Review of marketing analysis structure 4P's & 5 C's – used in every case so far

- **Customer** (customer needs, segments, consumer behavior)
- **Company Skills** (brand name, image, production capability, financial strengths, organization, etc.)
- **Competition** (actions are interrelated, market environment)
- Collaborators (downstream wholesalers or retailers, upstream suppliers)
- Context (culture, politics, regulations, social norms)

Marketing tactics – 4 P's
Just finished 1st P – Product

- **Product** (features, quality, service, support, product line etc.)
- **Place** (channel of distribution, exclusive vs. intensive, etc.)
- **Promotion** (advertising, sales force, brochures, coupons, etc.)
- **Price** (list price, discount, deals, both end-user and channel)

Snapple Hints

- Understand the Snapple customer(s).
- Product development is important.
- Don’t forget to read the ethnographic research in the back of the case.

Session 7: Customers (Behavior, Research)

- Basic Voice of the Customer methods
  - Qualitative
  - Hierarchy
  - Preferences
- Conjoint Analyses
  - Camera example
  - Executive Education
- Science of Consumer Behavior

Customer behavior

- Barco
  - finding new customers and new customer needs
  - leading edge customers come to Barco distributors
- Brita
  - purchasing behavior
  - understand how the product is used
- Southwest Airlines
  - needs of the road warriors vs. long-haul travelers
  - prioritization of customer needs and tradeoffs
- Calyx and Corolla
  - needs of the niche (vs. FTD)

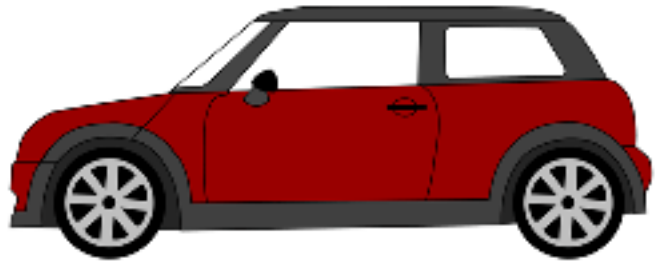
Puritan Bennett example
Voice of the Customer

- Basic
  - affordable
  - attractive appearance
  - portable
  - reliable
  - quality output
- Ease of Use
  - set up first time
  - easy to operate
  - fast to use
  - easy to calibrate
- Service and support
  - quick response time
  - available quickly
  - good training and education
  - low cost of repairs, service
- Provides accurate readings and eliminates technician variability
  - diagnostic information meets needs
  - easy to interpret diagnostic information
  - effective data storage and retrieval
  - output easy to read
- Good patient interface
  - easy to hold
  - right size for the patient
  - sanitary
  - easy to clean
  - low-cost of supplies
  - environmentally safe

Understanding the customer needs highlighted how to improve the product.

What is a "Voice of the Customer?"

- Customer <u>needs</u> not solutions
  - Easy to get in back seat vs. seat folding method
- Appropriate detail at all levels
  - Strategic – competitive positioning
  - Tactical – set basic design
  - Operational – detail for actual design
- Customer's own words
  - As they speak to one another
  - Images, feelings, visuals



What is a customer need?

Home Entertainment Systems

Customer Need	Technical Feature
	frequency response
	watts per channel
	six speakers
	plasma display
	scan rate
	brightness
	depth

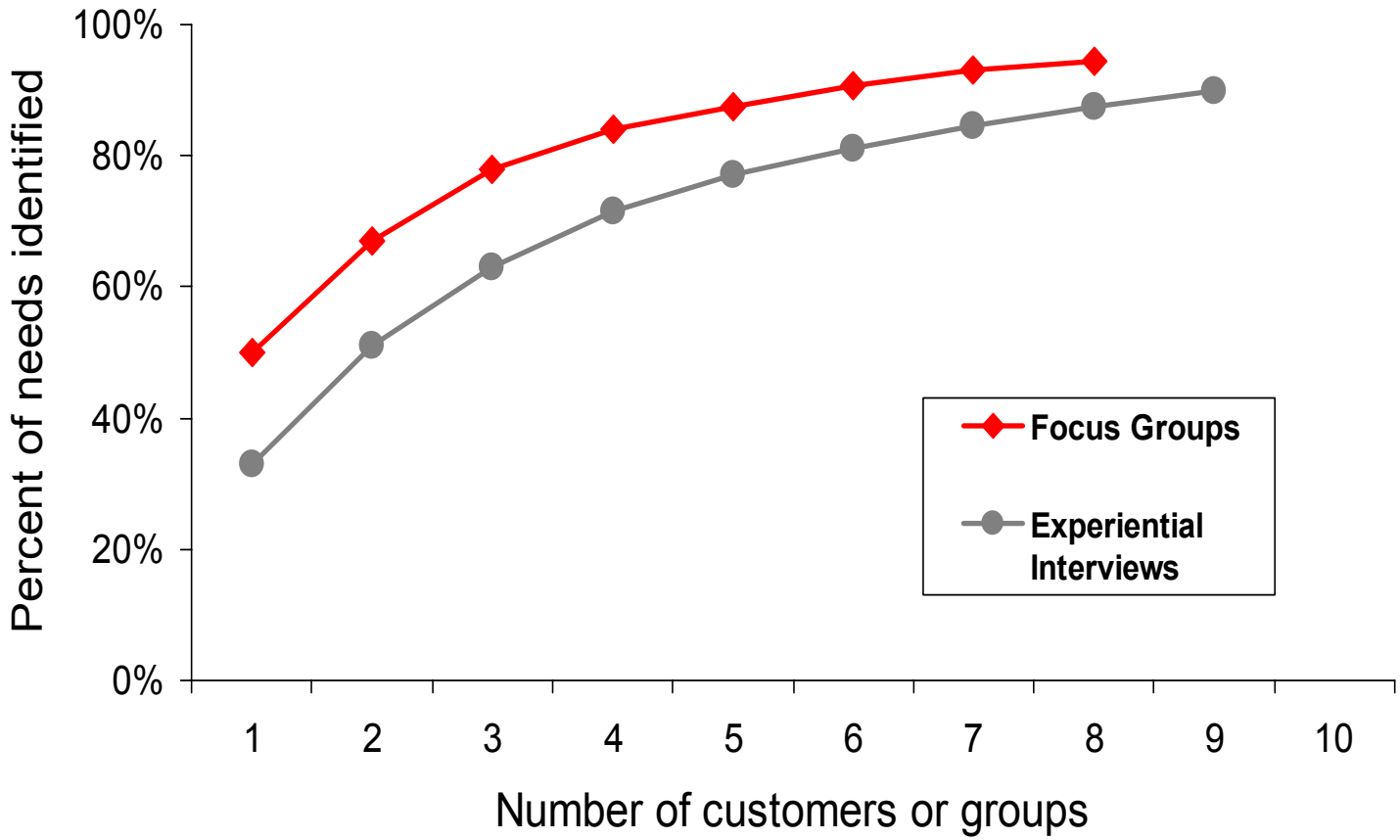
Typical Vocalyst process

- Identify customer needs
  - 10-30 one-on-one interviews per segment
  - 2-4 team members read and code transcripts
  - database -- merge and winnow
- Sort customer needs into groups
  - 40-80 customers sort needs and identify exemplars
  - statistical analysis produces a hierarchy
- Prioritize customer needs
  - initial importances at customer-sort stage
  - follow-up surveys (sometimes)

Qualitative research

- Focus groups
  - Levi's Three-piece Suits
- One-on-one experiential interviews
  - Director of Operations, Coca-Cola of America
- Contextual inquiry

How many interviews are enough?



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Can the product development team sort customer needs?

Customer-sort Diagram	Team-sort Diagram
Attractive, good-looking Convenient Works well Right size Maintains food temperatures Carries many things Easily movable	Container utility Convenient Physical characteristics Container price Thermal characteristics

Another example: workstations

Customer Diagram	Team Diagram
1. Software easy to use, makes you more productive 2. Monitor functions effectively 3. System configured to create entire designs or presentations quickly and easily. 4. System configured to optimize performance. 5. Seller provides high quality products and support. 6. Entire system is user friendly. 7. System is able to product quality graphics. 8. System allow you to easily interact with other computers. 9. System allows you to easily input any way you want. 10. System allows you to manage and use your data the way you want. 11. System easily produces many kinds of output.	1. Channel 2. Peripherals 3. Security 4. Price 5. Links 6. Documentation 7. Operating system 8. Applications 9. User friendliness 10. Database language 11. Monitor 12. Links everything to printer. 13. Work comfortably.

Management Schools

Brand

- The business school has wide-name recognition (e.g., known worldwide).
- The business school is highly rated by independent publications (e.g., US News & World Report).

School Experience

- Students at the business school have a strong sense of community.
- The business school has a collaborative atmosphere.
- Students are satisfied with their overall experience.

Academics

- The business school has a reputation for strong academics.
- The business school is known for innovative research.

Teaching

- The business school faculty are excellent teachers who are good at communicating complex material.
- The business school professors have practical business experience.
- Classes have a balance between theory and real-world application.

Career

- The business school graduates have a high employment rate.
- The business school has Career Services that will help me in many aspects of my career search.
- The MBA degree from this business school continues to pay back on investment long after graduation (e.g., salary increases).
- A wide selection of companies and industries that recruit at the business school meet my interests.
- The business school has an active, organized network of successful alumni.

Customer sort?

- Customer-sort superior to team sort in almost every case.
- Customers sort the needs as they use the product.
- The team sorts the needs as they build the product.

Typical Vocalyst process

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Anchored importance ratings (perceived needs, illustration only)

When thinking about choosing a laundry detergent, how important is it that the laundry detergent:

Cleans your clothes well	[100]
Is safe and gentle for synthetic fibers	[57]
Is good for the environment	[23]
Clothes are ready to wear after drying	[84]
It is easy to do the laundry	[19]
My clothes smell fresh and clean	[12]
Good value for the money	[93]

Please assign 100 points to <u>your</u> most important need and any number of points between 0 and 100 to all other needs.

Are importance measures accurate for perceived needs (data from P&G)?

Method of Eliciting Preferences for Perceived Needs

	Anchored Scales (max = 10)	Constant Sum (sum to 100)	Directly Stated (1 to 9 Scale)
Correlation with preference for concepts	0.93	0.93	0.89
Correlation with interest in concepts	0.96	0.96	0.96

Customers (behavior, research)

- Basic Voice of the Customer methods
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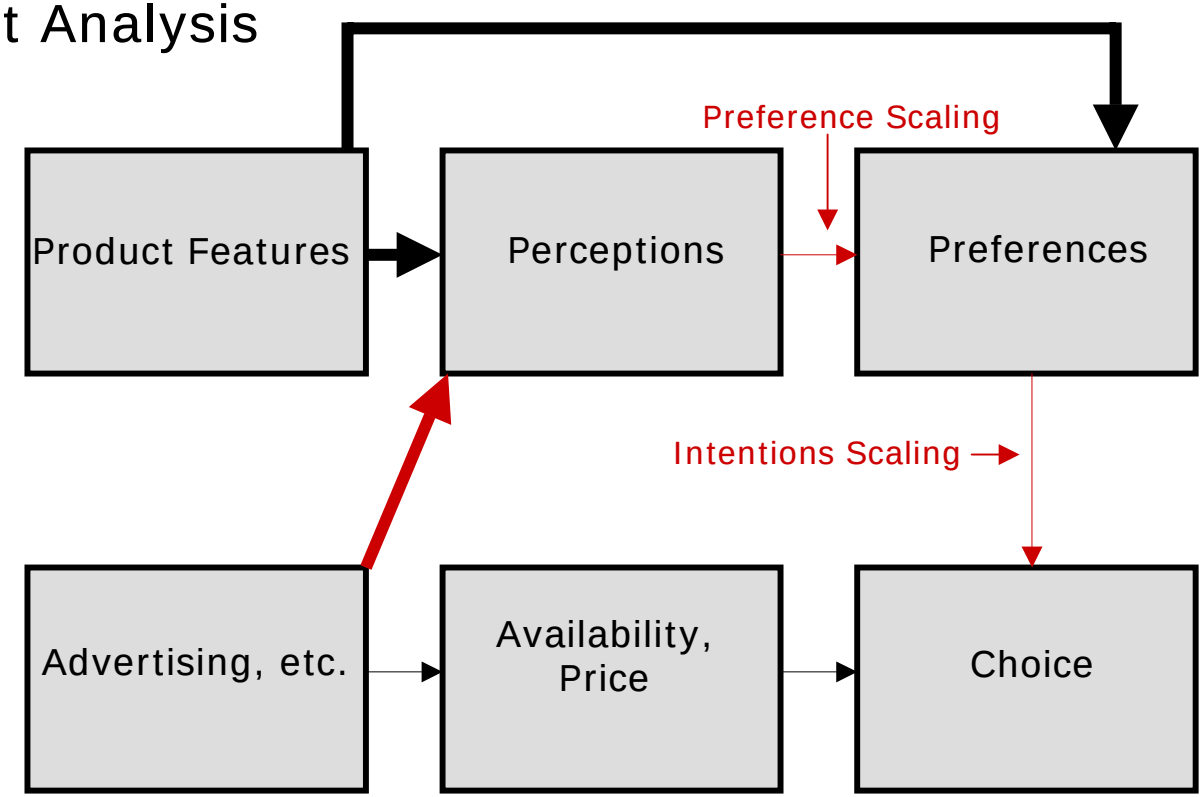
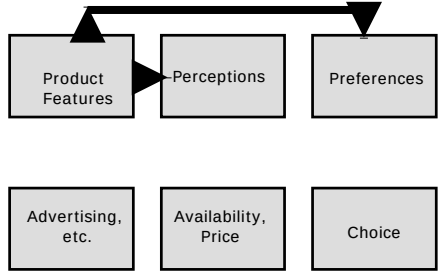
To position a product we need to know what customers prefer

- Web-based Conjoint Analysis
- User Design
- Virtual customer



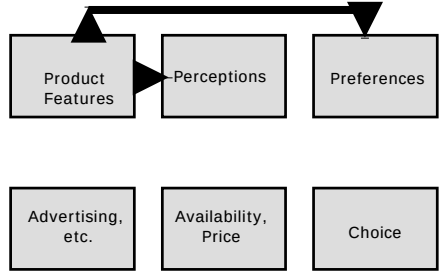


Conjoint data analysis

REGRESSION

Variables	B	Std. Error	t	Significance
Constant	15.5	5.6	2.7	.006
Price ($34.99 vs. 24.99)	22.6	3.0	7.4	.000
Removable Covers	21.2	3.2	6.7	.000
Picture Quality	30.5	6.3	4.8	.000
Auto vs. 2-step	-0.8	2.8	-0.3	.763

Dependent Variable = Relative Preference Between Pairs of Profiles



Executive education example

Executive Education Survey - Microsoft Internet Explorer

MITSloan EXECUTIVE PROGRAMS

Please choose

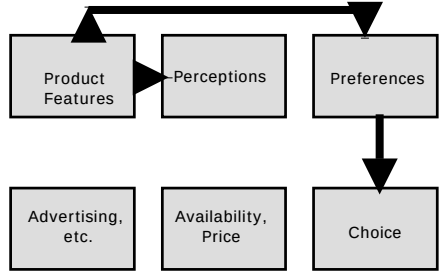
Please examine the following four programs, each described by their features and tuition. Of these four programs, which do you prefer? Click on the circle below the program you would **MOST** prefer. Click the 'Next' button to continue to the next question.

FEATURES	PROGRAM A	PROGRAM B	PROGRAM C	PROGRAM D
Program Focus	Innovative Enterprise	Global Enterprise	Tech-Driven Enterprise	Tech-Driven Enterprise
Program Format	Full-Time Residential	Flexible	Weekend	Weekend
Classmates' Background	50 - 50 mix	General Management	50 - 50 mix	50 - 50 mix
Classmates' Age	30 - 35 years	30 - 35 years	30 - 35 years	30 - 35 years
Classmates' Geographic Comp.	75% North American	50 - 50 mix	75% North American	50 - 50 mix
Classmates' Org. Sponsorship.	50 - 50 mix	50 - 50 mix	50 - 50 mix	Company Sponsored
Classmates' Company Size	Large Companies	Mix of large and small	Large Companies	Large Companies
Program Tuition	$110K	$90K	$110K	$110K
	◉	○	○	○

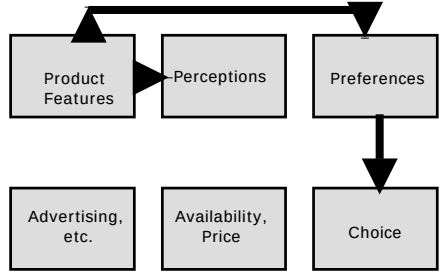
NEXT

MITSloan MANAGEMENT

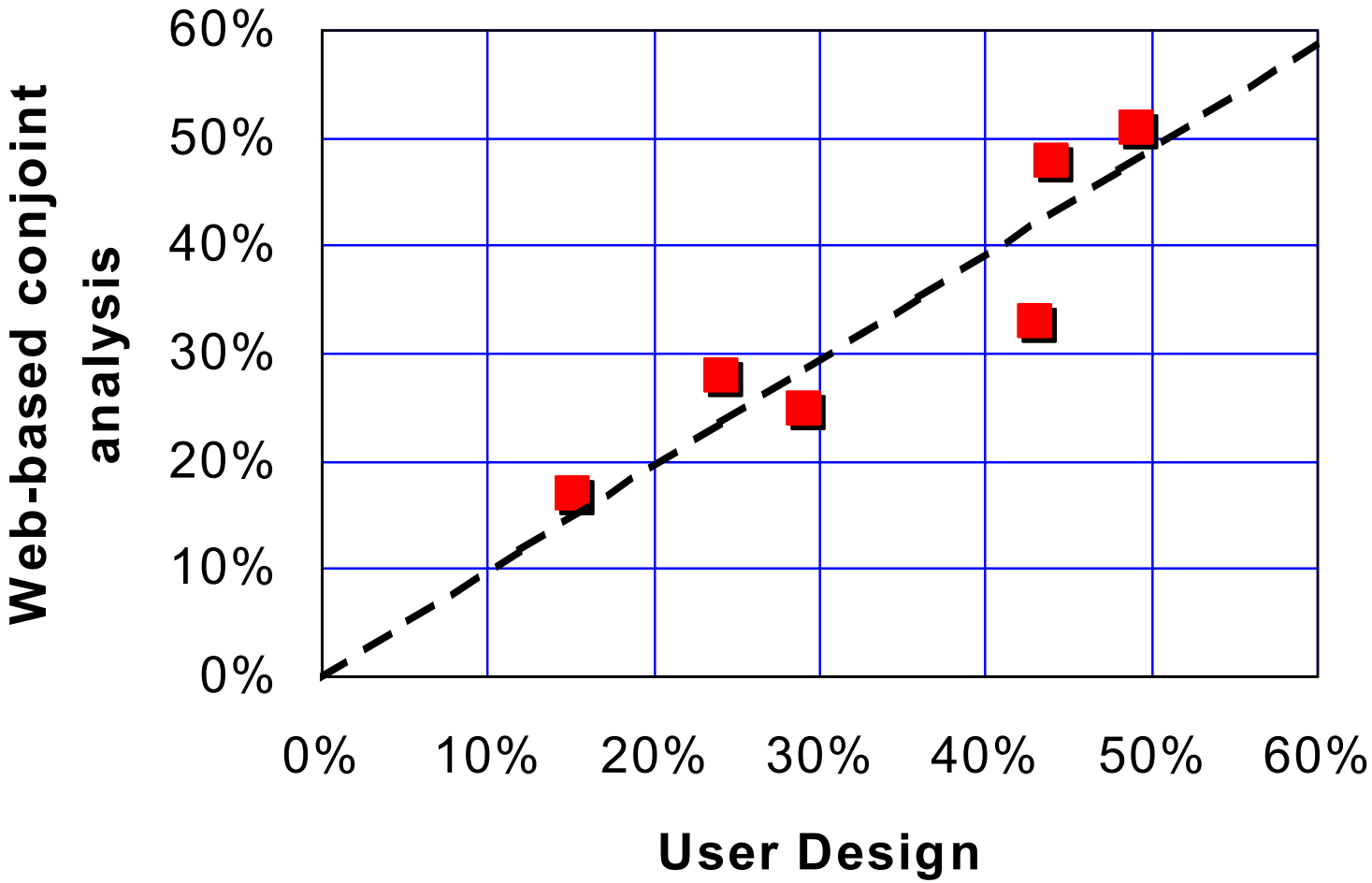
User design



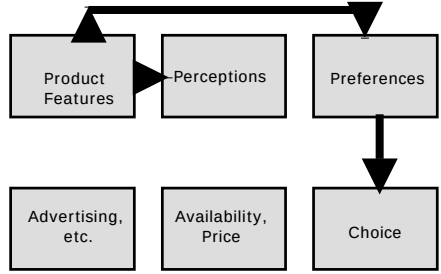
- Based on concept of user-driven innovation
- Enable users to design their own product with a design palette
- Challenges
  - One design at one set of prices
  - Not able to simulate multiple markets



Convergent validity



B2B example



Muskegon Project - Copier

Please drag the elements (on the right) that you want onto the main body of the copier. The elements will snap into place.

Price: $ 13000

Next >>

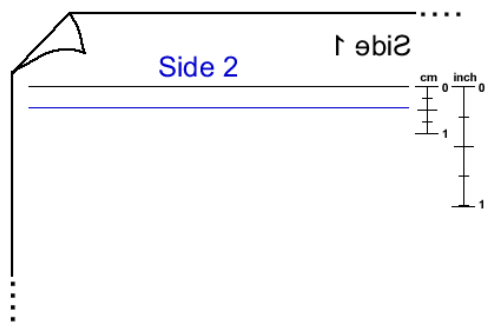
Maximum Front-to-Back Registration vs. Price

How much do you value tight duplex show-through registration when buying a 60-90ppm device?
To make the trade-off, position **Side 2** relative to **Side 1**. The total system price adjusts automatically.
Alternatively, type in a number between 0.27 mm and 4.0 mm, then hit Tab (the image and price will adjust).
The images below represent the front-to-back show-through of a single sheet of paper.

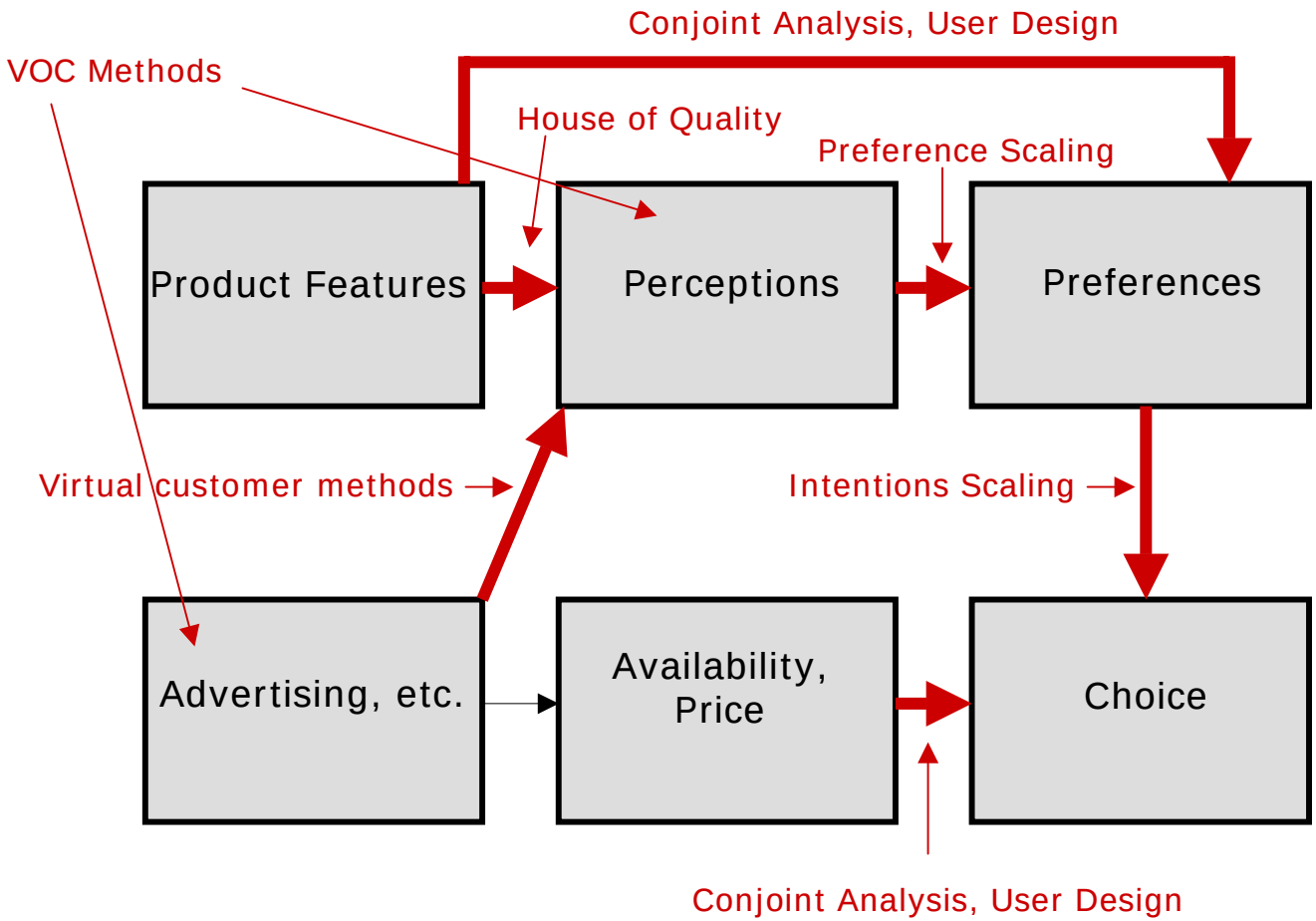
Vertical (mm): +/- 4
(hit Tab key to see image adjust)

Price: $ 29500

Next >>



Many methods to obtain the Voice of the Customer



Customers (Behavior, Research)

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Science of consumer behavior

"In some situations, consumers do have clear and strong preferences for particular product and service characteristics. In such cases, none of the (behavioral science) manipulations affect purchase decisions."

"However, just as buyer's preferences and perceptions are routinely measured, marketing managers and researchers can systematically study the various other influences on customers' purchase decisions and use the findings to develop appropriate marketing tactics."

Simonson (1993, page 80)

Theories of consumer behavior

- Lens model – see the world through the "lens" of perceptions
- Non-compensatory processes
- Framing

Compensatory or non-compensatory?

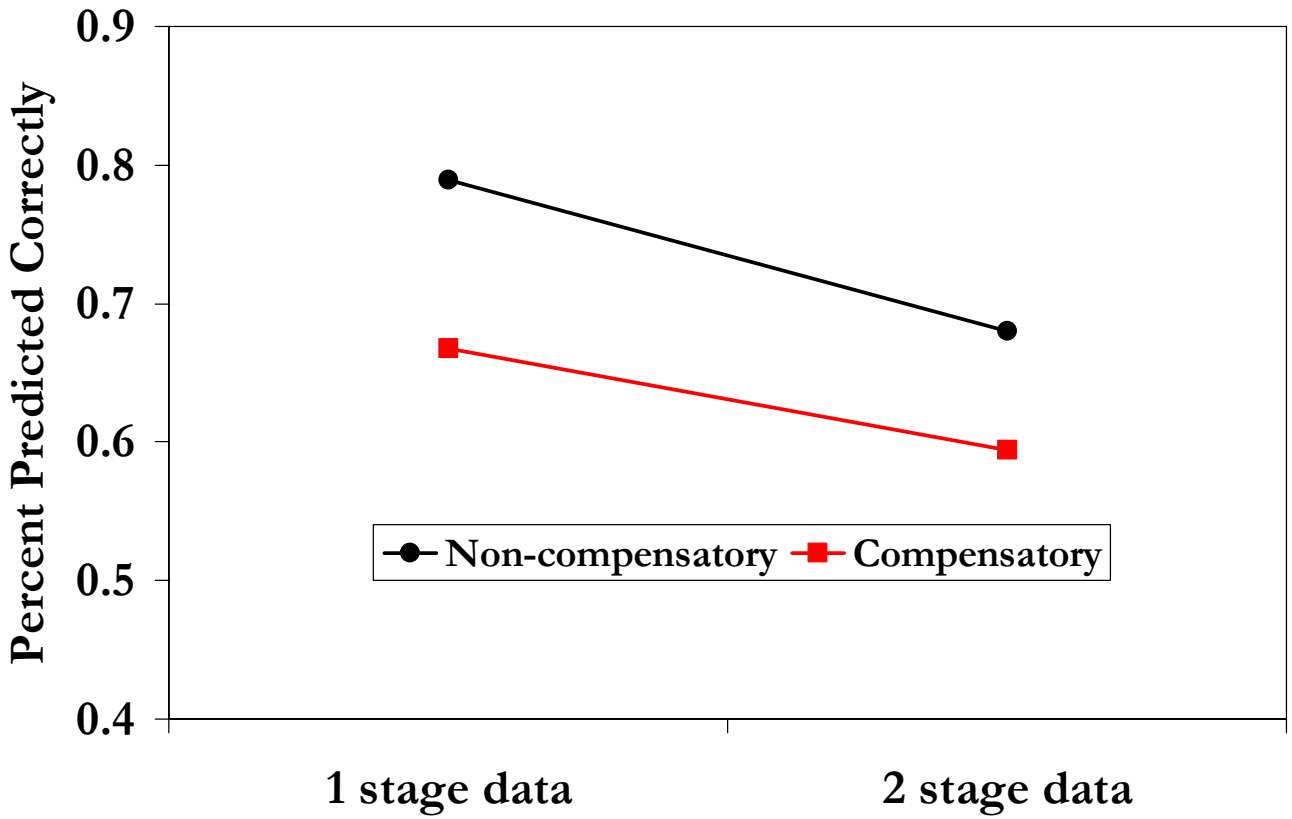
How did you construct your decision process?

Choosing from 32 Smart Phones

32! = 263,130,836,933,694,000,000,000,000,000,000,000 orders

How many are consistent with a linear model? < 0.1%

Non-compensatory predicts consumer choices more accurately



*Non-compensatory vs. compensatory significant

*One- vs. two-stage data collection significant

Must have or must have not features

Aspect	Accept/Reject	Percent of Sample
Price - $499	Reject	49.2%
Flip	accept	32.0%
Small	Accept	29.4%
Price - $299	Reject	19.8%
Keyboard	Accept	17.3%
Price - $99	Accept	14.5%

Framing

Stereo Speakers

	Price	Quality
Speakers M	$1,000	1% distortion
Speakers N	$800	5% distortion

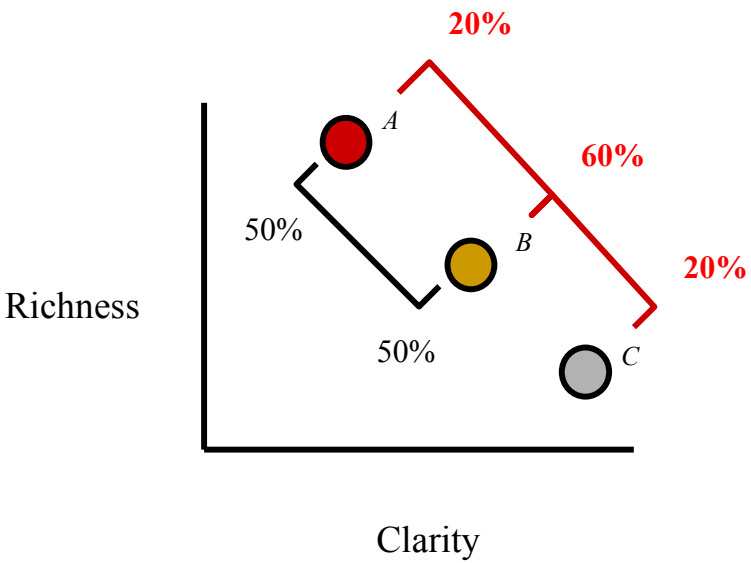
	Price	Quality
Speakers M	$1,000	99% clarity
Speakers N	$800	95% clarity

Theories of consumer behavior (cont.)

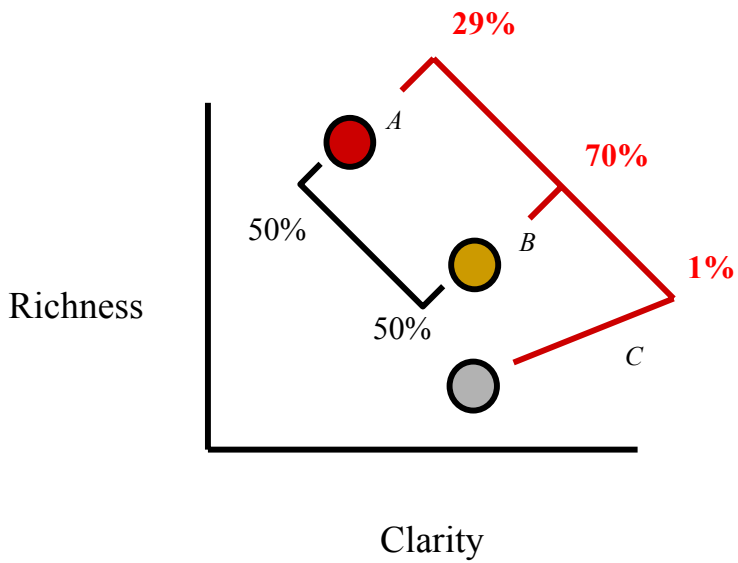
- Context effects
  - asymmetric dominance
  - compromise effect
  - timing (variety)
  - feature salience
- Memory Schema
- Self-perception and labeling
- Mental accounting

Examples of context

Compromise Effect
(Stereo Speakers)



Asymmetric Dominance
(Stereo Speakers)



Is this a real example variety forecasting?

(Image by MIT OCW.)

	from 3 jams	from 64 jams
Percent trying	32%	71%
Percent purchasing	21%	3%

Memory schema & self-perception

- Brita, Pantene

- Newspaper promotion
  - full price
  - half-price
  - free
  - free plus incentive to try

Mental accounting

- Segregate gains (if you act now …)
- Integrate losses (charge cards, car stereos)
- Integrate mixed gains (voluntary transactions)
- Segregate large loss and small gain (rebates)

Summary

- Critical to understand customers
- Many effective methods to gather data.
  - voice of the customer
  - conjoint analysis
- Use the “lens” model to organize data for analysis
- Be aware of the science of consumer behavior
  - as tactics
  - as noise in data collection