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MSI

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Contents

A Model of Customer Satisfaction with Service Encounters Involving Failure and Recovery

Amy K. Smith, Ruth N. Bolton, and Janet Wagner

Service organizations are facing more intense customer service pressure than ever before. When a service failure occurs, the organization's response has the potential to restore customer satisfaction and reinforce customer loyalty, or exacerbate the situation and drive customers to a competing firm. Since service failures are highly prevalent—even in successful organizations—an important avenue for improving customer service is to ensure effective service "recovery."

In this study, authors Smith, Bolton, and Wagner investigate the question: What is the most effective way for an organization to recover from a service failure? The goal is to provide guidelines for establishing the proper "fit" between service failure and service recovery that will generalize across a variety of service industries.

The Study

The study examines how customers' responses to service failure and recovery encounters are influenced by (1) the type and magnitude of the failure and (2) the nature of the recovery efforts. It focuses on four key recovery attributes—level of compensation, speed of response, presence or absence of an apology, and whether the recovery was initiated by the customer or the organization—and their relative importance in restoring customer satisfaction.

In a survey, customers evaluated written service failure and recovery scenarios relative to an organization—either restaurant or hotel—they had recently patronized. The restaurant sample consisted of 355 customers from a variety of restaurants (not fast food restaurants); the hotel sample consisted of 549 customers of a mid-range line of hotels, owned by a large international chain.

Findings and Implications for Managers

In both service settings, *customers were less satisfied after a process failure* (such as inattentive service) *than an outcome failure* (such as an out-of-stock condition). This suggests that in face-to-face service encounters, process failures, which are typically attributable to the behavior of front-line employees, may detract more from satisfaction than outcome failures, which typically result from behind-the-scenes events.

Interestingly, outcome failures generally receive the most attention from managers, whereas process failures tend to attract more attention from customers.

Most industry surveys of customer satisfaction do not include questions about fairness or justice. Instead, they focus on disconfirmation—whether service is better or worse than the customer might have expected/predicted. This study showed that customers' satisfaction with service encounters involving failures and recovery efforts depends on their perceptions of justice. Hence, managers should survey customers about their perceptions of justice—i.e., what is fair, right, or deserved—to better understand customers' expectations concerning service.

In evaluating service encounters, customers consider three types of perceived justice: distributive (fairness of outcomes), procedural (fairness of policies), and interactional justice (fairness of personal treatment). Recovery is most effective when the recovery attribute (i.e., compensation, speed, apology, or initiation) "matches" the type of justice. For example, compensation has the greatest effect on customer perceptions of distributive justice (fairness of outcomes), while an apology has the greatest effect on perceptions of interactional justice (fairness of personal treatment).

An implication of this finding is that, in the case of process failures, certain no-cost actions such as proactively initiating a recovery and providing an immediate apology may restore customers' perceptions of justice (and ultimately, satisfaction) to the point where additional monetary compensation is superfluous. In fact, in some cases, "overcompensation" may result in diminishing returns to the organization in terms of improving customer relations. (This finding may not hold for certain price-sensitive groups.)

In summary, the results of this study provide organizations with guidelines for developing service recovery policies to improve customer service and enhance customer relationships. These guidelines can be used to: (1) implement service delivery systems that provide for appropriate service recovery efforts, (2) allocate service recovery resources to maximize "returns" in customer satisfaction, and (3) train employees to anticipate service failures and either forestall them or reduce their effects on customer satisfaction.

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The Impact of Marketing Policy on Promotional Price Elasticities and Baseline Sales

Michael J. Zenor, Bart J. Bronnenberg, and Leigh McAlister

The ability of price promotions to increase a brand's sales varies across brands, categories, retail chains, and markets. These differences in promotional *price elasticities* have been shown to be systematically related to marketing policy.

In this study authors Zenor, Bronnenberg, and McAlister broaden the focus to consider the relationships between manufacturers' and retailers' marketing policies, promotional price elasticities, and *baseline sales.* Using weekly store sales data for three cleaning product categories, they find that, for almost all elements of the marketing mix, those actions that tend to increase the degree of promotion response tend also to lower the level of baseline sales.

National advertising share of voice is the *only* element that does not follow this pattern. Higher levels of national advertising tend to be associated with higher levels of promotional price response *and* higher levels of baseline sales.

The insights from this theoretical analysis could prompt reconsideration of the traditional budget allocation process. For instance, if marketing actions taken today cause the structure of response to change such that unpromoted, full margin, baseline sales are diminished in the future, those marketing actions might bear reevaluation.

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Organizing for Radical Product Innovation

Rajesh K. Chandy and Gerard J. Tellis

Radical innovations are critical to the long-run success of a firm. They can drastically change firms' competitive positions, weakening or destroying giants, encouraging new entrants, and promoting new market leaders. By its radical innovation in plain paper copying, for example, Xerox was transformed from a nonentity to a giant in the copier industry. Similarly, Kodak became a colossus of the photography industry with its radical innovation in celluloid roll cameras. On the other hand, by failing to confront the next wave of technology, giants such as Underwood and Remington lost their dominant market positions.

Why are some firms better at radical product innovation than others? The literature focuses on size as the main driver of radical innovation. Despite decades of research, however, there is no consensus as to whether small firms, medium-sized firms, or large firms are more likely to produce radical innovations. Here, authors Chandy and Tellis propose an explanation for radical innovation that is based on alternate organizational and strategic factors.

Study and Findings

A survey of 192 senior managers in the computer hardware, telecommunications, and photonics industries indicated that size by itself has *no effect* on radical product innovation. The key factor separating radical product innovators from noninnovators is *willingness to cannibalize* specialized investments.

A specialized investment is an asset or an organizational process whose value is strongly tied to a particular product technology. Innovating organizations pursue radically new technology even though doing so could cannibalize specialized investments. Noninnovators, however, are unwilling to cannibalize.

As firms build more specialized investments, they become less willing to cannibalize them. Large incumbent organizations in a product market possess many specialized investments in older product technologies. Hence, *other things being equal*, they are less likely to be radical innovators.

Are large incumbent firms with many specialized investments doomed to die with their technologies? Not necessarily. Results from the study indicate that firms can overcome their reluctance to cannibalize by fostering three organizational features: (1) active internal markets, (2) influential product champions, and (3) future market focus. Large firms that possess these features are highly willing to cannibalize, even though they own many specialized investments.

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Commercial Adoption of Advances in the Analysis of Scanner Data

Randolph E. Bucklin and Sunil Gupta

In this study, authors Bucklin and Gupta examine the commercial use and adoption of state-of-the-art methods for analyzing UPC scanner data by the consumer packaged goods industry in the U.S. They conducted wide-ranging in-person interviews with 41 executives from 10 data suppliers, packaged goods manufacturers, and consulting firms.

Findings

The application of analytical methods to scanner data has yielded some notable successes in marketing mix decision making, particularly in consumer and trade promotions. Scanner analysis is credited with a widespread change in managers' attitudes toward, and spending on, coupon promotions. It has also helped firms substantially improve the productivity of trade promotion spending, and is widely used to explore price elasticity and to search for possible price thresholds for both base prices and temporary price reductions.

For marketing mix decisions outside of price and promotion, the adoption, use, and comfort with scanner analysis is generally lower. In product strategy, there are few scanner-based models available to guide decision making (due to the inherent limitations of using any historical data to guide new product strategy). Thus, managers continue to rely heavily on traditional primary research methods.

In distribution, account-specific information is routinely used by sales representatives to help manage relations with the grocery trade and other channel formats. Recently, however, the focus has shifted from data to insights, with requests for account- and store-specific analyses on topics from price sensitivity to market structure.

In the area of advertising, the application of models and analytical techniques to scanner data was disappointing. Most practitioners expressed high levels of frustration with the inability to get clean, consistent answers about advertising effectiveness from scanner data.

The authors also note that the key uses of scanner data are often not analytical; instead, scanner data are most often used as tools to manage the business day-to-day (e.g., sales and share scorecard, logistics planning, data for the salesforce in retail account management).

Implications

The diffusion of new analytical approaches depends on managers' confidence that scanner analysis can offer advantages over judgment and other methods. At PepsiCo, for example, one executive reported that the prevailing perception in the organization is that the "win rate" from decisions aided by scanner data analysis was not necessarily higher than those based on managerial judgment. In addition, many managers commented on the high costs of scanner data and custom studies.

Future research should focus on the following:

- *Advertising Effects.* Research is needed to determine the short- and long-run effects of advertising, and to demonstrate empirically any brand-building effects of advertising. In addition, research is needed to resolve aggregation issues.

- *Baseline and Incremental Sales.* Research is needed to develop simple, robust models that will produce better estimates of promotional sales that are truly incremental for the manufacturer. These models will also need to consider the effect that promotions may have on consumption in some categories.

- *Store-specific Effects.* A latent class analysis could be developed to assess store-specific response and obtain store-specific insights.

- *Assortment.* Manufacturers and retailers could benefit from methods to determine the costs and benefits of broader versus narrower product assortment.

- *Shopping Basket.* Academics and practitioners need to move beyond the analysis of a single category to better understand consumers' decision process for the selection of a shopping basket purchase.

In the longer term, research in scanner data analysis should shift its focus from short-term tactical issues to strategic issues (e.g., brand equity, customer equity, competitive reactions, category expansion); from sales analysis to the analysis of the effects of marketing mix elements on short- and long-term profits; and from descriptive to prescriptive models. In addition, to avoid "methods confusion," standards for scanner data analysis could be established industry-wide.

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Preproduction Market Potential Assessment of Innovative Consumer Products

Rajiv Grover and Muammer Ozer

Most market potential assessment models are based on purchase intentions, analogies, expert opinions, and/or information acceleration. For innovative products, the first three approaches are less than satisfactory in assessing market potential. The information acceleration approach, while offering significantly more accurate forecasts, costs hundreds of thousands of dollars to implement.

In this report, authors Grover and Ozer propose a method for assessing the market potential of innovative consumer products at the concept stage of development. Their approach uses expert decision makers to *infer* individual purchase probabilities (and, hence, market potential). Models for assessing new product potential at the concept stage are particularly attractive because they are deployed before significant resources are sunk.

Method and Results

Product and consumer characteristics were discovered by qualitative research, and market segments identified by fuzzy clustering, for four innovative Internet services. A group of experts then predicted the probability of purchase of the new product by a typical individual in each of the segments.

The researchers compared predictions of the proposed approach, predictions based on self-reported intentions and actual usage of the four Internet services. The results showed that the proposed method improved predictions by more than 80 percent over self-reported measures.

Managerial Implications

Although the model outlined here is more time consuming and expensive than the popular approaches of purchase intentions and analogies, or the usual uses of expert opinion, it offers a significantly more accurate assessment of market potential for innovative consumer products. It does so by overcoming two significant problems in expert decision making—mismatched experts and “faulty task” syndrome. First, the segmentation approach makes the task more structured for experts. In addition, several experts are used and each is trained and given extensive information about the segment and the product.

This method might be considered information acceleration to experts. But the information need not be as graphic and extensive, and the model can be deployed with fewer respondents. Thus, it is significantly less expensive than the information acceleration technique.

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Brand Managers' Perceptions of the Marketing Communications Budget Allocation Process

George S. Low and Jakki J. Mohr

Marketing managers face a considerable challenge as they wrestle with the task of how to allocate their advertising and sales promotion budgets in order to improve sales, market share, profits, and consumer attitudes. In making their allocation decisions, they consider a wide range of product factors and market conditions, such as the degree of differentiation a brand has in a product category and the competitive intensity in a market. Managers are also subject to the organizational realities of political influence, the nature of the reward system, and historical inertia. How do these factors relate to relative allocations between advertising and sales promotion? How do these allocations relate to outcomes?

In this study, authors Low and Mohr address these questions by identifying the product, market, and organizational factors that are related to advertising and sales promotion budget allocations. They also investigate the nature of the relationship between budget allocations and sales, market share, consumer attitudes, and profits.

Study and Findings

Based on data collected from 165 managers of packaged good firms in the U.S., they found that:

- As brands move to the more mature phase of the product life cycle, managers allocate less to advertising and more to promotions.
- When a brand is well-differentiated from the competition, managers allocate more to advertising relative to promotions.
- When formal rewards are focused on short-term results, managers allocate less of their budgets to advertising relative to promotions.
- As retailers have more influence, managers allocate less of their budgets to advertising relative to promotions.
- As managers have greater experience with the company, they tend to allocate proportionately more of their budgets to advertising relative to consumer and trade promotions.

In addition, there appears to be a significant amount of historical inertia in budget allocation decisions: managers rely heavily on the previous year's budget allocation in planning for the subsequent year. In fact, the influence of historical inertia overwhelms all the other variables included in the regression models.

Finally, they found that the effects of different allocations to advertising, consumer promotion, and trade promotion are complex and interactive. A "best" allocation to one tool cannot be determined without considering the allocation to the other two.

Implications for Marketing Practitioners

Marketing practitioners might use these findings to evaluate how their budget allocation decisions fit into their company's strategic direction for a product or division. By explicitly considering such issues in budgeting decisions, managers may be able to avoid allowing such factors—particularly the influence of retailers and the salesforce—to unwittingly influence their budget allocations. In addition, senior management should make sure that reward systems encourage appropriate behavior (i.e., long-, medium-, or short-term results).

Similarly, these results suggest that managers may be subject to strong historical inertia in budget allocation decisions. If the rate of change in the company's environment is slow, these historical allocations, when based on careful strategic analysis, may be a valuable decision heuristic. However, when environmental change is rapid, managers would do well to disregard historical precedent as much as possible and try to implement zero-based budget allocations.

Finally, given the complex interplay of consumer and trade promotions and advertising, managers should not measure the impact of any *one* marketing communications tool on sales, share, and profits. Managers should avoid drawing conclusions about one tool without considering the combined effects and synergy of all three. This is particularly important in light of today's trend toward flat budgets in which an increase in allocations to one communications tool typically comes at the expense of another.

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A Dynamic Model of Customers' Usage of Services: Usage as an Antecedent and Consequence of Satisfaction

Ruth N. Bolton and Katherine N. Lemon

A key question facing marketing managers today is how to manage the relationship with the customer—over the long term—thereby maximizing lifetime customer value. Understanding how the customer's "inputs" affect the customer-service provider relationship *over time* is critical to successful customer management. Focusing solely upon customer *reactions* to firm *actions* will no longer be sufficient, as this assumes that customers are passive, not active, players in these relationships.

In this study, authors Bolton and Lemon begin to examine this "customer side" of the customer-service provider relationship. They address the following questions:

- ❑ How does a customer decide how much to use a service? What factors influence this decision?
- ❑ How does customer usage change over time?
- ❑ How does a customer's usage level affect his or her overall evaluations of the service? Moreover, do these overall evaluations (such as customer satisfaction) affect subsequent usage?
- ❑ Finally, how do elements of the marketing mix, such as price, impact customer usage levels and customer satisfaction over time?

Study and Findings

The authors analyzed two databases that describe customers' experiences with and assessments of an interactive television entertainment service and a cellular communications service.

The findings suggest that customers decide how much to use the service in the *future* by considering how resources are *currently* exchanged within the provider-customer relationship. Customers seek to maintain payment equity in the service relationship (i.e., "Am I using this service enough, given what I pay for it?") by adjusting items under their control (usage levels) in response to changes made by the firm (price changes, perceived changes in service quality).

The most surprising theoretical insight resides in the complex multiple effects of price on the customer-provider relationship. Specifically, the effect of price on usage levels operates in four different ways. First, price operates through payment levels to influence payment equity. Second, price appears to affect satisfaction as well, over and above its effects through payment equity, thereby (indirectly) influencing usage in the subsequent period. Third, customers compare price with their normative expectations to decide the subjective expected value of using the service, increasing usage as price increases to maintain equity in the relationship. Fourth, price appears to have a direct effect on usage as well, as higher price, cross-sectionally, is associated with lower usage.

Implications for Managers

The key implication for marketing managers is that managing customer usage levels may be as important as managing customer satisfaction for long-term customer profitability. In fact, customer usage of the service and customer expectations of such usage can and should be managed, as they affect perceived equity, customer satisfaction, and, ultimately, customer retention.

More specifically, the study's findings provide several actionable insights for managers in service organizations. First, many organizations segment the market based on usage—implicitly assuming that customer usage levels are determined by factors out of managers' control and/or are relatively stable. Yet this study highlights the fact that usage is a decision that the customer makes based on his or her experiences with the service provider. Customers appear to manage usage to maintain payment equity *and* cumulative satisfaction in the service relationship. This finding suggests that service marketers should be equally proactive in managing their resources to maintain payment equity and satisfaction—e.g., customizing service bundles, migrating customers to more attractive price plans, and so forth. The goal of these efforts should be to create a high level of consistency among marketing mix elements that should lead to payment equity and satisfaction. The danger to the organization of failing to proactively manage the relationship is that customers may stop using the service.

Second, the findings suggest that pricing strategy for services may be much more complex than previously thought. Marketing managers should weigh the effects of pricing policy on perceived equity, satisfaction, and future usage when setting prices for continuously provided services. Although price increases may lead to decreases in perceived equity, organizations may be able to introduce pricing plans that increase (net) overall satisfaction and usage of the service.

Third, the results suggest that pricing strategies may play an important role in long-term customer satisfaction, usage, and loyalty.

The authors' findings suggest that organizations should include measures of customers' perceptions of the fairness of the exchange relationship in their customer satisfaction or service quality monitoring programs. In addition, firms should attempt to account for the effects of price in understanding how customer evaluations and usage levels change in the long run. This paper outlines a framework that allows marketing managers to examine the "state of the relationship" with their customers, over the life of the customer relationship.

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Antecedents and Consequences of Customer Value: Testing an Expanded Framework

Douglas B. Grisaffe and Anand Kumar

Customer perceived value is a focal construct in marketing and is often described as a key determinant of customer loyalty and word-of-mouth recommendation. While some define perceived value as the benefit-sacrifice trade-off of price and quality, others conceptualize benefits and sacrifices more broadly.

For example, two companies with comparable quality and pricing may be differentiated on the basis of customer focus, and customers may derive higher value from the firm with the higher levels of customer focus. In other words, customer perceptions of value may be influenced by more than pricing and quality and may be relative to other offerings in the marketplace.

Study and Findings

In this study, authors Grisaffe and Kumar investigated these notions by exploring influences on, and consequences of, customer perceived value in two customer satisfaction datasets: financial services and office products. Antecedents included perceived industry leadership and customer focus as well as measures of price and quality. Consequences included customer likelihood to recommend and likelihood to continue doing business.

They found that absolute and relative measures of value operate differently, both in patterns of antecedent and consequent effects and across the two industry contexts. They also found that, although value affected behavioral intentions, industry leadership, customer focus, and/or quality perceptions sometimes did so even more powerfully. Finally, in addition to directly affecting customer behavioral intentions, industry leadership and customer focus significantly influenced the prediction of value and quality measures. These findings provide evidence that a framework expanded beyond what is often considered may be required to understand the concepts of perceived quality and value.

Managerial Implications

In order to maintain or increase customer perceived value, managers need to consider broader influences than just price and quality. For example, a manager might keep prices constant while increasing quality. But if these increases in quality come at the expense of service, any gain in value could be offset by a loss in value from reduced perceptions of customer focus.

Second, managers should be concerned about both absolute (direct performance rating) and relative (comparison to "best-in-class") measures of value because they affect critical variables differently. In this study, relative value had a greater effect on customers' recommending intentions than did absolute value. The opposite sometimes appeared to be true for purchase intent. Thus, a manager's effort to influence a desired customer outcome may require either an absolute or relative focus.

Finally, managers must be cognizant of industry differences when attempting to influence value perceptions in their industry. Similarly, consultants wanting to transfer their experience from one industry to another must be cautious about "cross-applying" findings and knowledge.

Researcher Implications

Studies that include perceived value as a central focus need to consider a broader set of variables than just price and quality. Beyond the relative and absolute formulations, and the additional variables in this framework, these results suggest the possibility of other mediating variables between value and behavioral intentions, such as relationship commitment, satisfaction, trust, or expectations of worthwhile future interaction. Studies should also span a more diverse set of industries. Finally, more specific hypothesis testing of absolute and relative measurement would be useful.

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Climbing the Commitment Ladder: The Impact on Customer Commitment of Disconfirmation of Service Expectations

Susan S. White and Benjamin Schneider

Based on the assumption that it is less expensive to keep a current customer than to gain a new one, many service firms emphasize customer retention through creating committed customers. Efforts range from relatively minor actions, such as addressing customers by name, to more substantial programs, such as giving current customers advance information on new products or sales, and adding value to the credit cards of card holders. Such efforts have also been described as relationship marketing.

In this study, authors White and Schneider suggest that customers' levels of commitment to an organization are systematically related to the degree of customers' disconfirmations of service expectations. White and Schneider represent the different levels of commitment as "rungs" on a "ladder of commitment;" customers move up to become clients, supporters, and finally, advocates for the organization. Disconfirmations for specific facets of service quality, they propose, correspond to customers' positions on the ladder.

Study and Findings

Survey data were collected from a major automotive repair chain, nine hair salons, and the financial services and property and casualty divisions of an insurance company. People were classified as belonging to one of the four ladder levels based not on their reported attitudes of commitment toward the organization, but on their self-reported behaviors (e.g., whether they considered switching to another organization to be a real possibility, whether they "talked up" the organization to friends).

Study results suggest:

- Disconfirmation of expectations for the service dimension of *reliability* is the key to moving customers to the client level of commitment
- Disconfirmation of expectations for the *assurance* and *responsiveness* service dimensions is the key to moving clients to the supporter level
- Disconfirmation of expectations for the service dimension of *empathy* is the key to moving supporters to the advocate level

Managerial Implications

Service quality can buy customer commitment. However, simply concentrating more and more on one dimension of service quality (e.g., reliability) will not achieve the highest levels of commitment; different facets (e.g., assurance and responsiveness, empathy) need to be emphasized to yield the full benefits of service quality.

Most organizations do not have the resources to create advocates out of all of their patrons. This study tried to identify the dimensions of service that must be invoked in order to reach particular rungs on the ladder of commitment and, thus, identifies the dimensions organizations must emphasize if they want their patrons to achieve a particular level of commitment.

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Backward Framing Through Memory Reconstruction

Kathryn A. Braun and Gerald Zaltman

Past research has found that secondhand information (i.e., information acquired from external sources) preceding consumer experience can have a powerful effect on the experience; it has also suggested that secondhand information following consumer experience can cause consumers to reevaluate the earlier experience.

This study raises a question not previously addressed in the marketing literature: can information following consumption experience alter consumer *recall* of the earlier experience? In this view, consumers would recall a past product or service experience differently as a result of subsequent marketing communication. They would do so without being aware that their memory has changed—a process distinctly different from a change of mind created deliberately on the basis of new information.

Study and Findings

Authors Braun and Zaltman describe two experiments that investigate this question. Their preliminary investigation provides evidence that secondhand information exerts at least as much influence on evaluation when it follows as when it precedes consumer experience. Their primary investigation suggests, further, that secondhand information can indeed exert a "backward framing" effect through the process of memory reconstruction.

In the primary experiment, respondents watched and evaluated a movie trailer, and then received critic's reviews (positive or negative). Later, they were tested for their memories of their previously formed judgments. Those that received the positive critic information believed they had initially been more favorable in their rating of the movie and those that received the negative critic information believed they had not enjoyed it.

In other words, the information received after their initial viewing and evaluation transformed respondents' memories of how their past direct experiences were originally interpreted.

Managerial Implications

These findings suggest that consumers can be influenced to recall prior experience differently and in a manner consistent with a marketing communication, without being aware that their recall has changed. Memories created by after-the-fact marketing are apt to influence present consumer judgments and future buying behavior.

The results also suggest that marketing managers should consider the framing effects of marketing information more broadly. That is, communications intended to frame "forward" may also frame "backward." For instance, advertising intended to influence current beliefs in order to encourage repeat purchase, brand switching, or even new product trial may inadvertently alter interpretations of relevant prior consumption experiences.

Finally, these findings suggest that marketer-dominated information, such as advertising, *and* nonmarketer-dominated information, such as word-of-mouth communication and third-party expert opinions, can influence consumer recall of past experience. This represents a new and potentially important area for consumer research.

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A Business Perspective on Database Marketing and Consumer Privacy Practices

George R. Milne and María-Eugenia Boza

Large and small organizations alike are building databases with an eye toward increasing their marketing efficiency and improving their customer service. But the gathering of information for those databases has led to increasing concern about privacy violations. Although previous studies have examined the privacy issue from the consumer's point of view, there has been little research from business's perspective.

The Study

In this study, authors Milne and Boza probe the business perspective through three research questions. Using a survey of 365 organizations belonging to the Direct Marketing Association, they ask:

- ❑ Is the business perspective on privacy at odds with the consumer perspective?
- ❑ To what extent do businesses safeguard customers' privacy in their database- and relationship-marketing efforts?
- ❑ How do companies differ in their privacy practices?

Findings and Implications

The authors found that consumer and business perspectives were not necessarily opposed; however, only a third of the companies surveyed implemented the most stringent privacy-protection measures. Specifically, 38 percent notified customers about the gathering of personal information, 33 percent indicated the use of the information, and 26 percent asked for permission to use the information.

The study also found that organizations that made greater use of customer information were more likely to have privacy practices in place.

This evidence suggests that the practice of database marketing does not preclude the protection of consumer privacy. Firms that are building databases directly from internal sources are able to maintain the privacy of their customers. In addition, relationship marketing holds promise as a mechanism for improving communication about privacy issues with consumers. Overall, however, given that privacy practices are not yet widespread, the direct marketing industry should work harder at self-regulation when it comes to privacy protection.

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Variety for Sale: Mass Customization or Mass Confusion?

Cynthia Huffman and Barbara E. Kahn

Mass customization or "high variety" strategies offer a way for retailers to differentiate themselves from their competitors. In an effort to attract customers into their stores, retailers may advertise a wide-variety product line designed to appeal to every consumer taste. "Category-killers" such as Circuit City (electronics) or Toys 'R' Us have used this strategy successfully.

There is a significant potential drawback to high variety strategies, however. If a customer is overwhelmed by the huge assortment offered or frustrated by the complexity involved with making a choice, he or she may delay the decision or walk away without purchasing. Customer frustration may result in overall dissatisfaction with the shopping process, and may evolve into bad word of mouth for the retailer. The purpose of this article is to suggest ways that a retailer can mitigate the perceived complexity and frustration that may result from high variety strategies.

Study and Findings

From experimental evidence, the authors find that one key to customer satisfaction is how the retailer helps a nonexpert consumer figure out which options best fit his or her needs. It appears that customer satisfaction depends on: (1) the way information about product options is presented to the customer, and (2) the degree of customer input in the process of learning about options.

They find that when product assortments are complex, customers are more able to absorb necessary information about the options if they are asked their preferences for each feature one at a time, rather than asked to compare different alternatives. For example, consider the process Dell Computer uses in direct sales. Rather than asking their customers which completed computer they like, or asking them to modify an exhibited version to fit their own needs, Dell asks for customer preferences on each feature: memory, RAM, number of ports, etc. A customized computer is then developed based on these preferences and budget considerations. In contrast, in customized kitchen or sofa shops, the customer is usually shown various showroom displays of completed kitchens or sofas and asked to indicate what they like or don't like. For complex choices, this approach is likely to yield decreased satisfaction. Although the authors do not advocate eliminating product showrooms, they suggest that in some situations the consumer needs to learn his or her preferences before being exposed to these showrooms.

The research also indicates that the optimal degree of customer input is a moderate one in which customers are encouraged to express their preferences for various critical features of the product. Customers are less satisfied if they are only *shown* the features, a less effortful task than indicating their preferences. They are also, however, less satisfied if they are asked to do too much, e.g., to indicate which features are relatively more important to them, or what trade-offs among features they are willing to make.

This finding suggests that salespeople should attempt to involve customers more in the interaction when explaining the different options. For example, in a custom sofa shop, a salesperson should not only tell the customer what the critical features of a sofa are, e.g., the type of underlying construction, the outer fabric, or the size and shape of the sofa, but should encourage the customer to indicate which type of construction he or she prefers, what kind of fabric is better, etc. Pushing the customer too far—"what aspect of a sofa is most important to you?"—is likely to backfire and frustrate the nonexpert consumer, however.

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Authors' Note: The results reported here are preliminary in the sense that the data was collected with student subjects rather than through in-store fieldwork. Field testing of the hypotheses is planned.

Paradoxes of Technology: Consumer Cognizance, Emotions, and Coping Strategies

David Glen Mick and Susan Fournier

No one eludes technology—the telephone, the computer, the airplane overhead, the air-conditioned air. Technoculture is irrefutable and pervasive. Nonetheless, studies of technology in consumer research are few and narrow. Marketing knowledge about consumer technologies is principally informed by the diffusion-of-innovations paradigm, which focuses on technology adoption—antecedents, rates, and acts of adoption—not on consumers' experiences after they have brought the technological products home and into their lives. In addition, the diffusion paradigm has consistently exhibited a positive bias toward technology, and has typically examined it only from the manufacturer's perspective.

In this report, authors Mick and Fournier develop a framework of consumer experiences with technology, based on the insight that consumer technologies are riddled with paradoxes that precipitate emotional reactions and elicit a variety of behavioral coping strategies. Their framework is drawn from a broad literature review and a three-and-a-half-year study that examined consumers' experiences with a range of technological products, some purchased for the first time.

Their research underscores a basic, though little-noted, fact of technology: technology continually presents conditions or consequences that are diametrically opposite to each other. In other words, a computer may facilitate control, save time, solve problems, and make users feel competent. It may also create chaos, result in loss of time, engender new problems, and make users feel incompetent.

The study identifies and organizes a variety of behavioral strategies that consumers use to cope with such paradoxes and with the ambivalence, stress, and anxiety that they evoke. These include four basic categories:

- Pre-acquisition Avoidance (e.g., ignoring new product developments, delaying purchase)
- Pre-acquisition Confrontative (e.g., borrowing and pretesting the product in the home, buying an extended warranty)
- Consumption Avoidance (e.g., abandoning the product after breakdown, distancing oneself from the product by developing rules for when to use it)

- ❑ Consumption Confrontative (e.g., partnering by treating the product as a close teammate or companion, mastering the product through experimentation and careful attention to operating manuals)

Managerial Implications

The ownership of technology is not merely a matter of costs and benefits; technological ownership encompasses a number of paradoxes, requiring consumer vigilance and response in order to manage opinions and feelings that may teeter-totter from one extreme to another (e.g., competence/incompetence). Thus, managers should consider these questions: What are the predominant paradoxes for the products they sell? Do these paradoxes evolve and change as the products move along the diffusion curve or the product life cycle? Are consumers aware of these paradoxes? What types of coping strategies do consumers use to manage these paradoxes?

The answers will help managers fine-tune their marketing communications for specific markets. For example, consumer innovators may buy early to delay obsolescence (thus managing the new/obsolete paradox), while so-called “laggards” may delay purchase, assuming that the reliability of technology usually improves over time (thus addressing the control/chaos paradox). Consumer segmentation and marketing strategies may be based on an understanding of such motivations for buying sooner versus later.

The notion of paradox management in technology ownership also suggests a reconsideration of consumer satisfaction in regard to such products. Historically, satisfaction has been characterized as the extent to which expectations are met or exceeded by product performance. This research suggests that consumers are aware of the Jekyll-Hyde nature of technology, and that product satisfaction is partly a function of their success in keeping these paradoxes in balance. In other words, consumers themselves play a much larger role in product satisfaction than conventionally believed. In this view, marketers should give more attention to developing the means to coach consumers into deriving and maintaining their own satisfaction with technological products.

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Using Conjoint Analysis to Help Design Product Platforms

William L. Moore, Jordan J. Louviere, and Rohit Verma

Platform-based product development—in which product families share key components and assets—allows firms to offer a wide variety of product options to consumers while minimizing manufacturing complexity. In one well-known example, between 1980 and 1990 Sony developed more than 160 variations of its Walkman from four product platforms.

Although platform-based product planning offers a number of benefits—among them better-planned product lines and reduced engineering time—it is difficult to determine the most effective mix of cost-saving commonality and sales-increasing product customization. Many companies lack the tools to conduct this type of complex analysis.

In this study, authors Moore, Louviere, and Verma show how conjoint analysis can be used to improve product platform decisions by bringing together demand-side forecasting methods with supply-side cost estimates. They illustrate how one can combine different conjoint analysis studies, each containing a core of common attributes, to help design product platforms that serve as the foundation for multiple derivative products.

Their demonstration is based on two product lines that share several components and are manufactured by a small company in the electronic test equipment market. Separate conjoint analyses for each product line are conducted over common and unique features. Optimal design software is developed which finds a profit-maximizing configuration of features that takes both shared and unique costs into account.

Managerial Findings

- ❏ Decisions that consider products individually are likely to be suboptimal and can be significantly different than those based on product platforms. (Suboptimality can occur either when preferences for product features differ across markets or when a technology is more important to the overall company than it is to an individual product.)
- ❏ Firms should consider both fixed and variable costs when performing conjoint analyses for product platforms. Sales-maximizing designs show what the market wants and suggest possible competitive openings, while differences between contribution- and profit-maximizing configurations reveal areas where one might look to reduce fixed costs.

- ❏ Sensitivity analyses show that these results are robust with respect to assumptions about price sensitivity, fixed costs, and timing of entry.

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Shopping Behavior and Consumer Preference for Store Price Format: Why "Large Basket" Shoppers Prefer EDLP

David R. Bell and James M. Lattin

With growing competition in the supermarket industry, pricing strategy is a priority for supermarket managers. Some retailers position themselves on the basis of everyday low prices across a wide assortment of product categories (EDLP); others offer deep discounts in a smaller group of categories (HILO). There is considerable debate about how these formats affect consumers' store choice behavior.

In this report, authors Bell and Lattin address the following questions about grocery shopping behavior, retail price format, and store choice:

- Do consumers' shopping patterns (large vs. small baskets of grocery products and frequent vs. infrequent shopping trips) influence their choice of EDLP vs. HILO formats?
- Are there definable characteristics of large basket shoppers and small basket shoppers?

To examine these questions, they segment shoppers according to their "expected basket size" on a shopping trip. They suggest that large basket shoppers—those who purchase a relatively large proportion of their total grocery demand on each trip—will prefer a lower average basket price (EDLP format). Small basket shoppers, on the other hand—those who satisfy a relatively small proportion of their total demand for groceries on each shopping trip and, thus, have greater flexibility with respect to taking advantage of price variation over time—will prefer the store with more price variation (HILO format), even with higher average prices.

Using market basket scanner panel data from two markets with purchases from 1,042 panelists, they find that—after controlling for household distance to store, previous store experience, and advertised specials—price expectations for the shopping basket do influence store choice. EDLP stores get a greater than expected share of business from large basket shoppers, while HILO stores get a greater than expected share of business from small basket shoppers.

In terms of shopper characteristics, the study found that small basket shoppers are older and have smaller incomes and smaller families. In addition, there were systematic differences in "focal categories" for the two types of shoppers: for small basket shoppers, products like ice cream and bacon are prominent, while for large basket shoppers, bathroom tissue and paper towels are more prominent. This suggests that retailers who seek to appeal to large basket shoppers should pay special attention (through pricing and advertising) to staples.

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Field Experiments with Uni- and Multi-inventory Adaptive Survey Designs for Likert-type Data

Jagdip Singh

Although survey research is considered one of the most effective approaches for collecting consumer data, its effectiveness is increasingly challenged by the tension between two opposing forces—the marketers' demand for more information and consumers' desire to conserve their time resources—resulting in increasing survey refusal rates and lowered data quality.

Adaptive survey designs (ASDs) have considerable potential for enhancing respondent cooperation and, thus, data quality. By "tailoring" a survey to each respondent (by posing only those scale items that provide useful information about his or her attitude), this approach reduces interview time without appreciable information loss. In other words, it increases respondent efficiency. Despite their promise, however, ASDs have received limited attention in the marketing literature.

In this study, author Jagdip Singh conducts two laboratory field studies involving ASDs. His aim is to address gaps in the literature by: (1) examining the performance of ASD in field settings, (2) applying ASD to constructs in marketing that are measured using a Likert-type response scale, and (3) developing and examining an ASD approach for multi-inventory surveys.

The results of his study show:

1. Field ASDs provide respondent efficiencies of at least 20 percent regardless of the construct being assessed.

2. An entry-point decision based on maximizing "global" rather than "local" information enhances this efficiency to 33 percent.

3. Linking multiple correlated inventories of scale items along with a tailored entry-point decision for each inventory and respondent can escalate respondent efficiency to more than 45 percent.

Taken together, the results of these studies are clear and compelling. As an approach for collecting survey data, ASD offers consistent and significant respondent efficiencies for a range of marketing constructs. For instance, the constructs employed in the study included individual's need for cognition, consumer discontent, interpersonal locus of control, and salesperson's customer orientation. ASD also offers potential for substantial efficiency enhancements for correlated multi-inventory surveys.

Moreover, ASDs can be especially useful in longitudinal research involving panel members, can offer insights into the cognitive mechanisms underlying an individual's responses to survey questions, and can foreshadow learning systems for survey research.

Although, in and of themselves, ASDs cannot overcome the increasing respondent cynicism and disillusionment with survey research, they do offer a sound approach to marketers to help balance the need for greater information (e.g., from their clients) with the desire for greater privacy (e.g., from their customers).

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Divide and Prosper: Effects of Partitioned Prices on Consumers' Price Recall and Demand

Vicki G. Morwitz, Eric A. Greenleaf, and Eric J. Johnson

When charging consumers for goods or services, many companies divide the price into two components: a large *base price* and a comparatively small *surcharge.* They surmise that this price partitioning will increase consumers' demand for the product. However, little research has been done on how consumers react to partitioned prices and whether or not such pricing generates more demand than combined pricing.

Study

In this study, authors Morwitz, Greenleaf, and Johnson examine how consumers process partitioned prices and how partitioned pricing affects consumers' demand and their recalled prices.

Processing a partitioned price requires more cognitive effort than processing a combined price—effort that consumers may not be willing to expend. If consumers do not go to the trouble of calculating the total cost of the product, the authors theorize, they are likely to recall the total cost as less than it really is. This should lead to greater demand for the product when it has a partitioned price than when the same product has a single, all-inclusive price.

Furthermore, some partitioned-price strategies make calculation more difficult than others. The authors hypothesize that a surcharge presented as a percentage of the base price will lead to fewer attempts at calculation than will a surcharge presented as a dollar amount. Finally, the authors speculate that consumers' feelings for a product's brand name influence their recalled prices and their demand when looking at partitioned prices.

Results and Implications

Evidence from experiments reveals that partitioned prices do tend to increase consumers' product demand compared with all-inclusive, combined prices. The results also show that consumers recall significantly lower prices when exposed to partitioned prices than when exposed to combined prices. Less than one quarter (21.9 percent) of the subjects in one experiment tried to calculate the total cost represented by a partitioned price, while 23.2 percent of the subjects ignored the surcharge altogether. In an experiment using both percentage surcharges and dollar surcharges, only 9.6 percent of the subjects attempted to calculate the total cost of a product with a percentage surcharge, whereas 32.9 percent attempted calculation when the surcharge was given in dollars. Results also indicated that the increase in demand due to partitioned pricing increased with consumers' a priori likelihood of purchasing a given brand, as measured by their relative affect for the brand compared with an alternative.

Overall, the results suggest that partitioned pricing can be effective in increasing demand for a product. Further research might address how to design optimal partitioned-pricing strategies and how such strategies affect perceptions of fairness. In addition, public policy makers may consider policy guidelines for ethical use of partitioned pricing.

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Trust and Concern in Consumers' Perceptions of Marketing Information Management Practices

George R. Milne and María-Eugenia Boza

As database marketing has become more popular, consumers have become more concerned about their personal information being used without their knowledge or consent. Although many marketing organizations make efforts to explain how they use consumer information and offer opportunities for consumers to take their names off lists, public awareness remains low and concern remains high.

Here, authors Milne and Boza present empirical evidence that improving trust and reducing concern are two distinct approaches to managing consumer information and that improving trust may be the more effective of the two.

Using data from 1,508 respondents to a national survey of direct marketing customers, the authors carried out three studies. Study 1 examines the relationship between trust and concern and maps consumers' levels of trust in and concern regarding 17 industries and other groupings. Study 2 examines the antecedents and consequences of trust, and Study 3 presents qualitative data on what leads consumers to trust (or not to trust) an organization with their personal information.

Findings

Study 1

- The dimensions of trust and concern are distinct.
- The pattern of industry/group clusters suggests that concern rises in proportion to the sensitivity of the consumer's personal information and that trust decreases in proportion to an industry or group's likelihood of sharing that information.

Study 2

- Concern and trust have a strong negative relationship.
- The antecedents of concern and trust differ.
- Trust has a positive effect and concern a negative effect on self-reported purchase levels.

Study 3

- Experience with an organization is the primary reason given for trusting an organization with personal information. Reputation is the second reason given.

- Comments indicating a lack of trust in any organization make up the largest group of responses.

Managerial Implications

Taken as a whole, the results show that trust is a key positive factor that can reduce consumer concerns and improve organizational outcomes by helping foster strong relationships between consumers and organizations.

In addition, the qualitative results of Study 3 suggest levers for a strategy to build trust. Respondents that trusted their organizations referred to experience, reputation, contractual statements, and regulation. Consumers felt that their positive experiences and the reputation of the organization were the overriding factors leading them to trust an organization. Less important were contractual or legal avenues of recourse. One specific behavior that consumers paid close attention to was whether an organization shared information with third parties. In addition, respondents felt good relationship management was important, as were personal contacts.

If the sharing of information is a fundamental aspect of information management, the manner in which consumers are informed of the practice is a key managerial issue. The direct marketing industry has traditionally taken a concern-reduction approach, using opt-out notices and limited communication. The data from these studies suggest that a trust-enhancement approach is more effective. Trust can be enhanced by building a reputation for fairness, by communicating information-sharing policies up front and stressing the relational benefits, and by constantly informing consumers of the organization's activities to serve them better.

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Organizational Capacities for Sustained Product Innovation

Deborah Dougherty

In today's business world, companies face an unprecedented challenge: the rapid-fire barrage of changes in markets, technologies, and competition. Companies that succeed in this new order of business are those able to sustain product innovation. Not only must companies generate a new stream of products over time, they must also continue to manage existing, or mature, businesses effectively. In this paper, author Deborah Dougherty presents exploratory research on how to structure an organization for sustained product innovation, so that the firm as a whole can be innovative and efficient simultaneously.

Breakthrough Thinking

Professor Dougherty develops new constructs defining the work of innovation within an organization, and discusses how the process itself must permeate the entire architecture of a company. Where current theory asserts that control and order must be sacrificed to achieve innovation, the author assumes that people can create a different system of organizing in which order and innovation can coexist. Why? Simply put, innovation is a value-creating process. As such, it is really no different than the rest of the work an organization does. Unfortunately, the present body of research emphasizes *what* organizations need to do far more often than *how* to do it, and assumes that implementing the necessary prescriptions, or best practices, is a trivial matter. It is not. Rebuilding an organization for sustained product innovation requires a substantial shift in functioning, new ways of learning, processing, and relating; in effect, building a viable alternate social system within the organization that both defines the work of the company and fulfills it.

How to Organize for Innovation

What should businesses do to become innovative? To answer that question, the author compares the organizational capacities of a variety of companies that range in their innovative abilities. By exploring these different approaches she articulates *how to organize* the work of sustained product innovation. These practices are both interactive and integrated across company lines: thus, market knowledge and technology knowledge are linked together to create successful products and businesses; various tasks are linked to coordinate workloads within a framework of creative problem solving; and employees are linked to the organization through rich personal work relationships and differentiated realms of responsibilities.

These linking activities are further embedded into specific, hands-on situations. Work is organized and carried out within four domains—product, knowledge, business, and corporate—defined by the author as “locales of practice.” These locales are actually networks of collaborative communities, and anchor the new organizational capacity of the business.

Innovative organizations are not less structured, less controlled, or more chaotic than noninnovative ones; indeed, the reverse may be true. They do, however, operate in a qualitatively different way. The findings of this study indicate that the more innovative organizations possess fundamentally different cultural capacities, or shared understandings and skills, that people can utilize to frame their work and take appropriate actions. Developing these capacities will change the performance of a company, providing the synergy and coherence crucial to sustained product innovation, and, ultimately, contributing to the long term development and stability of business.

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From Decision Support to Decision Automation: A 2020 Vision

Randolph E. Bucklin, Donald R. Lehmann, and John D. C. Little

In the past two decades, the use of information in marketing decision making has undergone revolutionary change with the development of new tools and methods to help managers understand their markets and make decisions. In this commentary paper, authors Bucklin, Lehmann, and Little predict that in the coming decades, a growing proportion of marketing decisions will be automated by ever-more-powerful combinations of data, models, and computers. Thus, the age of marketing decision *support* will usher in an era of marketing decision *automation.*

Several forces will drive this transformation from decision support to decision automation:

- Automation offers firms efficiency gains by freeing the manager from the burdens of routine information processing and decision making.
- Model-made decisions are likely to outperform manager-made decisions for a growing number of products and markets because of improved quality and availability of data, and because managers have inherent limitations in information acquisition and processing.
- As firms increasingly customize their marketing activities to smaller units—i.e., individual stores, customers, and transactions—the resulting wealth of data and numerous decision-making points can be more effectively handled by automated systems.

Nevertheless, not all marketing decisions should be automated, the authors caution. The nature of the market will be a major determinant of the extent of decision automation. Stable markets are the most obvious location for automation, with applications extending from mature products to brand extensions. By contrast, strategy in turbulent markets is the most difficult area for automation. In addition, a significant challenge to the successful automation of marketing decision making will be the engineering of model-based systems to accurately account for the actions and reactions of competitors.

The increasing automation of marketing decision making does not signal the demise of the marketing manager, the authors conclude. Instead, marketing decisions made by managers may shift from the short run, the tactical, and the maintenance of the established to the long run, the strategic, and the launch of the innovative. In other words, tomorrow's marketing manager may enjoy more leverage, may spend more time on "the hard important problems," including rules for automation, and may focus on decision domains where data are scarce and models do not yet work well.

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Management Control of Product Development Projects

Joseph Bonner, Robert W. Ruekert, and Orville C. Walker, Jr.

New product development can be a key to a company's success, but it is also risky. The more innovative the product under development, the more profits it seems to promise—but the less management can rely on established knowledge or past experience to guide development. When is management's guidance helpful and when is it detrimental?

In this study, authors Bonner, Ruekert, and Walker examine the fundamental tension between team empowerment and management control over new product development projects. Data collected from key informants concerning 97 projects across a variety of industries found that the amount of formal control imposed on the projects was negatively related to those projects' performance in several areas: adherence to schedule and budget expectations, degree to which product met technical performance expectations, and the team's satisfaction with its performance.

Further, process controls, which specify the procedures to be followed in product development, were found to be more problematic than outcome controls, which specify performance objectives to be achieved. The negative association between process control and budget attainment was even stronger for relatively innovative projects (although a project's integration with other technology platforms within the firm had a positive moderating influence on that relationship).

This study's results also indicate that it is useful to examine the processes whereby controls are formulated and implemented: the participation of team members in determining the formal controls imposed on their project was positively related to team satisfaction and to staying on schedule and within budget, even when formal control was kept to a low level.

Overall, this study provides support for those who argue that team autonomy and empowerment are essential ingredients for superior NPD performance. This conclusion holds for incremental product improvements and line extensions as well as for more innovative projects. It suggests that the creative potential of crossfunctional NPD teams is likely to be more fully realized when they are given substantial autonomy—guided by a broad strategic direction—to determine their own outcome objectives and especially to develop their own processes and procedures. When it comes to upper management control of product development, less appears to be better.

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Bargain Hunting or Star Gazing? How Consumers Choose Mutual Funds

Ronald T. Wilcox

Mutual funds have become the largest financial intermediary in the U.S., significantly widening the pool of people who make their own investment decisions. Consequently, the industry now must deal with many of the marketing problems associated with consumer products, yet there is little information about how investors make product choices in this marketplace.

In this report, author Ronald Wilcox provides insight into the consumer choice-making process by examining how consumers evaluate some of the key attributes of a mutual fund. Specifically, he examines the weight consumers give to the fees a fund charges relative to the weight they give to past performance metrics. He also investigates how consumers evaluate the complex fee structures (i.e., expense ratios and loads) common to the mutual fund market.

Study and Findings

In the study, 50 participants were presented profiles of different stock mutual funds and asked to select their most preferred fund. Using choice-based conjoint analysis, the author estimated the utility generated by the different levels of each attribute. Major findings include the following:

- Consumers are much more attentive to the past performance of a fund than the finance literature suggests they should be. Past performance evaluation accounted for 40.9 percent of the weight in consumer decision making versus 37.3 percent for fee structure.

- In aggregate, consumers pay much more attention to the average 10-year past performance of a mutual fund than the 1-year past performance.

- When evaluating a fund's overall fee structure, consumers vastly overweight loads relative to expense ratios. Specifically, 46 of the 50 participants in this study overemphasized loads relative to expense ratios.

The market for investment instruments provides exciting new challenges to the field. In this marketplace, consumers regularly make decisions that will affect their ability to retire, send their children to college, purchase a home, or meet other significant contingencies. Improved knowledge of consumers' decision processes in this marketplace will have substantial implications for business practice and public

policy. By providing direct insight into how consumers make choices in the market for mutual funds, this research is an important first step in that direction.

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Where the Rubber Meets the Road: A Model of In-store Consumer Decision Making

J. Jeffrey Inman and Russell S. Winer

Behind the organized layout of every store, behind the frequent shopper cards, coupons, and circulars, is a battle worth billions of dollars for prime shelf and display space. Is the blitz to inundate and influence consumers justified? Are retailers and manufacturers alike putting their money where it will have the most impact?

Increasing category or product sales can only be achieved by understanding how consumers make in-store purchase decisions. This process is not well understood; in fact, the last benchmark on in-store decision making took place over 30 years ago. Authors Inman and Winer remedy this research gap. By developing and testing one of the most comprehensive models of in-store consumer decision making to date, they provide a basis for targetting consumers at the point of purchase.

What Drives Consumer Choice?

Inman and Winer's model of consumers' decision making identifies the characteristics of the shopper, or consumer (e.g., average shopping trips per week, demographics, and psychographics) and characteristics of the specific shopping trip (e.g., major vs. fill-in trip, aisles shopped, location of in-store displays, and shopping party size) that affect in-store purchases.

Their framework of consumer decision making includes these stages:

1. *Exposure* to product categories and in-store displays
2. *Motivation* to process in-store stimuli
3. *Recognition of potential needs* (generated by exposure to product categories and in-store displays, and subject to advance planning to purchase particular categories)
4. *Shopping decision* (whether purchase was specifically planned, generally planned, a brand switch, or unplanned)

They tested their model empirically using data on over 30,000 choices provided by a large-scale field intercept study of 4,200 consumers in 14 cities conducted by the Point of Purchase Advertising Institute. Consumers' purchase intentions were measured prior to entering the store and their register tapes were collected upon checkout. Characteristics of the shopping party and of the store environment were collected as well. In addition to this data, a survey of over 600 respondents gathered psychographic measures.

Findings

Although both shopping-trip-specific and consumer-specific factors are significant drivers of in-store decision making, shopping-trip-specific factors play a greater role. By far the biggest effects on in-store decision making were exhibited by the exposure-related factors of number of aisles shopped and trip type (major or fill-in shopping trip). Unplanned, in-store purchase decisions were much more likely for major trips and when all aisles were visited.

Other findings:

- ❑ Overall, the study found that 59 percent of purchases were unplanned, 30 percent were specifically planned, and the rest were generally planned or brand switches.
- ❑ Consumers were more likely to make an unplanned decision when the product was displayed at the end of the aisle or at the checkout register than if it was displayed in-aisle.
- ❑ Counter to prediction, consumers with a higher level of purchase involvement were less prone to making in-store decisions.
- ❑ Motivation-related factors played a significant role, with deal proneness having the third largest effect across all factors.
- ❑ In-store decision making is greater for larger households, larger shopping parties, households with greater incomes, and women.

Several surprising findings emerged from this study. First, shoppers with a list made more specifically planned purchases but fewer generally planned purchases than shoppers without a list. *Both groups, however, were equally likely to make unplanned purchases.* The implication? Shoppers with a list tend to plan their purchases down to the brand level, but those without plan only to the category level.

Second, the authors' results are strikingly similar to Kollat and Willett's 1967 benchmark study. The level of unplanned and specifically planned purchases has remained relatively constant over the past three decades. Finally, in both studies, specifically planned purchases are more prevalent than unplanned purchases when the number of purchases is small, but the proportion of unplanned purchases increases with the size of the basket.

Managerial Implications

Several factors that drive in-store decision making are under managerial control, particularly those regarding exposure. Thus, managers should encourage consumers to shop as many aisles as possible and provide exposure to as many product categories and in-store displays as possible. This can be achieved through innovative aisle layout and shelf design. For instance, frequently purchased products or "destination" items (e.g., milk) can be displayed in locations that will lead consumers past as many other categories as possible, or displayed next to less frequently purchased products. Another way to expose consumers to more categories is through the creative use of in-store coupons and nonprice promotions.

In addition, targeting individuals/households with larger baskets will tend to result in more unplanned purchases. This profile includes younger consumers, larger households, higher income households, and women. Importantly, becoming recognized as the store of choice for major shopping trips is essential, as shoppers making a major trip make proportionally more unplanned purchases *and* have larger shopping baskets on average.

Finally, certain segments tend to make more in-store decisions than others. These consumers (e.g., deal-prone and less frequent shoppers) should be more profitable to target in a direct marketing effort.

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Behavioral Explanations for Asymmetric Price Competition

Makoto Abe

For many consumer packaged goods, researchers have shown that competition among products of different quality within a category is asymmetric: price promotion by a higher quality brand draws significant share from lower quality brands, whereas price promotion by a lower quality brand has much less effect on higher quality brands.

Researchers have proposed three behavioral explanations for this well-known phenomenon: (1) heterogeneity in consumer preference (i.e., an asymmetric pattern of competition arises when the choices of individuals are aggregated), (2) income effect (i.e., consumers' preference shifts toward higher quality brands when their purchasing power is increased due to temporary price reduction), and (3) loss-aversion effect (i.e., the same price cut is perceived to be more favorable for high quality brands than for low quality brands).

Despite the interest in asymmetric price competition by the marketing community, no attempt has been made to compare the three explanations and draw an inference on which one is most likely.

In this study, author Makoto Abe re-examines the first two explanations, which have not been followed up through replication studies. His analyses, replicated across four categories of consumer packaged goods, fail to detect an appreciable asymmetric price effect attributable to either heterogeneity or income effect. The implication is that these influences are small. Such results, combined with extensive evidence obtained from previous laboratory and field research on loss aversion, suggest that the observed asymmetric pattern of competition arises mainly from loss aversion working on price and quality.

Managerial Implications and Future Research

The behavioral explanation for asymmetric competition has important managerial implications. With the heterogeneity or income effect, price promotion has a short-term influence on consumers and hence on competition. When price reverts to its regular level, the share returns to its prepromotional level.

With the loss-aversion effect, on the other hand, the impact of price promotion is long term. This is because the perception of loss is measured against the consumer's reference point, which is formed over time through his or her exposure to the marketing environment and experience with products. Thus, this research suggests that the impact of price promotion is long term, beyond a trial-and-repeat factor, and that managers must act accordingly when planning promotion.

Many questions remain to be addressed. Does frequent use of promotion undermine its effectiveness by lowering the reference point of price and quality? Does an everyday-low-price policy have a negative impact on a brand by lowering the reference point? What is the most effective frequency for promotion in the long term?

Practitioners do not agree on such issues, as is evident from the wide variety of pricing policies currently in use by manufacturers and retailers. Identifying the loss-aversion effect as the reason for asymmetric competition is only the beginning, and much work remains to be done by academic researchers. In the meantime, managers, when planning promotion, should be aware of the potential importance of the long-term effect on reference formation.

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New But Not Improved: Factors That Affect the Development of Meaningful Line Extensions

Jonlee Andrews and George S. Low

Line extension—adding items to an existing product line under an established brand—is one of the most widely used strategies in consumer packaged goods marketing. Nearly 90 percent of the 20,000 consumer packaged goods introduced each year are line extensions.

For manufacturers, line extensions offer short-term benefits such as market share protection and efficient use of marketing resources. For consumers, however, most line extensions are not meaningful, that is, they fail to provide anything of more value to consumers than what is already available. In fact, one source estimates that only about 6 percent of the 25,000 consumer packaged goods introduced in 1997 offered differences that consumers valued in formulation, positioning, packaging, or technology. Meaningless line extensions (which differ from other items in the product line in merely trivial ways) can confuse consumers and may contribute to lower overall performance for the manufacturer.

Study and Findings

In this study, authors Andrews and Low surveyed packaged goods firms to identify the organizational characteristics that promote or inhibit the development of meaningful line extensions. Data collected from 166 product managers in packaged goods firms provide evidence that, although market factors such as competitive intensity within the industry and variety-seeking behavior on the part of consumers encourage the development of line extensions that are less meaningful, organizational characteristics play a greater role.

Specifically, the authors found that more-meaningful product line extensions are launched in companies that

- have longer planning and reward horizons,
- encourage risk taking,
- rotate brand assignments regularly,
- have a product-focused management structure,
- require comparatively more evidence to justify new SKUs, and
- utilize smaller new product development teams.

In addition, it appears that requiring more evidence to justify new SKUs offsets the negative effects of larger team size and longer brand assignments.

Implications for Marketing Practitioners

First, meaningful product line extensions are more likely to be developed when senior managers support a long-term perspective. If product managers shift the reward system and planning horizon to a longer term, and if they encourage risk taking, it is more likely that they will invest the time and energy needed to develop meaningful product line extensions.

Second, although the business press is replete with criticisms of the brand manager system, its frequent rotation of assignments, and its tendency to require copious evidence to justify new SKUs, this study demonstrates clearly that such a product-focused management environment promotes development of product line extensions that are more meaningful. In fact, requiring a large amount of evidence to justify new SKUs is such an influential factor in the development of meaningful line extensions that it offsets the negative effects of large product development teams and longer brand assignments.

These two recommendations—encouraging a long-term perspective and implementing a product-focused organizational structure—are not necessarily at odds. A common criticism of the product manager approach to organizing the marketing function is that its frequent rotation of assignments encourages a short-term perspective. This study's results suggest that to increase the likelihood of marketing meaningful product line extensions, a traditional product management structure that cultivates a long-term perspective is the best recipe for success. These findings will help senior managers who hope to utilize the short-term benefits of product line extensions yet also want to satisfy consumers in the long run by providing them with real value in a competitive marketplace.

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Implementing the Marketing Concept One Employee at a Time: Pinpointing Beliefs about Customer Focus as a Lever for Organizational Renewal

Chris T. Allen, Edward F. McQuarrie, and Terri Feldman Barr

In the last decade researchers have established a clear connection between proper implementation of the marketing concept and SBU-level performance outcomes. Thus, the question of how one might go about changing the organization to make it more market oriented (and thus realize performance benefits) is emerging as an important extension of the work on market orientation.

In this paper, authors Allen, McQuarrie, and Barr advocate renewed attention to organizational culture in order to understand change mechanisms. Drawing on the five-way taxonomy for conceiving culture developed by Deshpandé and Webster (1989), they support the organizational cognition perspective—which emphasizes the subjective beliefs of individuals within the organization—as an important paradigm for understanding change. Consistent with this perspective the authors propose a customer-focus construct that is formulated at the level of the individual employee or manager, rather than at the level of the division or SBU.

Study and Findings

The authors present a measure for the customer-focus construct and test its predictive validity. Data were collected from 120 people at six companies in the chemical, software, and diversified business equipment sectors. The respondents ranged from senior managers to hourly workers, with job responsibilities in diverse functions. Notably, the majority of respondents did not work in marketing or sales.

The results indicate that the customer-focus scale developed here is a distinct unidimensional measure. Participants from diverse occupational communities varied in their expressions of customer focus in ways that one would expect. Additionally, customer focus proved to be a meaningful predictor of both customer contact and confidence about customers. Together, customer focus and customer contact form the core of a framework for approaching organizational change through an emphasis on modifying beliefs and actions.

Managerial Implications

Organizational renewal has become a common quest in the post-downsizing era. A compelling case can be made for the idea that individuals' beliefs and actions must be targeted as key to the success of the change regimen. Successful renewal entails a mutual, simultaneous shaping of beliefs and behavior, and cultivating a focus on customers can be seen as one valid path to organizational vitality. Thus, this study is intended to revive interest in customer focus as a primary leverage point both for putting the marketing concept into practice and for effecting organizational renewal.

The authors' definition of customer focus as *an individual's beliefs about the value of direct customer contact for achieving desired performance outcomes in his or her own job* provides specific meaning for a phrase that is not well defined in literature dealing with the marketing concept. Their customer-focus construct can be embraced across functions and levels in any organization. Indeed, by adopting the total quality management distinction between internal and external customers, it is possible for *all* employees to conceive of themselves as implementers of the marketing concept.

Chris T. Allen is the Arthur Beerman Professor of Marketing, University of Cincinnati. Edward F. McQuarrie is Associate Professor, Marketing Department and Associate Dean for Graduate Studies, Santa Clara University. Terri Feldman Barr is Assistant Professor, Marketing Department, Miami University.

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Marketing's Influence within the Firm

Christian Homburg, John P. Workman, Jr., and Harley Krohmer

Although marketing's changing role within the firm has been the subject of much discussion, there is little empirical research to measure the influence of marketing or to describe the situational or environmental factors that may lead to variations in marketing's role. Prior research has primarily been conceptual and has tended to examine marketing's role in specific contexts such as new product development, strategic planning, or advertising budgeting.

In this report, authors Homburg, Workman, and Krohmer investigate marketing's level of influence and address the question: Under what circumstances does the marketing sub-unit have higher levels of influence?

In a survey of marketing managers in strategic business units in U.S. and German companies in three industry sectors, the influence of marketing was rated in relation to sales, R&D, manufacturing, and finance/accounting. Results indicate that:

- The marketing sub-unit has substantial influence within the firm, with the most influence over decisions on advertising messages, procedures for measuring customer satisfaction, and programs for improving customer satisfaction. Marketing is also rated the most influential unit with respect to decisions on the strategic direction of the business unit.
- The level of marketing's influence is systematically affected by determinants (such as percentage of direct sales) not related to individual managers' characteristics.
- Institutional factors account for variance not explained by determinants more commonly used in contingency theories in marketing. This suggests that the dispersion of influence within an organization is not only the result of adaptation to environmental conditions but also a result of unique historical aspects that become institutionalized within the firm.

Managerial Implications

Knowledge of intraorganizational influence is important. Effective change management requires the support of influential actors within the organization; as marketing and sales sub-units are shown to be highly influential, successful change management requires the support of those groups.

In addition, managers must be sensitive to intraorganizational influence as a potential barrier to organizational change. These results show that the present organizational form may not be the result of rational adaptation to market forces, but may be due to cultural and institutional factors, resulting in less optimal outcomes.

Finally, the constant sum instrument developed in this study can be used by managers to diagnose the patterns of influence within their business unit. Such measurement may be important in planning and implementing strategy change.

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Managerial Identification of Competitors

Bruce H. Clark and David B. Montgomery

Despite extensive academic research on how to objectively identify competitors, relatively little is known about how managers identify competitors in practice.

In this study, authors Clark and Montgomery propose a cognitive framework for understanding how managers identify competitors. They report the results of two field studies. One is a qualitative study that asked respondents about their own industry or an industry in which they had recently worked. This yielded data from MBA students and managers on how they identify classes of competitors across a broad variety of industries. The second is a quantitative study that collected data from the Markstrat2 simulation game, where teams of subjects managed the marketing and research development strategy of one of five firms in a hypothetical consumer durable goods industry. For the purposes of this research, subjects filled out competitive identification forms during the course of the simulation.

Findings

Study 1 found that respondents named relatively few competitors. Further, respondents tended to rely on supply-based (i.e., what firms are and what they do) attributes more than demand-based (i.e., who customers are and what they do) attributes in categorizing target firms as competitors or noncompetitors. Across both studies, size, success, and threatening behavior were seen as significant, but not dominant, attributes in the competitor identification process.

In addition, respondents' experience played a significant role in these studies. In Study 1, respondents with longer tenure in their jobs gave fewer responses. In Study 2, as the game progressed, subjects paid more attention to target firm success and less to other attributes.

Implications

Overall, the studies suggest that the competitor category is characterized for managers by a relatively small number of successful firms that are sizable or that engage in threatening behavior.

Competitors tended to be defined in terms of supply-based attributes; when managers did talk about demand-based attributes, it was at a very broad level such as geographic scope of markets and overall customer perception of the firm (brand image, reputation). This suggests that customer needs and behaviors are not particularly "top of mind" relative to competitor characteristics. Further, that more expe-

rienced respondents used fewer attributes to describe competitors raises the question of whether these respondents are too narrow in their conception of competition. Both results could lead to the biased purchase or use of market research (if, for example, a manager only commissioned research on a particular competitive set of products).

The results also suggest that small/unsuccessful firms "look up" to large/successful firms in their industry. This asymmetry, while based on economic reality, may lead to managerial error in making and interpreting competitive moves and signals.

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Brand Constructs: The Complementarity of Consumer Associative Networks and Multidimensional Scaling

Geraldine R. Henderson, Dawn Iacobucci, and Bobby J. Calder

Millions of marketing dollars are spent each year around the world, publicly and privately, to develop and support brand names. Nothing is more important to brand managers than the ability to measure and understand consumer brand associations, the responses that are evoked when consumers think about brands.

Building on previous work (Henderson, Iacobucci, and Calder 1998), in this paper the same authors present methods for studying consumer brand associations. They compare two techniques for measuring consumers' perceptions of products and consumers' loyalty to brand names: multidimensional scaling and associative networks.

Multidimensional scaling (MDS), a popular traditional technique for marketing researchers, graphically maps how people view and differentiate brands. Similar brands are represented as points close in space, and dissimilar brands are placed further apart. Associative networks represent consumer knowledge as links of associations among "nodes," or units of information such as brands, attributes, advertisements, etc. While marketers agree that network models are well suited to studying consumer judgment, apparently no marketing research has yet used associative networks to detect branding effects and strategies.

In a branding experiment, the researchers use both techniques to examine primary brand concepts: positioning, complementarity, and substitutability. Subjects were asked to evaluate sports cars before and after being exposed to hypothetical new car introductions.

Results showed both MDS and associative network methods to be useful for examining brand positioning (in particular, to diagnose brand dilution or to identify potential features to brand). MDS, however, was not able to distinguish between complementarity and substitutability, that is, between brands that were associated in consumers' minds (and therefore candidates for complementary brand action such as co-branding), and brands that were similar (and therefore substitutable competitors in the minds of the consumers). Associative networks were able to distinguish these two very different branding effects.

Overall, however, the research shows that traditional mapping of perceptions and associative networks can work together to define the relationship of one brand to another. The brand researcher wishing to be well informed would use both techniques.

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Marketing Spending for New Product Introduction: Entrant Strategy and Incumbent Response

Venkatesh Shankar

Firms are constantly introducing new products and reacting to new entries in their markets. Of particular importance to marketing managers are entry and reaction strategies involving marketing spending variables such as advertising, promotion, and sales force. If managers can better understand the *determinants* of both new product introduction and incumbent response strategies, they can manipulate these marketing spending variables more effectively.

For example, does a new brand enter more aggressively if it anticipates an aggressive reaction, a mild reaction, or no reaction from incumbents? Does the size of incumbents affect its strategy? Does it enter with greater or smaller introductory spending if it competes with one or more incumbents in additional markets? The answers to these questions can help an incumbent plan a better reaction strategy.

Conversely, how does the aggressiveness of a new brand's marketing campaign influence the intensity of an incumbent's reaction? Does an incumbent respond aggressively if it competes with the entering firm in other markets? The answers to these questions can help entrants formulate better introduction strategies.

Study and Findings

In this study, author Shankar addresses these issues via a study of the determinants of both new product introduction strategies and incumbent response strategies in a single integrated framework. The study covers 23 new product entries and the responses of 59 incumbents to those entries in six leading pharmaceutical markets.

The results show that a new product enters with aggressive (passive) marketing spending if it anticipates mild (strong) reactions from *large* incumbents. Marketing spending is, however, unrelated to expected reactions from *small* incumbents. In a similar vein, an incumbent responds aggressively (passively) if it encounters a new entrant with low (high) introductory spending. Interestingly, both new entrants and incumbents spend less on advertising and sales force if they compete with one another in at least one other market.

The study also provides a clear profile of the most aggressive and passive entrants and incumbents. The most aggressive entrants are large firms that expect mild reactions from large incumbents and that have no multimarket contact (contact in additional markets) with the incumbent firms. In addition, they tend to be leaders in marketing mix variables, have higher relative product quality, and already have some experience in the market. The most passive entrants are the opposite. The most aggressive incumbents are those that encounter entrants with little market experience and low introductory marketing spending, and that have no multimarket contact with the entrants. They also tend to be dominant in their markets, are effective competitors, and lead other firms in marketing mix variables. They have a greater propensity to be aggressive toward new products with higher relative quality that are entering on a small scale in large, growing markets. The most passive incumbents exhibit the opposite characteristics.

Managerial Implications

Given those profiles, entrants that want to minimize responses from large incumbents in a market should enter on a large scale with substantial marketing spending, and they should enter multiple markets. An entrant's presence in multiple markets would increase the likelihood of contact with the incumbents, leading to lower anticipated response from the incumbents.

For their part, large incumbents that wish to discourage heavy spending by firms introducing new products should consider retaliating to a new entrant strongly so that they can show future entrants what to expect. They should also consider deploying products of high relative quality, thereby lowering new entrants' relative product quality. Finally, they should increase their presence in multiple markets.

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Stuck in the Past: Why Managers Persist with New Product Failures

Eyal Biyalagorsky, William Boulding, and Richard Staelin

It is well documented that managers tend to stay committed to a course of action they initiate, despite strong feedback suggesting the opposite. While the failure to respond properly to negative feedback can be disastrous, particularly in the high-stakes arena of new product development, there are few mechanisms to help managers avoid this trap of "escalation bias."

In this study, Eyal Biyalagorsky, William Boulding, and Richard Staelin examine the phenomenon of escalation bias in the context of managing new product introductions. Their findings offer insight into the decision-making process, and suggest ways that managers might work to ameliorate escalation bias.

Study and Findings

The authors develop a model of how managers make a decision and reevaluate that decision in light of new knowledge. They investigate this model via an experiment in which participants act as managers involved with new product introduction and reevaluation decisions. In a "high commitment" condition, subjects are asked to make the launch/no-launch decision; in a "low commitment" condition, subjects are asked only to evaluate the decision to launch or not launch the product.

Results show that making the initial decision to introduce a new product is not a necessary condition to induce commitment to a losing course of action: 28-43 percent of the subjects who only evaluated the launch/no-launch decision chose to continue with the product. In other words, even if a person is not responsible for the initial decision, and thus is not "committed" to this decision, he or she can exhibit escalation bias. In particular, the authors found that a person's initial positive beliefs about a situation affect his or her subsequent data acquisition and data integration process, and the subsequent decision to stay with a losing course of action.

Managerial Implications

By developing a model of how incorrect beliefs are formed and cause escalation, this study provides the groundwork necessary for designing systems to help managers avoid the trap of escalation bias.

For example, the authors suggest that strategies that reduce the need for self-justification or rationalization of an action may not eliminate escalation bias. More effective might be strategies that take prior information "out of play" to avoid over-weighting this information, such as de-coupling past decision makers from subsequent decisions. Note, however, that one must de-couple the new decision maker not only from the original *commitment* decision, but also from the original *evaluation* process.

Predetermined stopping rules offer another avenue for avoiding escalation bias. However, since managers routinely overrule self-imposed stopping rules, such guidelines should be established by others, with managers' agreement.

These findings are applicable to other marketing decisions such as staying with an EDLP pricing strategy or a "no promotions" strategy, or maintaining commitment to a new channel structure or a media copy campaign.

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Transaction Decoupling: The Effects of Price Bundling on the Decision to Consume

Dilip Soman and John T. Gourville

Price bundling strategies, in which manufacturers charge a single price for multiple units of the same product (or for a single unit of many products), are becoming more prevalent. Commonplace in department and grocery stores, such bundling strategies are increasingly used in the pricing of services as well. For example, some theaters offer entertainment packages in which a single price includes admission to a series of plays as well as dinners and transportation. While previous research has examined consumers' decisions to *purchase* the product bundles, there is no research that addresses the effect of price bundling strategies on decisions to *consume*.

In this report, authors Soman and Gourville use an economics-based theory of individual consumer decision making—that consumers strive to gain enough utility from a product or service to recover the purchase price—to answer the following questions:

- ❏ How do consumers evaluate the cost associated with each individual product that is sold as part of a bundle? What is the effect of this evaluation on their willingness to consume a product (e.g., a bottle of wine from a wine cellar) or a service (e.g., a theater performance that is part of a season ticket)?
- ❏ What role does the motivation to consume have on the consumption decision?
- ❏ What are the implications of the consumer evaluation process for the management of consumption?

Study and Findings

To examine these questions, the authors ran a series of experiments in which consumers were presented with bundled pricing scenarios in the services context (e.g., lift tickets at ski resorts, tickets to theater and sporting events).

They showed that in the case of a simple cash-and-carry transaction, such as buying a one-day lift ticket at a ski resort, a consumer can tightly link the costs and benefits of the transaction, and hence can easily "assign" a purchase price to the benefit derived from using the ski lift.

However, when a consumer pays a single price for multiple consumption opportunities (e.g., a four-day lift ticket pass or a series ticket to several theater performances), it is more difficult to make a one-to-one linkage between the cost and benefit. Hence, such transactions are "decoupled," and the consumer has a degree of flexibility in psychologically assigning a cost to each unit. Specifically, the authors find that consumers tend to price each unit at a value lower than the equivalent per-unit price. As a result, since consumers are trying to recover a lower allocated cost, they are more likely to forego an opportunity to consume a service (e.g., one of the theater performances).

Results also suggest that the physical format of the transaction strongly influences the extent of decoupling. For instance, if the series ticket is in the form of a booklet of tickets, linkage between cost and benefit is strengthened. On the other hand, if the series ticket is in the form of a pass, the transaction is decoupled.

Finally, results show that consumer *motivation* influences decisions to consume or forego a service. Specifically, in assigning a cost to each unit of consumption, the consumer can strategically assign a lower cost to a particular unit that he or she is motivated to forego, in favor of a more attractive alternative. For example, a consumer might forego a prepurchased session at a health club in favor of eating dinner out by rationalizing, "It didn't really cost me much at the margin." On the other hand, a consumer might strategically assign a high cost to a particular theater performance in order to justify consuming that unit, rather than spending some extra time at the office.

Managerial Implications

Results show that the pricing strategy and physical format of the transaction strongly influence consumption decision making, and suggest that marketers can manage consumption through pricing strategies.

For example, the finding that consumers tend to allocate a lower cost to each bundled unit in a services context suggests that consumers may also be more willing to consume a product that is sold as part of a bundle (e.g., a bottle of wine sold as part of a case). Thus, price bundling strategies might result in greater frequency of purchasing and higher profitability. A marketer might be advised to offer volume discounts or cross-category discounts as an incentive for bundled purchasing of products. Similarly, prepaid phonecards, laundry cards, and photocopy cards, which are promoted as convenient, have the potential to increase consumption and profits.

Further, since non-inventoriable services sold in a bundle are foregone more readily, marketers of services like theaters, sporting events, and health clubs, which are constrained by capacity, can utilize these findings to develop prediction models for attendance as a function of the pricing structure.

Finally, the results show that because of the flexibility of the consumer cost assignment process, persuasive messages can emotionally motivate consumers to consume or forego a service.

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Managing Advertising and Promotion for Long-run Profitability

Kamel Jedidi, Carl F. Mela, and Sunil Gupta

In recent years, manufacturers have increasingly used sales promotions, often at the cost of advertising. Yet the long-term implications of these changes for brand profitability remain unclear. In this paper, authors Jedidi, Mela, and Gupta offer insights into this important issue. They ask:

- ❑ Is it more desirable to advertise or promote?
- ❑ Is it better to use frequent, shallow promotions or infrequent, deep promotions?
- ❑ How do changes in regular prices affect sales relative to increases in price promotions?

Their study offers additional insights regarding brand equity, the relative magnitude of short-term (weekly) effects and long-term effects (occurring over several quarters or years), and the decomposition of advertising and promotion elasticities across choice and quantity decisions.

Study and Findings

The authors develop a model that incorporates changes in consumers' responses to short-term marketing activities in reaction to changes in marketers' actions over the long term. Their model also accommodates the possibility of competitive reactions to policy changes of a brand. They test their model for a consumer packaged good category, using over eight years of panel data, and assess the effects of potential changes in advertising and promotion policies on sales and profits.

Results show that, in this product category, in the long term, advertising has a positive effect on "brand equity" while promotions have a negative effect. Furthermore, they find price promotion elasticities to be larger than regular price elasticities in the short term, but smaller than regular price elasticities when long-term effects are considered. Consistent with previous research, they also find that most of the effect of a price cut is manifested in consumers' brand choice decisions in the short term; however, when long-term effects are considered, this result no longer holds. Finally, they find that the long-term effects of promotions on sales are negative overall, and about two-fifths the magnitude of the positive short-term effects.

Finally, making reasonable cost and margin assumptions, the authors conduct simulations to assess the relative profit impact of long-term changes in pricing, advertising, or promotion policies. Results show that in this category regular price decreases have a generally negative effect on the long-term profits of brands, advertising has mixed effects on profitability, and increases in price promotions are uniformly unprofitable.

Managerial Implications

To develop better insights into the long-term efficiency of their promotional and advertising spending, managers might conduct similar analyses. For example, by analyzing the marketing mix studies they have conducted over the years, managers can trade off short- and long-term effects (by correlating marketing activity to changes in sensitivities) and analyze the efficacy of their marketing programs. Similarly, such analyses can guide managers endeavoring to better allocate their marketing dollars. Overall, this study suggests that a focus on short-term effects alone can be misleading in policy decisions and can have deleterious effects on profits.

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Subject Index

Subject headings are followed by report number (e.g., 98-100) and by the page on which report information can be found.