Session 4: Consumer Analysis

Marketing Management
Nanda Kumar, Ph.D.

Key Issues

- Who are the current and potential customers?
- Why do they buy?
- How do they make purchasing decisions?
- Where do they buy?
- When do they buy?

Who are the Consumers?

- All consumers are not born alike – need for segmentation!
- Segments must differ in their response to marketing stimuli
- Identifying different segments in the consumer population and deciding which segment to target are different
Segmentation: Rationale?

- Heterogeneity in consumer characteristics – needs, price/quality sensitivity, where they purchase etc.
- Why segment?
  - Lowers cost
  - Can more effectively pursue chosen segments
  - Customized marketing mix

Segment of Size One?

- Mass Customization
  - Facilitated by information technology

Segment Based on What?

- Identify variables that describe customer characteristics
  - Geographic – consumers in different areas may have different tastes
  - Demographic – income, age, race, education etc. known to influence behavior
  - Psychographic – differences in lifestyles, personalities
Segmentation Based on Behavior

- Frequency – regular vs. occasional
- Volume – high vs. low
- Benefits/Need – service, quality, performance
- Inertia – loyal, semi-loyal, no loyalty
- Attitude – positive, negative etc.
- Other

Advantages of Segmentation

- Helps analyze growth potential in different segments
- Helps customize marketing mix once the characteristics of the different consumer segments are recognized – loyalty programs, coupons etc.

Some Popular Segmentation Schemes

- Cohort Analysis – age based segmentation
- Psychographic segmentation – based on attitudes, values, product usage, media use
- Values and Lifestyles – based on survey responses to consumer attitudes
- Other
Data Collection

- Primary or secondary data
- Surveys – gather information on the customer base – geographic, demographic, psychographic
- Important to gather information on folks who do not purchase your product as well

Developing Target Markets

- Two issues
  - Identify the segments – segment characteristics
  - Are they worth targeting?
- Too many or too few?
  - Customizing can be effective but costly
  - It might be better to ignore some segments

Identifying the Different Segments

- Behavior = f(segmentation variables)
- Examples:
  - High volume buyers tend to be households with more than 5 members
  - Heavy users of cell phone make more than $50K/year
Why do Consumers Buy?

- Satisfy need(s)
- Product not a bundle of attributes but a package of benefits
- What are the needs of the different segments?
- What benefits does the product offer to each segment – helps tailor the communications strategy appropriately!

Targeting Issues

- What is the segment size?
- Growth rate?
- Competitive position?
How do Consumers Purchase?

- Search for alternatives
- Sources of information
  - Internal – past experiences/information, WOM
  - External – articles in the trade press, advertisement, WOM

Ordering of Alternatives

- Consideration or evoked set – brands that have non-zero probability of being purchased
- Inert set – unaware of the existence, no intention of purchasing from this set
- Purchase set – products that consumer has actually purchased in a specified time horizon

Determine your status through market research

What to Purchase from the Consideration Set?

- Purchase the product that yields the highest value
- Value = \( f(\text{attributes, weights}) \)
- Computing value
  - What attributes define a product (in the consumers’ mind)?
  - How much of an attribute is an alternative perceived to possess?
  - What weights to the consumers associate with a particular attribute?
  - How is all this information combined?
Consumption Experience

- Does it conform to expectations?
- Expectations are formed prior to consumption
- Favorable experiences more likely to lead to repeat purchases
- Important to set the right expectations

Distribution Channels

- Where are consumers buying?
- Which channels are shrinking/emerging?
- Availability a necessary condition for purchase
- Also has implications for other marketing mix

Purchase Timing

- When do customers buy?
  - Time of day
  - Day of the week
  - Month/Season
  - Other
- Recognition of these issues may help smooth logistical issues related to demand spikes
- Also has implications for marketing mix