

Strategic Marketing-Contemporary Issues
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Lecture - 33

In the concluding section of our whole course, one of the topics, one of the emerging topics, one of the newer areas of marketing today is this, our better understanding of consumer behaviour. We have had discussion before about consumer behaviour as it applies to conventional marketing or that still guides most of the marketing strategies of today, which looks at consumer behaviour in terms of cognitive factors, affective factors and conative factors which prompts us to develop marketing strategies that appeal to the rational and the emotional sides of our perceptions through which actually, we create our marketing campaigns, our marketing communications strategies and so on. And in that even when we look at emotion or those effective factors we normally rely on triggers that will predictably cost certain types of emotional reactions. So, we have believed that if a celebrity role model can talk about an intangible benefit that celebrity can appeal to the at the emotional level and can add purchase incentives beyond rational cost benefit of analysis. So, even in that consideration, we are looking at emotional reaction that can be predicted based on many studies of the past or theories, statistical inferences and so on.

But today, because of ground breaking research from the behavioural economists, we understand that human beings are not always rational not only they are often irrational, but they are predictably irrational. So, today's session will be looking at that therefore, what is it that we need to understand more about consumer behaviour, that should guide our marketing strategy in the future, how we can develop better marketing strategies based on this understanding and a good part of today's session will be based on work of people like than really and so on.

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RATIONALITY IN THE STANDARD ECONOMIC MODEL

- Standard economics relies heavily on the assumption that people are rational
- Standard economics assumes that people
 - are fully aware of all the options they have
 - can -- always and consistently -- rank their options in accordance with their preferences, and
 - always choose the option they like best

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So, standard economics relies heavily on this assumption that people, and therefore consumers are rational, that consumers are rational. And therefore, standard economic assumes that people are fully aware of all the options they have, and can always and consistently rank their options, in accordance your preferences and always choose the option that like best.

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ASSUMPTIONS OF THE STANDARD ECONOMIC MODEL OF CONSUMER BEHAVIOUR

1. Consumers act with full information. *about buying a washing machine*
2. Consumers have known preferences. *Top loading or Front loading*
3. Consumers choose the best option available. *Best option is OUR OPTION*

Full External Knowledge

Full Internal Knowledge

Rational Choices

Best Alternative

Homo Economics

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That means if we if we break it up in parts that when consumers act with full information about buying a washing machine. We say that they have therefore, full external

knowledge. We also in standard economic, which is based on our concept of homo economicus; that means, we are talking about human beings who are rational on which actually this whole economic theories are based. So, there we assume that just that consumers act with full information, therefore full external knowledge. If they do not have enough external knowledge about the washing machine, then they will seek that information and that is actually based on which this need sensing search for information, evaluation of alternatives this whole string that we have discussed before of the purchase process.

It is based on this assumption that people will seek external knowledge; consumers will try to find out more, if they do not have enough information to their satisfaction. We also assume in this model that consumers have known preferences. So, they will know that they will like to have top-loading washing machine or front-loading based on the space that they may have in their bathroom or the previous experience of their neighbours. So, whatever may be the those are different ways people are influenced that we have also discussed before.

But today for the today's discussion we had therefore saying that consumers act with full external information and consumers act on the basis of known preferences. Those preferences can be influenced which have been part of marketing strategy, and then we also assume that consumers choose the best option based on these full external knowledge, full internal knowledge, as marketers we can strategize how to fill the gap here how to create influences here. So that ultimately customer can make a rational choice and we always like that this best option is our option. So, the entire marketing strategy is based on that based on this knowledge, based on this knowledge, external internal factors - we offer you the best alternative. This is how we have always framed to understand, how people use this external information and internal information, we have developed models like conjoint analysis or clustered analysis and so on.

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ASSUMPTIONS OF THE STANDARD ECONOMIC MODEL OF CONSUMER BEHAVIOUR

1. Consumers act with full information.	Full External Knowledge
2. Consumers have known preferences.	Full Internal Knowledge

No matter what set of choices are put before a human being, he or she will know how to rank the choices, from best to worst

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But all of those are always based on the assumption that consumers act rationally; that means, no matter what set of choices are put before a customer, he or she will know how to rank the choices, from best to worst and act accordingly.

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ASSUMPTIONS OF THE STANDARD ECONOMIC MODEL OF CONSUMER BEHAVIOUR

1. Consumers act with full information.	Full External Knowledge
2. Consumers have known preferences.	Full Internal Knowledge
3. Consumers choose the best option available.	Rational Choices

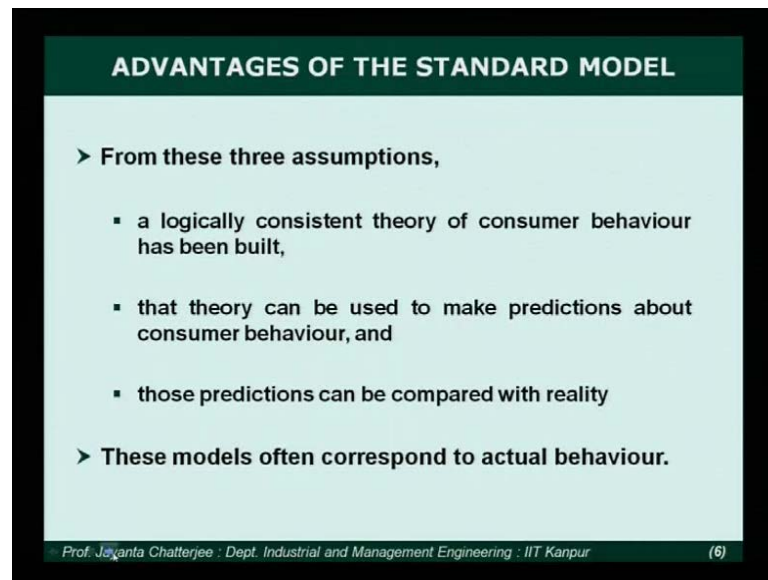
*Mktg Strategy
Best = us / our firm*

A consumer will always pick the highest ranked choice that is available

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So, consumers choose the best option, I mean the best is our whole marketing strategy is to make best is equal to us our firm. This is all the entire marketing strategy is about. So, we try to become the highest-ranked choice by price, by feature, by both and so on and so forth.

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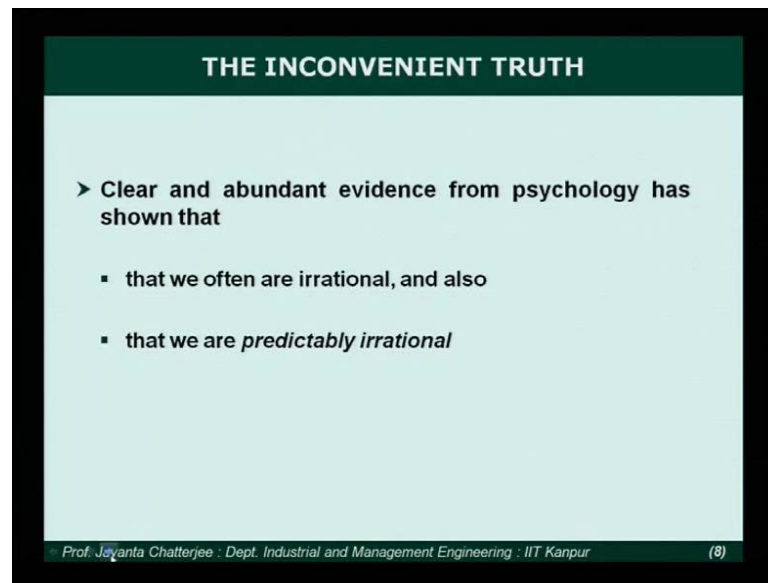
ADVANTAGES OF THE STANDARD MODEL

- From these three assumptions,
 - a logically consistent theory of consumer behaviour has been built,
 - that theory can be used to make predictions about consumer behaviour, and
 - those predictions can be compared with reality
- These models often correspond to actual behaviour.

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Therefore, we have this logically consistent theory of consumer behaviour, and that theory can be used to make predictions. And the fact is that these models often correspond to actual behaviour, and that is why they have endured for such a long time. That is why we still study consumer behaviour as a and as an interesting intersection between psychology and management science. And we look at consumer behaviour are more as a science rather than art, because we feel that a human beings have predictably rational and they will make rational choices. But the fact is, that even though these models often correspond to actual behaviour, but we have some problem with this often the word often means that it is not always so.

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THE INCONVENIENT TRUTH

- Clear and abundant evidence from psychology has shown that
 - that we often are irrational, and also
 - that we are *predictably irrational*

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And in reality, we have a lot of evidence that not only we make irrational choices, but we are predictably irrational. In fact, if people made rational choices then many industries like the tobacco industry or the chewing tobacco which is known in India as gutkha this part or many other products services would not have survived in the market place people go for fast food in spite of knowing all the problems related to high salt high fat high usage of preservatives and taste enhancers and so on and so forth. Because we have always offered incentives to conventional marketing where these rational information have been rank lower than the rational information about convenience about trendiness about style about symbol of mobility and so on.

The reason due to which people have left their ethnic traditional food which were quite time tested and have opted for these a, so called fast food and soft drinks and so on and so forth. Even in interior villages even at that. So, called bottom of the pyramid now of course, we are not discussing today about that irrationality because marketers have understood that part of the rationality and how to even though it is not exactly ethical as we have discussed before even though those are the parts of marketing that are well criticized and new concepts like macro marketing of therefore, emerging.

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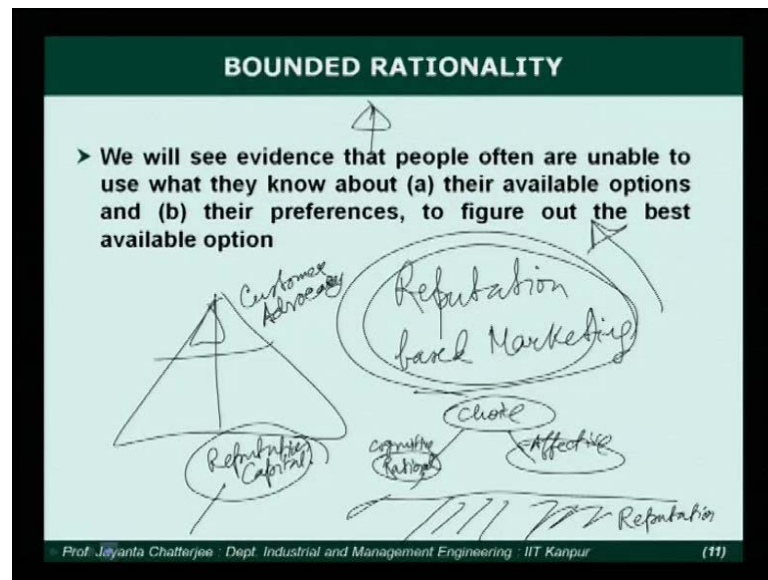
PREDICTABLY IRRATIONAL

- If irrational people were irrational in random ways, they would cancel each other out, leaving the overall outcome determined by the behaviour of rational people
- In that case, economic theories that ignored irrational behaviour would work just fine
- But psychology has shown that we are irrational in similar and predictable ways
- Therefore, irrationality does not cancel out and therefore cannot be ignored

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But what we want to discuss today is that because people are irrational in random ways or rather they are not irrational in random ways, because if there are irrational in random with an and they would have you know we would have been able to come to some kind of distribution which we understand because then the irrationality random part of it cancelled out each other. And we would have come up with some model through which we can predict the rational behaviour, but in psychology the work done by behavioural economists and other psychologists well portrayed in that book which I would like to refer which is. In fact, as I will show at the end of the presentation is available on the on YouTube and Dan Ariely's lecture on predictably irrational. You can see many examples there that we are often irrational in similar and predictable base and as a result irrationality does not cancel out and therefore, cannot be ignored.

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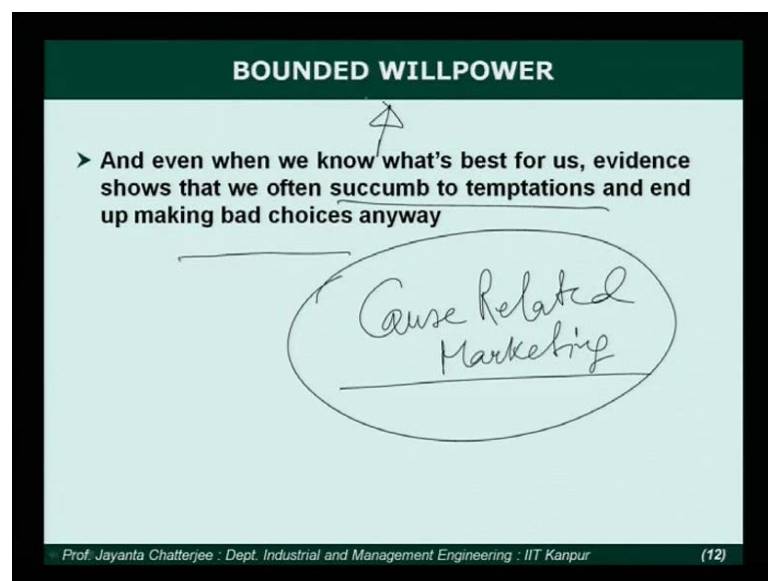
When devising our marketing strategies and that is why it is important that we insert these understandings in our current concepts to come up with new marketing strategies. Few additional points we know from about the concept of bounded rationality from Harvard Simon's very famous work well studied in organization behaviour that when human beings in an organization make decisions. Then they do not go for an exhaustive collection of facts and they do not go for an exhaustive analysis to come up with the most rational the most analyzed solution, but it has been seen that people take or adopt at an individual level and more.

So, at a group level a decision which is satisfying this concept of satisficing can be studied its quite an important concept and therefore, particularly in b to b marketing today from our understanding of this predictable irrationality and this bounded rationality we can develop good strategies in marketing. We have to understand that customer will not have often while buying speciality products or buying high value consumer capital goods machines infrastructure facilities and so on. Enough time to go through and collect all the facts, and they will take the first satisfying solution one of the good marketing ways in a virtuous way not in a manipulative deceptive way to provide the opportunity for the customer to choose your product or services as the satisfy sing solution because of this is bounded rationality factor is to rely on reputation which we have discussed before. So, the reputation based marketing.

We have earlier known that brand is a way that becomes a the brand is a shortcut to arrive at the satisfy sing solution because of this bounded rationality phenomenon, but we know that if you actually develop a customer advocacy position where we build our preferences rational or cognitive factors as well as affective factors if this can be done based on what we have earlier shown as kind of hidden or not immediately visible or its kind of a overarching perception about your offering based on reputation capital we have discussed before that how reputation is built based on your human capital; that means, competence of your people the competence of your origination as well as certain of structural capital and intellectual capital.

We have discussed that how you build therefore, this reputation capital, but the point we are trying to make is that reputation based marketing is because of this bounded rationality factor can be a good way of creating a its good marketing strategy

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The bounded will power that even when we know what is best for us we do succumb to temptations and make bad choices. And understanding of this bounded will power issue has become very important when we want to develop today, cause related marketing. Where we want to pursuit people to give up some addictive habits, so in this part of the world, if you want to build a campaign against say chewing tobacco or gutka or paan masala, all those types of bad substances. Then we have to strategies for a cause-related

marketing, you have to understand this whole issue about bounded will power. And also this whole point about bounded self interest is a counter to this bounded will power.

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The slide is titled "BOUNDED SELF-INTEREST" in a green header. It contains three bullet points with handwritten annotations:

- Although economic theory does not always assume self-interested behaviour, as a practical matter, most applications of economic theory assume that people act according to self-interest.
Spider Vs Spider (handwritten note) and a diagram showing two circles labeled "ES1" and "ES2" with arrows pointing from ES1 to ES2.
- fortunately for the world—there's plenty of reliable evidence of predictably unselfish behaviour.
- Open Source-Open Innovation-Communities and Ecosystems-C2C Cause Related Marketing.
Platform (handwritten note) and a diagram showing a circle labeled "Collaborative Competition" with arrows pointing to it from the words "Platform" and "Cause Related Marketing".

At the bottom, the slide credits "Prof. Jayanta Chatterjee : Dept. Industrial and Management Engineering : IIT Kanpur" and is labeled "(13)".

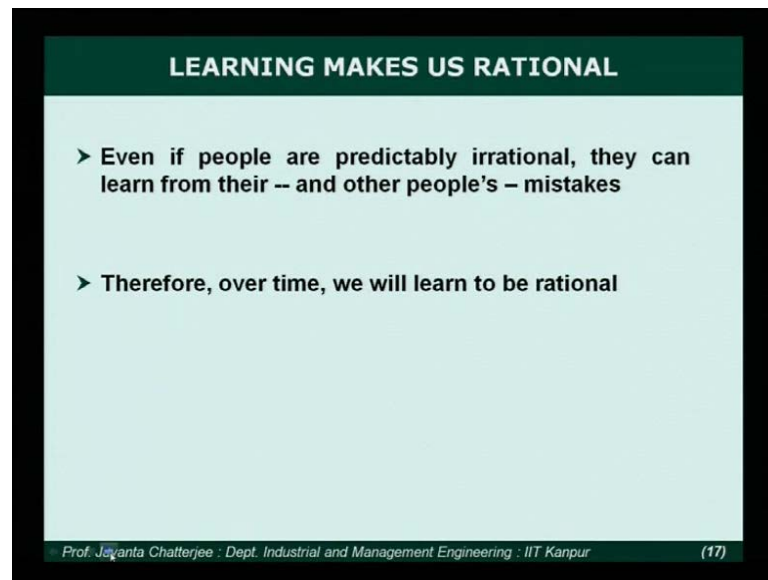
So, that is why a good way to strategise against people falling prey to adverse choices, unhealthy choices, socially destructive choices, one can rely on this other good understanding from the irrationality side is this what we call predictably unselfish behaviour. Fortunately, this is true and that is why perhaps we still have hope for the humankind. And there are some powerful depictions of that today and one can one must understand, there is phenomena to develop good marketing strategy for the future like the open-source movement which cannot be immediately explained by the conventional or traditional economic thoughts. Because here people do give up economic benefits and provide labour of love to create intellectual property accessible to all that can benefit the development, cause the development of more intellectual property.

So, the study of this whole area of open source, open innovation that can be explained by bounded self-interest and perhaps in marketing term can be and some authors have related that this phenomena to the human need for a reputation, the human need for recognition, the human need for self-actualization, the higher levels of the Maslow hierarchy of needs. And so, those aspects today cannot be ignored and in devising marketing strategies today, one will have to look at this whole issue of ecosystems.

In fact, collaborative competition, the paradoxical term which integrates two apparently in opposite concepts. Can be seen at play in particularly high technology industries like semiconductors or information, communication technology products and services, where people large companies, small companies give up their immediate gain to build an ecosystem, because you often today marketing struggle is not between product and product. But between platform and platform, which means one kind of ecosystem with another kind of ecosystem, because today's complex markets are such that it is very difficult to win by yourself. So, there are famous marketing strategic cases like the v h s versus beta max in video recording v t r or video cassette recording, where beta max which was rationally technologically superior gave way to the dominance of v h s, because the v h s companies who were developing on that basis. They created an ecosystem which was far more powerful.

We have seen the same thing happening in mobile phone market, where the GSM ecosystem, one over most of the other computing systems and created a global dominance again, because of the collaborative competition situation building of ecosystem at that time. That therefore, they are interesting concepts, which you can look for on the internet they were very interesting articles like spider versus spider. That means, one type of ecosystem competing against other kind of ecosystem to develop these strategies, but today this c to c - consumer to consumer marketing particularly when it is a cause related marketing is an important consideration, because it is based on this search for reputation recognition belonging need of a steam need a prestige need of self-actualization. In fact, the whole success of facebook or orkut or all these social media for can be attributed to and evolved version of these concepts and they must therefore, become part of our marketing strategy.

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LEARNING MAKES US RATIONAL

- Even if people are predictably irrational, they can learn from their -- and other people's -- mistakes
- Therefore, over time, we will learn to be rational

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The learning from other people's mistakes, your own mistakes, sharing of that knowledge around, and use of standard marketing techniques for cause related marketing using these tools and using these understanding have actually already given us great successes like the battle against aids or other similar deadly diseases worldwide.

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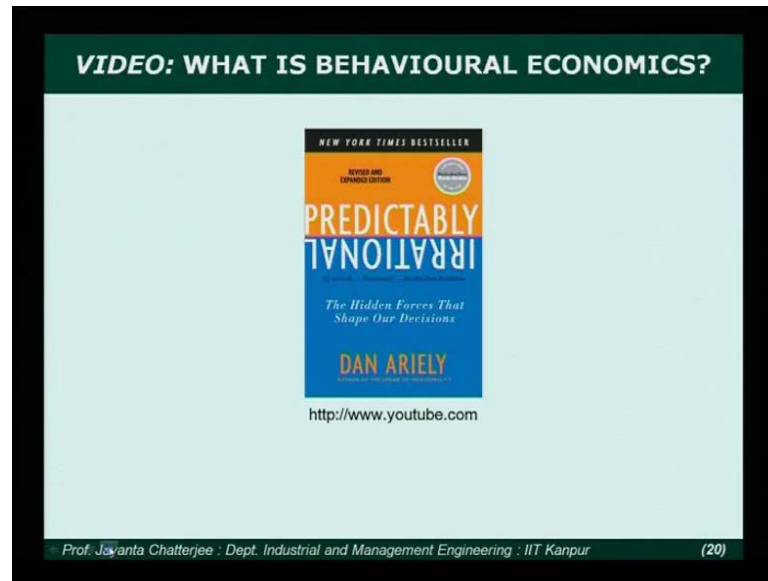
WE ARE PREDICTABLY IRRATIONAL

- The standard marketing and consumer behaviour models can be improved upon by behavioural economics

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We are predictably irrational, but understanding that can give us benefit to develop our or other evolve our standard marketing and consumer behaviour models using that understanding.

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I will recommend that you look at material on this book, and Dan Ariely, on presentations available on YouTube, and supplement to today session and think how those concepts can be used for better marketing strategy, particularly, when it comes to cause-related marketing social marketing that we have discussed before.

Thank you.