thus the 'Theory of Trying' suggested by Bagozzi (see e.g. Bagozzi and Warsaw 1990, 1992; Bagozzi and Dholakia 1999) may be a suitable starting point for a theory of prosumption. We believe the approach suggested by Bagozzi may be useful for a long range of goals and activities. A series of shopping and prosumption activities may be initiated to accomplish goals that are not automatically realised, such as being a good parent, becoming (and being perceived of) as a gourmet, connoisseur or a specialist of some sort, being a green consumer and so on.

The prosumption perspective has a number of important implications and challenges for marketing and consumer research, for what we do and how we think: The emphasis on processes rather than just material substance on ultimate goals more than concrete product attributes will tend to 'detangibilise' our concept of a product and make it less well defined as an object of scrutiny. The 'true' end-product moves from the shelves of the store to the brains of the consumer and a highly standardised offering can become an almost trivial and hardly recognisable element in a unique experience. Rather than explaining and predicting single acts, the researcher must focus on series and patterns of acts. The pedagogical role of marketers change from being just mass communicators to becoming instructors and advisers in the prosumption process. Marketing may also transcend its traditional boundaries as a field and allow other disciplines to transcend its own. Human resource management may become a part of marketing and prosumers an area of its subject matter.

Problem – example

Three perspectives contrasted

	Transaction perspective	*Transaction and shopping-as-pleasure perspective*	*Prosumption perspective*
View on value creation	Value is created by • Manufacturers and middlemen Value chain does not include buyer	As for transaction perspective, in addition to hedonic shopping experience, it provides value	As for 'transaction and shopping-as-pleasure perspective' in addition to the following:

	Transaction perspective	Transaction and shopping-as-pleasure perspective	Prosumption perspective
			• self-assorting • hedonic aspects of self-production • functional/utilitarian aspects of self-production
Reasons for value-appreciation during consumption	Product: • gets rare or in higher demand • becomes more valued by the buyer over time • becomes more mature		As for transaction perspective in addition to: • hedonic and utilitarian aspects of self-production
Reasons for value-depreciation during procurement and consumption	Value depreciates due to the following: • shopping effort • ageing • consumption and depletion • lower demand • higher supply • decreasing valuation by the buyer		As for transaction perspective in addition to: • sacrifices required by self-production
Sources of decision uncertainty	• Availability and quality of product • But also problems of future need assessment		As for transaction perspective in addition to: • self-efficacy and competences
Volitional control over outcome	High degree	• Low for shopping experience	• Low degree
Application of perspective	• Investment goods • Products that are not changed or transformed by consumer	• Products in which consumers become emotionally involved	• Goods that require transformation or that have to be combined with others to yield benefits • Goods that allow expression of identity and self-expression
Concepts and models to account for consumers' decisions	• Attitude • Attitude towards the object or act		• Satisfaction • Self-efficacy • Behavioural control • Self-fulfilment • Theory of trying or goal pursuit
Conceptualisation of product	• Tangible objects that embody observable attributes	As for transaction perspective in addition to: • shopping experience as separate dimension	• Intangible 'end-product' in the consumer's mind that reflect processes, relationships and tangibles

Questions

1 What are the benefits and advantages of prosumption from the consumers' point of view?
2 Discuss some of the main implications and challenges for marketing and consumer research derived from the trend towards prosumption.

3 What are the critical differences between the transaction, transaction and 'shopping as pleasure', and prosumption perspectives in terms of volitional control over outcome and conceptualisation of product?

(I) *Problem 11.4* Elastic brands

Introductory comments

Point of purchase (POP) material is becoming ever more innovative, with fiendishly clever ways of dispensing sights, sounds and even smells to attract shoppers who are increasingly 'time starved'.

Few consumers are now 'browsers': Most want to get their shopping done as quickly as possible at the best possible price.

Talking brands. Interactive kiosks allow brands-impregnated supermarket shelves with 'soundtron' devices to communicate with consumers. Schweppes aroma to encourage shoppers to buy.

Lucy Lynch, Marketing Director, Coutts Retail Advertising, says, 'Much has been written about the power of signpost brands to cut through the subconscious and help shoppers navigate a store and category. POP extenuates the role of signpost branding by shouting even louder across the store.'

Design and brand consultancy firm Fitch recently did research which showed that 95 per cent of us are under more time pressure than we were three years ago. So when Schweppes asked the agency to design POP for its tonic water, the agency knew it had to draw people in quickly and remind them instantly of the brand's established values.

It used yellow paper shelf strips impregnated with lemon scent, confident that the lemon aroma would not only refresh weary shoppers with thoughts of a cool G&T, but would reflect the distinctive yellow packaging of Schweppes tonic water in the over-crowded shelf environment.

Keep it simple

Field marketing company FMCG calls it merchandising the advertising, making sure that brand values are reflected at the point of purchase. Client service director Russell Green explains: 'The brand must be available, at the right price and at the right time-and its message has to be simple and clear to make it easier for the customer.' But he has a warning for clients who see whizzy technology as the beginning and end of POP:

> Point of sale material is becoming ever more sophisticated and technological. But the more complicated it is, the less likely it is to get used to unless companies like ours go in and set it up for the retailer. We ask clients to keep it as simple as possible and to emblazon point of sale packaging with use-by dates and logos or else it will get left at the back of the warehouse or consigned to the skip.
>
> We urge clients not simply to invest in POP in a way that will merchandise the advertising, but to carry their concern one step further and ensure that the point of sale actually get used. Packaging disasters can thwart the most brilliantly innovative POP.

Many companies are now investing in 'retail theatre' and roadshow events to engage customers and give them an opportunity to try out the brand, which can be particularly important with hi-tech products.

Specialist field marketing companies such as EMSChiara can both introduce technological products to the consumer and also train retail staff to demonstrate and sell authoritatively. EMSChiara have spent the past few months introducing customers to BT's new ADSL fixed line at events like the Farnborough Air Show.

The EMSChiara team member asks the consumer various questions to find how the 'sales pitch' can be individually tailored to be most relevant and persuasive. This investment from BT is the 'soft launch', a way of demonstrating a complicated product to individual customers so that they can experience the product benefits (in this case the speed of data transfer) in a one-to-one situation.

Appropriate retail theatre has great value for all brands: 'Sampling and roadshows give people a positive and memorable brand experience. Independent stores, for example, have far too many products on display and brands need to create a real point of difference.'

Retail theatre can achieve that – and the retailers love it as well because they perceive they are getting something for nothing. If we go in and merchandise their stock-even doing something as basic as dusting the cosmetic displays – it frees up their staff to engage with customers.

At a glance

- The average consumer spends 11 seconds choosing a brand.
- Brand values need to be reflected at point of purchase.
- Sampling and roadshows provide a memorable brand experience.
- The integration of on- and off-line marketing is the future of CRM.

Most people are no longer loyal to one single brand and it is our job to make sure that our clients' brands are the ones that get chosen at the point of purchase. Because the face of the brand is so important, we profile our people to match the client profile so there is a seamless integration.

Most retailers welcome any help that manufacturers can give them to increase traffic and sales, whether it is in the form of innovative POP or of new customer relationship management (CRM) techniques that are revolutionising the shopping experience.

Inter-Act has installed kiosks in 700 Boots and Sainsbury's stores as part of the chains' respective loyalty schemes. Boots reports an increase in counter sales of 5 per cent in stores with kiosks, while Sainsbury's believes that kiosks add 1 per cent onto sales – or, in real language for a group as big as Sainsbury's, £100 million turnover every year.

In addition, says Inter-Act's managing director Peter Kelly, kiosk coupon redeemers spend 36 per cent more, shop 20 per cent more often and 23 per cent more broadly. He adds that 65 per cent of shoppers would rather visit a store with kiosks than one without because they perceive a genuine consumer benefit.

That benefit, of course, is not just in specially targeted offers but in 'soft' benefits such as the feeling that the store cares more about its customers, wanting to find out more about them and their needs.

This type of CRM appears to be a win-win situation: The store generates more traffic; the brand owner finds out more about customers and potential customers who, in turn, get the benefit of special offers and trials relevant to them.

Specifically, the kiosk enables manufacturers to promote brands to consumers right at the point of purchase and, if their promotional 'slots' are well branded, to maximise the investment they have already made in the other elements of the marketing mix.

Direct relationships

Field marketing companies have broadened their activities to cover the newer elements of relationship building between brand and consumer. FMCG's Russell Green, for example, reports that his agency is now often asked by dotcoms to sign up clients to their online networks.

And Spencer McHugh, Head of Planning, at relationship marketing agency MBO, adds: 'We get involved in all areas of direct relationship marketing, but we really believe that the integration of on and offline marketing will be the future of relationship marketing.' (Kemp 2000, pp. 40–42).

MBO is now working with a retailer, extending its loyalty programme onto its online network so that customers can mange their cards and points over the Internet. McHugh explains:

> Brand-owners and retailers can generate a more direct relationship with the consumer and the brand, a one-to-one relationship which is hard to foster in a traditional retail environment. And if the retail high street and the Internet sites complement each other properly, everybody will be a winner.

Although relatively few Britons are actually shopping online at present, services such as B4Ubuy are now being launched offering a 'sales assistant' service to help would-be shoppers. If customers want assistance, they can press a button and someone will phone immediately with expert advice and help.

Richard Thompson, Chairman of EMSChiara which is launching the service, explains:

> B4Ubuy's clients are not just online retailers but also offline retailers who want online business because it gives them a more complete service. Until now, too many people have seen online shopping as a glorified mail order catalogue, but this will give retailers and manufacturers a very real opportunity to build one-to-one relationships with their customers.

So could this be the end of traditional marketing methods? Not according to Spencer McHugh:

> The basic marketing skills are still in as much demand today as they have ever been – no amount of technology will help brand-owners unless they understand the consumer and use the data that is generated to elicit the desired response.

Questions

1. Why are 'point-of-purchase' (POP) programmes becoming more innovative and challenging?
2. Discuss the relationship between the need for a seamless integration and brand loyalty?
3. Comment on the concept of 'retail theatre'.

(I) *Problem 11.5* Trends in pricing

Introductory comments

Time was when pricing strategies meant simply cost plus margin. But things have changed: No sector – from Fast Moving Consumer Goods (FMCG) to newspapers – is immune to price wars, as technology, consumer demands, ease of distribution, globalisation and increased competition combine to put pricing policies under pressure.

Consumers have reacted against the excesses of the 1980s and now need more convincing if they are to pay a premium. But deeper social, economic and political forces are prompting customers – both business to business and personal – to reconsider old ideas about value for money, and marketers to rethink their strategies.

True, some things, such as KVIs (known-value items), elasticity curves and psychological pricing points like £49.99, may never disappear. Firms with huge sunk costs and low marginal costs, such as the Channel Tunnel or telecoms operators, will always be drawn towards volume-generating price offers, in stark contrast to other businesses like management consultants, where the marginal cost of additional supply is high. Likewise, players in industries with few suppliers and many buyers will continue to deploy very different pricing strategies to those with few buyers and many suppliers. But underneath these generalities, the foundations are shifting.

Globalisation and the removal of trade and regulatory barriers are compounding price pressures by opening up new low-cost sources of supply and new competition. And as many firms see the opportunity to rethink distribution channels, new and lower price strategies are being established.

It is having other effects. Scanner data, for example, has rammed home to marketers the sometimes astonishing short-term effectiveness of price promotions, while the information age is also teaching consumers to shop around more.

Finally, government's free market policies are having their own unexpected and unsettling effects. On one hand, a new non-inflationary environment is transforming buyer psychology, making it much harder to make price rises stick. On the other hand, once-homogeneous markets are splitting asunder as the gulf between rich and poor widens.

How then are marketers responding to the new pricing environment, apart from forever cutting costs and reluctantly shaving margins? One approach is the brute use of market power. A less extreme form of this market re-engineering is being pioneered by P&G. Heavy price promotions add costs to the total supply chain and make consumers more price sensitive, it argues. Everyday low pricing, funded by supply chain efficiencies and slashed promo budgets, can re-establish order in chaotic markets – and help fight off own-label price competition. A deal-driven culture does not help brands. Without doubt transparency creates loyalty.

Many Japanese hi-tech firms are taking a different tack. Companies like Olympus cameras and earth-moving equipment maker Komatsu are abandoning traditional cost-plus pricing strategies for target costing. Rather than finding out what consumers want in terms of product specification, then designing and making it, and then deciding at what price to sell it, they are building in the price point at the start and designing everything around it.

A related approach: the unbundling and re-bundling of different propositions to meet different price points. At one level, it may be strategic.

Bundling and unbundling can also be used to rewrite the value/price equation for individual products and services.

But perhaps still the best answer to price competition is the oldest: Avoid it. That's why so many marketers are seeing such enormous strategic opportunity in the one-to-one pricing of one-to-one bundles: mass customisation.

This final demise of mass marketing depends crucially on two things. First, the shift in marketing emphasis from acquisition to loyalty – and, more specifically, to focus on lifetime customer value rather than singular transaction value.

Second, it needs customer databases to rack purchasing choices over time and loyalty schemes that encourage customers to get involved in the design and delivery of the brand's value proposition. As mass customisation technologies begin to kick in, those companies with such relationships will be able to offer increasing customer-specific pricing with customer-specific bundles of products and services.

Such strategies fundamentally change the whole pricing game. One interesting side effect: Far from widely being published and advertised, prices would go 'below the line' – it's far more difficult for competitors to undercut you on price if they don't know what you are charging. P&G is now openly saying its strategy of everyday pricing is all about regaining and keeping grand loyalty.

Indeed, it's no accident that the 'death-of-the-grand' controversy sparked by Marlboro Friday was quickly followed by doubts about 'the future of the marketing department'. When pricing was simply a matter of cost-plus-margin setting, marketers were in their element. But as soon as price cutting began in earnest they faced a double whammy as their own budgets were cut and they lost influence to new movers and shakers – the number crunchers in finance and the re-engineers in operations.

The way to regain that influence, surely, must be to take the lead again. That may involve accepting that we don't know as much as we sometimes pretend. P&G, for example, is bravely asking itself fundamental questions such as 'What is value? What attributes make up value? And how can we measure value?'

For some, the only way to judge correct pricing is to spend vast sums on research. Another response is to seek deeper insight into pricing dynamics.

Consumer mood swings, technology-driven business re-engineering, short-circuiting distribution channels, global competition, faster flows of ever more detailed information, social fragmentation: Only those who are bold enough – and skilled enough – to turn these factors to their advantage will ride the current tidal wave of change successfully.

Problem – example

Rapidly advancing technology is continually transforming underlying cost structures and creating endemic pricing instability. This, in turn, is teaching consumers to expect 'more for less'. L'Oreal chairman Lindsay Owen-Jones, for example, complains that each new brand he launches fetches a lower retail price than its predecessors, despite the fact the technology embedded within it is ever more sophisticated.

Questions

1 Comment on some of the key trends in pricing.
2 What is the underlying reasoning behind everyday low pricing?
3 Discuss the relationship between the future of the marketing department and pricing policies.

(I) *Problem 11.6* Trends in integrated marketing communications (IMC)

Introductory comments

A revolution will take place in advertising during the 1990s and beyond. Key developments or trends will radically transform the industry by 2020. Agencies and advertisers who successfully manage these developments will succeed like never before. Firms which fail to adapt to the changes will clearly fail and fade away in an apocalypse of marketing and financial failures.

Eight out of ten in-market tests of advertising copy and media weight fail to show a difference. The best-kept secret of all is that nine out of ten attempts to relaunch, restage or turn around dying products and services fail to reverse share declines. There is also evidence to suggest that copy-test recall and persuasion scores have been declining, dropping by 1 to 2 per cent per year.

Media costs have been rising while consumers are paying less attention. They are less involved. Therefore, costs per *involved* reader and viewer are rising at an even faster rate.

Two decades ago, seven out of ten promotion moneys were spent on traditional advertising. In 1990, it will be two out of ten, as the number of alternatives to traditional advertising is rising all the time. We now see ads in the books we read and in the movies we bring home to watch. We are exposed to more direct mail, and sports – and event – sponsorship than was dreamed of a decade ago. Clearly, traditional mass media advertising must work harder. Advertising must work harder and be smarter to regain the confidence of major marketers, to reverse that double-decade trend towards promotion and to demonstrate its power as the pre-eminent marketing tool.

The revolution consists of developments in advertising and in advertising research today which are pushing back the frontiers of the industry. Smart, sophisticated agencies, advertisers and consultants should understand all of them. If we understand them, we can capitalise on them. We can help turn failure into success.

Developments in advertising and advertising research

The first development is that persistent rates of failure are forcing marketers to consider more options and more alternatives for each component in the marketing mix.

If only a small percentage are exceptional, what are the chances that the one or two selected will be winners? Clearly, the more options and alternatives for each component in the marketing mix, more plans must be considered and evaluated.

Consequently, in the future, as this first trend catches on, marketers will be forced to consider many options and more alternatives for every component in the marketing mix.

A second development is that the criteria for evaluating marketing-mix options is shifting from the 'warm feelies' to bottom-line profitability. Clients in the future will be forced to evaluate *all* components in the marketing mix in terms of *profitability*, not 'warm feelies'.

A third development taking place is that increasing pressure is being put on advertising agencies to develop campaigns that work harder to produce a return on investment. We can already observe some of the manifestations of this trend such as localised advertising campaigns, the blending of advertising and promotion, and a tighter integration of copy, product, price and packaging. Some clients are already demanding that the advertising and the packaging communicate the same story. Other examples include portfolio and umbrella strategies which are recommended to unify advertising for, say, three related brands into one bigger, more powerful campaign.

A fourth trend is towards new message-engineering technologies which will replace 'death-wish' research in the future. *Death-wish* research is the irreverent term for old, tired, worn-out research approaches which rarely, if ever, lead to blockbuster advertising campaigns. A lot of this ‘research’ is done among strange samples of homeless people wandering around malls, and sometimes – and this is really scary – stat types are called in to run multinomial logit regressions (or some other form of statistical science) on patently preposterous data.

In contrast, an example of message-engineering technology is message maximisation modelling, which evolved during the past ten years from three different traditions: conjoint measurement (trade-off analysis), advertising concept testing and simulated test marketing. Conjoint, as you know, is a tool which permits you to test many different *product* configuration; advertising concept testing is a popular way to test alternative *message* strategies, while simulated test marketing is a forecasting technology which takes into account an entire marketing plan.

These different technologies are married into research and measurement model, and, unlike advertising concept testing, this is done for thousands of different strategies. For each strategy, a forecast is made of likely real-world behaviour and sales. Moreover, the tool will search to find *the best combination* of discrete attributes and benefits-the combo which maximises sales response.

So how is he study done? First, approximately three-hundred consumers – all decision makers in a product category – are exposed to an *advertising concept* which captures the distilled essence of the client brand’s *current* advertising strategy. The concept is shown in a competitive context. Names, product visuals, and, often, price are part of the presentation. The advertising concept is a carefully designed combination of product benefits and attributes. Up to ten different A/Bs are included in a single concept.

Message maximisation modelling takes into account not just the main and interactive effects for all combinations of attributes and benefits but the expected impact of different numbers of messages on advertising recall as well. Taking both together permits a researcher to estimate the effects of the number of messages (i.e. benefits and attributes) on revenue demand for each message combination for each respondent. The model then searches through all possible message strategies – in some cases almost two million of them – in order to find the one forecast to yield the maximal level of market response. In almost all cases, a message-engineering strategy beats the one submitted by the advertising manager.

The fifth development has been unfolding for some time. Non-verbal response measures, which were dominant during the late 1960s, will again be in the ascendancy during the next three decades for evaluating copy and, for that matter, other components in the marketing mix. Psycho-physiological measures, such as galvanic brain response and brain waves, are coming back. Unobtrusive observation using time-lapse photography will become more widespread. Simulated test marketing will also expand in scope as its range of applications outside of traditional packaged goods continues to mount. Interactive television will become a reality. Moreover, in-store sales response, using scanner data, a tool of tremendous importance during the past decade, will continue to improve and will eventually dominate the sales measurement industry.

The sixth intriguing development in advertising will be a change in how we regard media. Media during the next few decades will be increasingly recognised for its potential to help or hurt advertising, enhance versus inhibit advertising response, cost per thousand people impacted (CPMI) will replace cost per thousands exposed (CPMs) as the basis for media selection.

Research has revealed a strong positive relationship between television programme involvement and advertising response. The more positively people feel about a television programme, the greater the effectiveness of advertising embedded in that programme. Media vehicles differ considerably in terms of involvement, even holding constant audience size or rating, and composition.

Most important, the rank order of television programmes based on CPMs is very different to that based on CPMIs. Because CPMIs are what that drive advertising effectiveness, watch for them in the 1990s and beyond. Clearly, if media impact is a determinant of ad response, knowledge of this phenomenon can enhance the likely success of a campaign.

The seventh development is competitive response. During the next few decades, marketers will experience intense and often unanticipated levels of planned competitive response. Therefore, smart marketing plans must explicitly consider what competitors might do and defend against them. The reason for this is simple. Today, competitive response to new products is swift and sure. You can count on it. Soon after launch, the new brand – or new campaign in the case of an established product – is hammered by the products it was designed to dislodge. Expect more of this in the future. Marketers must anticipate competitive defences and then develop and test offensive strategies designed to overwhelm the competitor's defence. Modelling technology will be developed in the years ahead to address this need.

An eighth trend has to do with 'seamless integration' of databases and evaluation systems. Marketers are striving to tie databases together with no seams showing. Every major marketer, for example, has systems for collecting data on information such as ad spending, media exposure, and consumer and trade promotion. They have their diary panels, telephone-tracking studies, and sales audits. Some firms have different people assigned to do each of these things and they do not even talk to one another! This is crazy. Tie it all together. Link it up. Turn masses of data into integrated marketing intelligence.

A related area where we need seamless integration is single-source data. The fundamental question troubling marketers for three decades has been, 'What is the relationship between advertising exposure and sales?' Unfortunately, the data employed to address this question come from very different sources. One division of A.C. Nielsen, for example, tells us how many people tune into different TV programmes. Another division of the same company collects sales data. But viewership *and* sales are not based on the same people.

Increasingly, however, firms are offering systems which measure viewership and sales among the same households. People meters are set up in a cross-section of homes to monitor TV viewing behaviour, and scanner sales information is tracked for the same household. Although single-source data have not yet been perfected, ultimately they will revolutionise our ability to study marketing input–output relationships. Seamless systems will be built to tie all of this information together.

The ninth development is the increasingly widespread use of computer-based decision support systems and simulation models to develop and evaluate advertising and marketing programmes *prior* to real-world introductions. Decision support systems will be increasingly employed which adapt the best of marketing modelling and pre-test market research systems and ratchet up the technology several levels. These are evolving expert systems which integrate marketing science modelling, automated intelligence technology, historical databases, and simulated test marketing research.

Some systems will 'capture' *every* important component in the marketing mix. From media weight and schedule, through promotion, to product and positioning, a manager will be able to assess the effect of any plan on brand awareness through to market share and profitability. You will be able to use such systems to help construct a financially *optimal* marketing plan. And, in comparisons between manager-prepared plans, manager plans aided by DSS insights and the system's own plans, the system will beat the manager by 15 per cent or more most of the time.

Another key trend that will transform advertising is thinking machines called expert systems. Expert systems are a type of technology with which most of you will have never worked. Nevertheless, everyone will be using the technology within a decade. An expert system is some kind of computer or robot that analyses data, diagnoses problems, and maybe even makes decision faster than human managers. Expert systems employ artificial or automated intelligence (A.I.) to do their thinking. By A.I. it is meant computers or computer programs which think, or seem to think, the way humans do. By expert systems it is means programs which clone, or seem to clone, the knowledge, experience, and decision-making ability of an expert in a particular field. Think of A.I. as a general intelligence, while expert systems represent specialised intelligence in a particular field such as neurology or advertising.

An expert system depends upon an A.I. sub-system to work – to do the thinking for it. But the A.I. sub-system – an intelligent program – needs to be integrated with the knowledge of an expert or experts and, often, specialised databases as well. The knowledge of the expert is captured by a whole new class of engineers called knowledge engineers. Their contribution is to capture in a computer program the knowledge, experience, rules of thumb, insights and heuristics of an expert in a particular field.

A good expert system thinks through a problem or question – given the available intelligent program, expert knowledge and database – in order to arrive at a solution, an answer, or a decision. In expert systems, as in real life, the higher intelligence of the program, the greater the knowledge of the expert, and the more sophisticated the databases available, the better will be the solution, answer or decision.

Many expert systems will be developed for marketers, however, which will do everything from designing media schedules, products, and services to laying out an entire marketing plan. Perhaps the advertising wars of the future will be planned, waged and carried out by competing machines.

Speculating further, one can imagine a scene 30 years from today. You are an ageing consultant sitting with the marketing director of Coca-Cola at Cheers, sipping a wine cooler, when you are dialled up by your expert system. The expert system nicknamed 'Brains' informs you that it just launched a surprise attack on Pepsi. It seems that while the Pepsi system was daydreaming, fantasising about a sexy new circuit board, 'Brains' decided to make a pre-emptive strike. 'Smart move', you tell 'Brains'; 'but call me back when you've figured out how much share we've taken.'

Developments in advertising and advertising research are changing the fabric of the industry, pushing back the frontiers of what we know and want to know, separating winners from losers. The exceptional advertiser, agency and consulting firm is an organisation which keeps abreast of these developments, capitalises on new discoveries and stakes out the frontier as its own. The exceptional marketer and researcher is a professional who now only knows about these trends but plays a leading role in their development and implementation. The logical result of exceptional people working for exceptional companies is exceptional advertising programmes – programmes which take us to the bank, not to oblivion.

The pressure on all our time seems to ever escalate, and understanding and coping with the pressure on customers' time and the sheer business of their lives is one of the greatest issues that modern marketers face.

Time is rapidly becoming the one thing which is inelastic. In many instances far more so than price and this has influenced the whole nature of marketing communications. The combination of people's time becoming fragmented across the growing kaleidoscope of media, and more marketers chasing those 'bits' of time has dramatically increased both the cost and difficulty of implementing a successful media-based campaign.

The need to experiment with finding new routes to the customer, the continuing importance of impact, consistency and synergy in creative treatments; the added value of establishing and building brand and advertising properties and the recognition that quality time spent with existing customers via the pack, product or service outlet is gold dust.

All these form the basic primer of modern-day marketing communications, but it is only when they are viewed together in the context of people's busy lives and the inelasticity of their time that the critical importance of getting not just one or two but all of them right can be seen.

The great challenge for marketers is to grab not just a share of their customers' minds and wallets, but also of their time. This means identifying or, increasingly, actually creating the occasions when they have the time to receive and digest communications, and, wherever possible, establishing processes where they can also purchase more efficiently.

This distribution of message and product does, of course, coincide very neatly in the process of direct marketing. The ongoing advances in the technology of customer segmentation, message delivery and response fulfilment systems will ensure that this will be the most dynamic area of marketing for some years to come. The success of brands such as Direct Line and Daewoo bear testimony to its potency, and a tip is to watch Argos, whose whole offer is ideally suited to the time-pressured customer, expand to become the premier home-shopping brand. Each of these brands has addressed the issue of time by injecting a greater level of confidence into the purchase process by putting the customer in control.

Meanwhile, in 'traditional' media marketing the challenge is to maintain consistency and continuity in brand positioning and communication to make each phase of advertising investment cumulative. But to do this while continuing to address all the short-term threats and opportunities created by competitive thrusts, consumer change and technological development is easy to say, but incredibly hard to do.

Problem – example

Simplistically, the increased supply of advertising airtime from the new satellite channels will mean that airtime rates will fall. But because the number of viewers reached is lower, the cost-per-thousand (CPT) viewers will be relatively higher. Satellite television will see advertising revenue rise steeply to £775 billion by the year 2003 (38 per cent of total revenue). This will be facilitated by an increase in television viewing share to the satellite channels of 21 per cent of total viewing by 2003.

There will be more 'time-compressed TV commercials' and an increase in the use of place-based advertising (e.g. checkout media in schools, in medical surgeries, train and underground stations etc.), the latter providing advertisers with almost captive audiences. Place-based advertising reaches some huge, highly targeted waste-free market audiences, when they are most attentive, so that messages will be noticed and, in some cases, in some trusted and credible environments. As a viewing environment, some of these are virtually free of distraction and with no zapping. For example, in the United States, Healthlink delivers 140 million highly targeted viewers, 13,250 paediatric *obgyn* and family-practice offices, with recall sources that are comparable to prime-time television and with waste-free delivery.

Before any marketing mix can 'act upon' a consumer, the consumer must first want to engage the mix. Consumers interact with traditional mass media advertising less than any other element of the marketing mix. This is where interactive promotion and advertising will play an important role in the future. The media objectives of reach and frequency do not reflect interactivity. This is a natural consequence of a mass media orientation because consumers can do nothing to alter the content of an advertisement sent out to them whether they want it or not. Consumers do not really possess advertising, and their lives are not affected by the bulk of advertisements that they passively receive. With the advent of advertising on demand through the Internet and CD-ROM as well as voluntary and individualised advertising, the future of advertising is set to change and consumer interactivity with companies is going to increase. Some advertising agencies in this brave new world of advertising interactivity.

Marketers will continue to use traditional media to present a broad view of the brand and tap into the interactive marketing to provide consumers with more details or allow them to ask questions. Direct Response Television (DRTV) is a direct route to brand building as well as sales.

Customised multimedia systems which can be integrated with existing systems will be the norm. Computers will make it possible to read a newspaper, journal or magazine aimed at the particular interests of an individual – a mass medium tailored to the individual. For example, readers can already access different sections of a newspaper while on-line by clicking on various parts of the menu. Multimedia technology will be the basis for the appearance of electronic newspapers.

Already present is the trend towards the concept of 'grazing' on television, that is, to watch two or more TV channels at the same time. Technology has allowed this to occur and is already in use in the United States. Its implications and consequences for advertisers in terms of consumer behaviour are as follows: (1) even less consumer attention span, (2) less attitudinal change, (3) less consumer involvement, (4) less comprehension in the content of the message, and (5) less consumer commitment in the final purchase or decision-making. This is a worrying trend for advertisers. In the United States, the average viewer changes TV channels (he or she does what is called zapping) every three minutes. The image of an essentially passive TV viewer does not exist. This is no longer the case. Television viewers are very active. The idea that viewers are 'glued' to their TV sets is a myth.

Advertising is increasingly being perceived by consumers as a kind of show-business and entertainment activity. Increased surrealism as well as more visual and verbal puzzles will be used in advertising copy in the future. This trend can produce different levels of consumer involvement, ranging from a temporary frustration to immediate enjoyment. The cross-advertising phenomenon (with budgets shared by different organisations), incidental advertising, product placements and broadcast sponsorship will increase in scope in the near future. There is an opportunity for advertisers to cooperate and place their products or services in an advertisement for another product. And this is an interesting way of funding commercials. There are already 'product placement advertising agencies' in existence, like the New Media Group in England. The increase in sponsored programmes and the advent of satellite broadcasting could offer product placements and incidental advertising even more scope.

Infomercials (a commercial presentation using a chat-show format) are already widely used in the United States and will soon appear in Europe.

Investment in direct marketing (including direct mail) is forecasted to reach 75 billion pounds within the European Union by the year 2000. This amount will represent half of all advertising expenses. A new generation of 'smart' direct-mail techniques that use highly qualified names from super accurate relational databases will be predominant.

One of the fastest growing direct marketing media is the direct response billboard, which features direct response advertisements with free phone numbers. Many well-known companies, like P&G are using these types of billboards.

In terms of key trends in sales promotion, we will see the appearance of more novel sales promotion tools via new media vehicles and the blurring of sales promotion and advertising (brand 'velocity'). Brand velocity, not image, is one of the elements of the new marketing order. Brand velocity is the right mix of image advertising and sales promotion that produces sales volume and market share increases without borrowing from future sales. To achieve short- and long-term brand 'velocity', the right mix of sales promotion and image advertising must be sustained and blended so as not to be distinct from one another.

More of the advertising budgets is being diverted to promotions. More and more companies are launching customer cards as a promotional device, which are functional cards containing a magnetic strip that holds key credit and demographic information.

New, state-of-the-art point-of-purchase (POP) and point-on-sale (POS) tools are also appearing. The shelves may soon be talking. Ladd Electronics from Aanoga Park, California in the United States, introduced 'Soundtron', an electronic audio announcement device designed for selling and advertising in self-service retail stores. The unit is about the size of a book. Announcements are triggered by a built-in infrared sensor which detects a potential customer approaching from up to 35 feet away. Stores can record messages of up to 32 seconds for a single message or 4 segments of 16 seconds. The sound level will not interfere with background music systems or other store announcements.

Promotions can also be integrated with electronic fund transfer systems.

Questions

1. Comment on the trend towards message maximisation modelling.
2. Discuss the types of marketing research studies which encapsulate the return to the utilisation of non-verbal response measures.
3. How can one interpret the trend towards 'seamless integration' of databases and evaluation systems?
4. What are the key implications and consequences for advertisers in terms of consumer behaviour derived from the impact of technology?
5. Define the concept of brand 'velocity'.

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