

Understanding Value & CB models



Learning Outcomes

- LO¹** Describe the consumer value framework, including its basic components.
- LO²** Define consumer value and compare and contrast two key types of value.
- LO³** Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.

Learning Outcomes

- LO⁴** Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.
- LO⁵** Analyze consumer markets using elementary perceptual maps.
- LO⁶** Justify consumers' lifetime value as an effective focus for long-term business success.

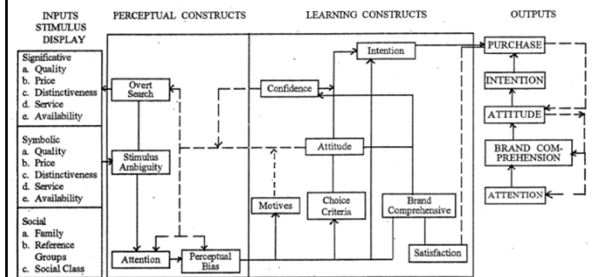
LO¹

Describe the consumer value framework, including its basic components.

LO¹ The Consumer Value Framework (CVF)

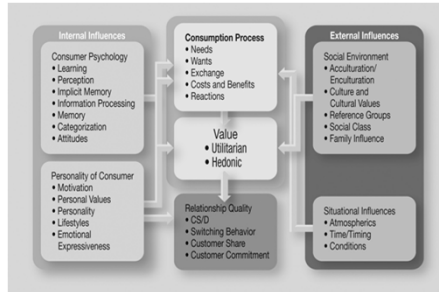
Represents consumer behavior theory illustrating factors that shape consumption-related behaviors and ultimately determine the value associated with consumption.

LO¹ The Howard – Sheth Model



(Source: John A Howard, Jagdish Sheth, The Theory of Buyer Behaviour, John Wiley, 1969)

LO¹ The Consumer Value Framework (CVF)



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LO¹ Internal Influences

Psychology
of the
consumer

Personality
of the
consumer

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LO¹ Psychology of the Consumer

- **Cognition** – the thinking or mental processes that go on as we process and store things that can become knowledge.
- **Affect** – refers to the feelings experienced during consumption activities or associated with specific objects.

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LO¹ Personality of the Consumer

Individual differences include things like personality and lifestyles.

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LO¹ External Influences: Interpersonal Influences



Social Environment

Situational Influences

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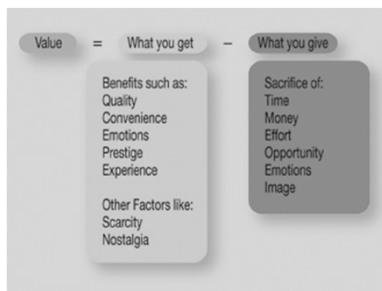
LO²

Define consumer value and compare and contrast two key types of value.

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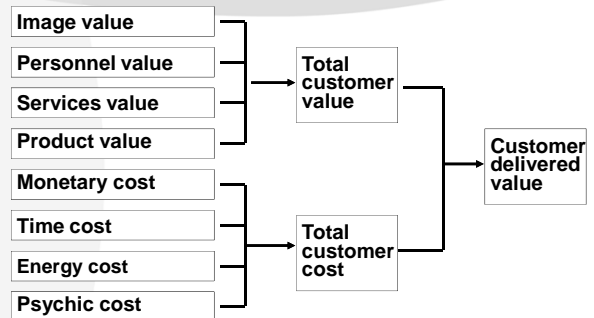
LO² The Value Equation



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LO² A marketing value equation



Kotler, P. (2003). Marketing Management, London: Prentice Hall

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LO² Consumer Value

Value is a personal assessment of the net worth obtained from an activity.

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LO² Types of Value

Utilitarian

Hedonic

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LO² Value



What type of value do consumers get from this product?

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Value



And what type of value do consumers get from this product?

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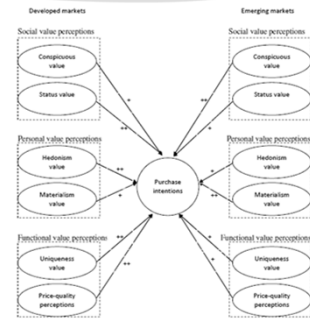
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LO²

Consumption Activities Can Fall into Any of These Categories

		Utilitarian Value	
		Low	High
Hedonic Value	Low	Bad Positioning – slow “fast” food in an unpleasant environment	Okay Positioning – fast, “fast” food
	High	Okay Positioning – restaurant with nice atmosphere but poor service	Superior Positioning – restaurant with great atmosphere, great food, and great service

Shukla’s Comparative Consumption Value Framework



LO³

Apply the concepts of marketing strategy and marketing tactics to describe the way firms go about creating value for consumers.

LO³

Business Strategy Exists at Different Levels

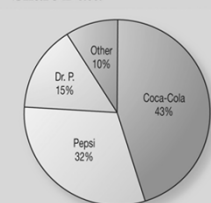


LO³

Total Value Concept

Why do you think Coca-Cola has such a large share of the market?

EXHIBIT 2.5 U.S. Soft Drink Market Share Data



Source: “Coca-Cola Gains Market Share Over Pepsi; Soft Drink Industry Shows Modest Growth,” Food and Drink Weekly (March 3, 2003), http://www.findex.com/generic.html_image/1716_8_2003/38594568, accessed June 30, 2010.

LO³

Total Value Concept

Every product’s value is made up of the *basic* benefits, plus the augmented product, plus the “feel” benefits.



LO³ Value Is Co-Created

Value co-creation is the realization that a consumer is necessary and must pay a part in order to produce value.

LO⁴

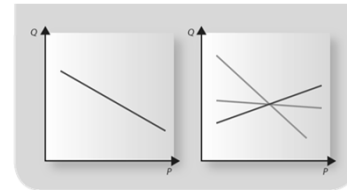
Explain the way market characteristics like market segmentation and product differentiation affect marketing strategy.

LO⁴ Market Segmentation and Product Differentiation

Market segmentation is the separation of a market into groups based on different demand curves associated with each group.

Product differentiation is a marketplace condition in which consumers do not view all competing products as identical to one another.

LO⁴ Total Market Sales and Sales within Market Segments



LO⁴ Product Category Demand

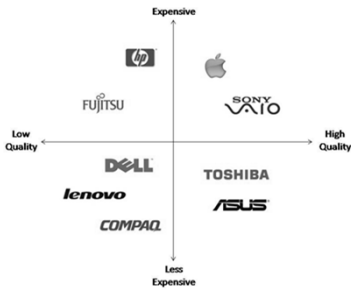


Chanel No. 5 is in high demand at about \$250 an ounce.

LO⁵

Analyze consumer markets using elementary perceptual maps.

LO⁵ A Perceptual Map for Laptop Brands



LO⁶

Justify consumers' lifetime value as an effective focus for long-term business success.

LO⁶ Customer Lifetime Value (CLV)

Customer lifetime value (CLV) represents the approximate worth of a customer to a company in economic terms.

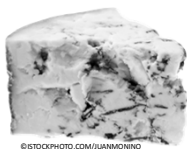
$$CLV = npv(\text{sales-costs}) + npv(\text{equity})$$

LO⁶ Customer Lifetime Value

Average transaction value
 x
 Yearly frequency of purchase
 x
 Customer life expectancy

$$Value = \int_{k=0}^{\infty} \int_{t=k}^{\infty} n_k m_{t-k} e^{-ik} e^{-\left(\frac{1+i-r}{r}\right)(t-k)} dt dk - \int_{k=0}^{\infty} n_k c_k e^{-ik} dk$$

LO⁶ Authenticity



Some consumers will recognize the real Stilton cheese from the pretenders and are willing to pay more for the real deal.

Framing Effects and Value Judgements

Imagine that Finland is preparing for the outbreak of an unusual African disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume that the exact scientific estimate of the consequences of the program are as follows:

- If Program A is adopted, 200 people will be saved (72 percent).
- If Program B is adopted, there is a 1/3 possibility that 600 people will be saved, and 2/3 possibility that no people will be saved. (28 percent).

Kahneman, D., & Tversky, A. (1984). Choices, values, and frames. *American Psychologist*, 39(4), 341.

Framing Effects and Value Judgements

Imagine that Finland is preparing for the outbreak of an unusual African disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume that the exact scientific estimate of the consequences of the program are as follows:

- If Program C is adopted, 400 people will die (22 percent).
- If Program D is adopted, there is a 1/3 possibility that nobody will die, and 2/3 possibility that 600 people will die. (78 percent).

Kahneman, D., & Tversky, A. (1984). Choices, values, and frames. *American Psychologist*, 39(4), 341.

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