

3E2 MARKETING – CRIB 2014

Vincent Mak

16 May 2014

- 1 (a) Describe Maslow's hierarchy of needs, and comment on its applicability in understanding the needs of contemporary consumers.

From bottom to top in the hierarchy:

- (i) *Physiological needs: the needs for food, water, shelter etc.*
- (ii) *Safety needs: the needs for security and protection*
- (iii) *Social needs: the needs for a sense of belonging and love*
- (iv) *Esteem needs: the needs for self-esteem, recognition, and status*
- (v) *Self-actualisation needs: the needs for self-development and realization*

For the second part of the question, any reasonable points will be given credit. One possibility is that, while contemporary consumers still have all these needs, many may not rank them in such a hierarchy. For example, in the age of social media, many consumers may treasure social connectedness and social distinction (which are related to social and esteem needs) over and above more "basic" needs in the hierarchy.

- (b) Briefly introduce and suggest one example (from previous research discussed in class or otherwise, or from real life) for each of the following biases and anomalies in consumer decision making:

- (i) Primacy and recency biases.

In cases where a consumer makes choices or evaluations upon inspecting a number of options, primacy (recency) bias refers to a possible inclination to prefer the first (last) inspected option over others. An example is the wine study discussed in class (there is no need for an exact citation here; the student only needs to state that it has been discussed in class), in which subjects were asked to evaluate a number of sequentially presented wine samples; as it turned out, samples that were tasted first or last tended to be rated more highly than others – although in fact all samples were from the same wine.

- (ii) Pennies-a-day.

This refers to the possibility that when a lump sum payment is broken down into small periodic payments, consumers may be more likely to pay. A simple example is that charity organisations often frame their appeal as "a 10p donation a day can help in

this or that way ...” rather than, for example, what can be done with £35 donation a year, which is in fact a smaller donation.

- (c) Airlines are known to adjust their prices dynamically, so that the price of a specific seat on a specific flight could vary with time until the flight departs. Discuss whether organisers of music concerts should do likewise and adjust the ticket prices of concert seats dynamically.

Any reasonable points will be given credit. For example, the student may note that dynamic pricing (at the level of sophistication of airline ticket pricing) is not usually done in practice with concert tickets. However good economic sense the idea may make, implementing it might be perceived as against the relevant norm for many consumers, and might even cause furore among consumers because of its perceived unfairness (“if I buy ticket for a seat now I may have to pay more than another person who buys the seat next to me at an earlier or later time”).

On the other hand, it can also be argued that concert organisers are already using a mild, less sophisticated form of this strategy in any case, such as an “early bird” discount for people who buy tickets sufficiently long before the event. The discussion can then delve into whether appropriate framing can mitigate perceived unfairness, if concert organisers would like to further implement dynamic pricing strategies.

- 2 (a) Discuss the pros and cons of segmentation by demographics.

Some of the pros are:

- (i) It is often easy to collect and analyze demographic data*
- (ii) Demographic data are objective measurements and thus reliable*
- (iii) Demographic data are highly quantifiable. As such, demographic data allow for refined degrees of segmentation, such as segmentation by a combination of age group distinctions, postcodes, etc.*

Some of the cons can be elaborated around the fact that it is often questionable whether demographic data correspond with any consumer taste segments at all – the student can refer to examples discussed in class and in course readings such as Christensen et al. (2007). Using demographics to segment might then lead to unnecessary differentiation among consumers who should have been grouped under the same segment, or, conversely, grouping together consumers who should have been differentiated into separate segments.

- (b) Describe the concept of perceptual map, and discuss the pros and cons of using perceptual maps in product positioning.

Perceptual map refers to the approach of analyzing products along a number of attribute dimensions, so that a product can be represented as a point in a map constructed from those chosen dimensions; note that the representation must be based on how consumers perceive the product. As such, perceptual map can be used to examine competitive relationships between products. Moreover, “gaps” in the perceptual map that have not been occupied by any existing products might serve as “areas of vulnerability” for new products to occupy. Perceptual map can also be used to represent consumer segments, as each segment can be represented as a cluster on the map surrounding the segment’s ideal point. Marketing research data coupled with statistical analysis can be employed in such exercises.

The pros of perceptual map include that fact that it enables systematic, organised comparison of the competitiveness of products, and also uncover opportunities for new product development. The cons include that fact that the chosen dimensions may have little relevance for consumer choice, and attributes that are completely unrepresented in the perceptual map might be actually important in consumers’ perceived image of the product. The Zima example discussed in class could be introduced here to illustrate the point.

- (c) Firms often design lines of products. Products within the same line belong to the same product category but are targeted at different segments of customers. Discuss the pros and cons of this marketing approach.

This may seem like a common practice but a good answer should point out what might be good and not so good about it.

The pros include, for example, the fact that each product in a product line can be specifically designed to appeal to the taste of the targeted segment, so that overall the firm will be able to connect with different types of customers. Moreover, the approach could allow the firm to establish competitive leadership and brand reputation in each of the segment that each of the product targets.

The cons include the possibility that, if the segmentation exercise has been carried out erroneously, products that are meant to target different segments might turn out to ineffectively serve their purpose, and even worse, might cause cannibalization problems among each other. In some cases, it might happen that, if there are many products in the same product line without a careful brand management strategy, consumers would find it difficult to form a clear brand image of the firm by associating the brand with any specific product. That is, the different products might collectively cause some degree of brand dilution.

- 3 (a) Describe the two types of marketing communication appeals as discussed in class, and discuss how they can influence consumer decision making.

The two types of appeals are informational (quality, performance, reliability etc.) and transformational (fear, humour etc.). Examples of how these types of appeal influence consumer decision making include:

- (i) Both types of appeal can lead to recall/recognition of the product and reinforce/change consumer attitude*
- (ii) Transformational appeal is often effective in inducing awareness or recognition, and in building/reinforcing brand image*
- (iii) Informational appeal can assist evaluation and strengthen memory of the product through high-involvement response. The very fact that a communication is delivered could also serve as an informational “handicap” signal/appeal to consumers. That is, consumers may perceive that the product must be of sufficiently high, profitable quality that justifies the costly communication being delivered at all.*

- (b) The television broadcast of the Super Bowl, an annual sporting event in the United States, is typically the most watched television programme in the year in that country.

- (i) Discuss why commercial (i.e., advertising) airtime during the Super Bowl broadcast has become the most expensive commercial airtime of the year.

An obvious reason is that any commercial aired during Super Bowl can be guaranteed to be able to reach out to a very large number of viewers, so that marketing communications could be highly effective. But a good answer should also include more in-depth discussion on the phenomenon. One possible point is that the airtime has to be so expensive to deliver a strong “handicap” signal impact that takes advantage of the valuable occasion.

- (ii) Discuss why companies that pay for Super Bowl commercial airtime often develop new, expensive advertisements that are broadcast for the first time during the airtime.

Again an argument based on “handicap” signal can be made – the new, expensive advertisement could make sure that the “handicap” signal is clearly delivered to the audience. A point can also be made that, if other firms air new, expensive advertisements during the same airtime, a firm would be pressured to follow suit because: (a) otherwise the firm’s image could be tarnished based on viewers’ comparisons of qualities of advertisements, as viewers would form their judgments and perceptions with reference to other advertisements; (b) over and above perceived advertisement quality, the function of the advertisement as a “handicap” signal might

also be lost if viewers perceive that the firm is not spending as much on its Super Bowl advertisement as other advertisers. The general idea behind prospect theory can be mentioned here to support the argument that people's perceptions are always formed in context based on reference points.

(iii) Suppose a company is facing a choice between using its Super Bowl commercial airtime to advertise an existing product that has been sold in the market for some time, or using the airtime to advertise a new product. Discuss what factors the company should consider when making the choice.

Any reasonable points will be given credit. A possible point is that companies should tailor this decision according to its brand image. If the company's brand image is based on emotional connections with consumers through existing products, it might prefer advertising its existing products in order to reinforce the familiar feeling among consumers. But if the company's brand image is associated with innovations, its Super Bowl advertisement might better be about a new product.

