Chapter II
Chapter II
Review of Literature

This chapter intends to set the theoretical frame of the thesis by introducing the main areas needed to create the basis of our analysis, paving the way towards our main purpose. Thus, it begins with a short description of the consumer satisfaction and continues with the concept of brand, price, service quality, and advertising. After setting the theoretical frame of the subject, this chapter focuses on consumer satisfaction. Therefore, the body of theories and empirical studies will contain relevant information regarding the factors aforementioned, and a consumer perception context is reviewed and reflected upon in this research.

2.1 Introduction

The Over the last decade organizations of all types and sizes have increasingly come to understand the importance of customer satisfaction. It is far less costly to keep existing customers than it is to win new ones, and it is becoming accepted that there is a strong link between consumer satisfaction, consumer retention and profitability. For many organizations in the public sector consumer satisfaction will itself be the measure of success.

Consumer satisfaction has therefore become the key operational goal for many organizations. They have invested heavily in improving performance in areas that make a strong contribution to consumer satisfaction, such as quality and customer service. Loyalty schemes have proliferated in the retail sector and now are moving into the business sector. Companies are investing in ‘database marketing’, ‘relationship management’, and ‘customer planning’ to get closer to their consumers. Organizations in the public sector have developed consumer character to demonstrate their commitment to customer service, and just about every ‘mission statement’ includes reference to satisfying or, increasingly, delighting consumers. But what is the result of all this effort and investment? How do we know if we are succeeding in satisfying, let alone delighting, our consumers? The truth of the matter is that many organizations don’t. It is a widely accept adage in the quality world that ‘if you can’t measure it, you can’t manage it’. This principle applies equally to consumer satisfaction as it does to thousand of components coming off a production line. However, most companies measure (and consequently manage) component
manufacture far more thoroughly than they do consumer satisfaction. Indeed, many companies and organizations still do not measure consumer satisfaction at all and many who claim to be measuring it do so in an inadequate way. Consumer satisfaction is a measure of how your organization’s total product performs in relation to a set of consumer requirements. Of course, the consumer’s view of your organization’s performance will be a perception. Consumer satisfaction is in the consumer’s mind and may not conform to the reality of the situation. We know that people from attitudes quickly but change them only slowly.

Businesses monitor consumer satisfaction in order to determine how to increase their consumer base, consumer loyalty, revenue, profits, market share and survival. Although greater profit is the primary driver, exemplary businesses focus on the consumer and his/her experience with the organization. They work to make their consumers happy and see consumer satisfaction as the key to survival and profit. Consumer satisfaction in turn hinges on the quality and effects of their experiences and the goods or services they receive.

Not surprisingly, a primary concern of business research and literature is building companies that excel at gaining and keeping customers. Studies show that outstanding customer service organizations focus on a clear goal—satisfying the customer—and design everything else with that aim in mind. From the top-down, these organizations act to provide positive customer experiences. The focus on complete customer satisfaction permeates the organization.

Fifteen years ago, in the beginning stages of the customer service revolution, Ron Zemke and Dick Schaaf canvassed 101 leading companies to see how they approached customer service. From this investigation, they distilled five general operating principles that research and experience continue to uphold (Zemke and Schaaf, 1998):

1. Successful customer service companies listen to, understand, and respond often in unique and creative ways to the evolving needs and constantly shifting expectations of their customers.

2. These companies establish a clear vision of what superior service is, communicate that vision to employees at every level, and ensure that service quality is personally and positively important to everyone in the organization.
3. They establish concrete standards of service quality and regularly measure themselves against those standards. They guard against the common mindset that some margin of error is acceptable by establishing as their goal 100 percent performance.

4. They carefully hire people; train them extensively so they have the knowledge and skills to achieve the service standards, and then empower them to work on behalf of customers, whether inside or outside the organization.

5. They recognize and reward service accomplishments, sometimes individually, sometimes as a group effort, in particular celebrating the successes of employees who go one step beyond the expected actions for their customers.

This section examines these principles and provides examples of how high performing organizations put them into practice.

2.2 Consumer-Focused Mission Statements

The management and customer service literature hammer home the importance of guiding vision that is clearly communicated through an organizational mission statement and set of principles. An effective mission statement accomplishes three purposes:

► It focuses and guides employee actions. By providing a constant touchstone for employees, the mission statement has a powerful role in reinforcing customer service. According to marketing expert Barry Feig, a strong mission statement both inspires and challenges employees (Barry, 1997). It can also help employees feel that they are part of something important, another operating principle of high-performing companies.

► It helps set and manage customer expectations. The American Airlines Customer Service Plan states: “We are in business to provide safe dependable and friendly air transportation to our customers, in the hopes that you will fly with us again and again.” The Customer Service Plan then goes on to provide service goals, guarantees, and promises for customers and employees. It is continually updated based on information from customer research, including focus groups, discussions and surveys.
It contributes to instilling a culture of customer orientation. The Ritz-Carlton Hotel is frequently cited as a company that exemplifies superior customer service. When Horst Schulze took leadership of the company in 1983, he launched a comprehensive program of quality management that grew to permeate the organization. The Credo that defined the new direction begins with a clear statement: “The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.” The Credo was further translated into the Gold Standards for guests and employees, who include the Motto, the Employee Promise, the Three Steps of Service, and the Basics—twenty rules for and promises to all employees. After intensive customer service training, every employee receives a wallet-sized copy of the Credo and Standards.

An effective mission statement is clear, concise and customer-focused. More than a slogan, it states what the company intends to do and must do for the customer. Roger Dow, the former general sales manager of Marriott Hotels, and co-author Susan Cook declare that a clear and simple mission statement is an indispensable tool. They recommend a crisp and memorable statement that can be implemented and lived daily. As an example, they point to the San Antonio River Center Marriott credo, “Every guest leaves satisfied”—both a customer service pledge and organizational vision (Dow and Cook, 1996). In addition to focusing on customer satisfaction, mission statements of many successful companies include employee satisfaction. These organizations recognize that customer service depends on employees who know they are valued, are treated well, and have the tools they need to put the mission into action. Saint Luke’s Hospital is the largest hospital in the Kansas City metropolitan area, a nonprofit teaching facility, and recipient of a 2003 Malcolm Baldrige National Quality Award. Saint Luke’s mission statement, “The Best Place to Get Care, The Best Place to Give Care,” expresses commitment to caregivers and patients. This mission statement provides organizational direction for: a set of core values that guide’s employee actions (Quality/Excellence, Customer Focus, Resource Management, and Teamwork), an employee performance management system that is linked to compensation, and a customer satisfaction research program that “provides all employees the necessary information to effectively design, manage, and improve their processes” (Mannelo, 1999). Like Saint Luke’s, customer-focused organizations often articulate mission statements and organizational principles that reflect customer
research findings. When Susquehanna Health System of Williamsport, Pennsylvania conducted customer research, the organization found that the top fifteen patient expectations all had to do with customer intimacy and personal service. After developing its C.A.R.E. concept (Courtesy, Attentiveness, Responsiveness, Empathy) and dedicating itself to providing the best of these for its patients, the organization was awarded the Arthur Andersen, Inc. 1999 Best Practices Global Award in the category of “Exceeding Customer Expectations”.

\textit{2.3 Consumer-Oriented Culture}

Creating and instilling a “culture” of customer service in which employees are encouraged and expected to go to great lengths to satisfy customers is another hallmark of a successful organization. High performing organizations work to create an environment where employees focus on customer satisfaction in each encounter, every day. For many organizations, including public sector social services, this requires “a massive culture shift away from what is convenient for the organization to what is needed by the service users” (Mannelo 1999). Many public and private organizations fail by relying on a single customer satisfaction program or strategy, such as customer surveys, staff orientation sessions, or performance-based compensation. Instead, success requires “a multi-dimensional program, including management consulting, customer satisfaction measurements, employee feedback, motivation programs, training and ongoing reinforcement” (Truax and Rorex 2001). Customer service and responsiveness must be embedded in practices and operations throughout the organization. Emanuel Medical Center in Turlock, California, improved its customer satisfaction ranking from the 41st to the 90th percentile with a comprehensive approach of “improved methods, processes, and procedures that resulted in providing better services to our customers”, but more importantly, according to the Center’s public relations director, “we’ve implemented programs that changed out culture” (Truax and Rorex, 2001). Ritz-Carlton incorporates customer service into frontline practices through a daily face to-face meeting with every staff member. Before every shift, each department huddles for ten minutes. Each employee receives a small packet with the day’s vital information—projected hotel occupancy, a list of VIP guests and their preferences, special conferences and meeting needs, and the Ritz-Carlton basic principle of the day.
2.4 What is Consumer Satisfaction?

The basis for consumer satisfaction or dissatisfaction lies in mankind's ability to learn from past experiences. Accordingly, consumer preferences are constantly being updated by way of the learning process. Learning theory posits that "... a given response is reinforced either positively or negatively to the extent that it is followed by a reward. Reward, in turn, leads to an evaluation that the purchase was satisfactory... and hence it can exert an effect on brand beliefs and attitudes. The probability of engaging in a similar buying act will be increased if there are positive consequences in the act of purchase and use and vice versa" (Engel, Kollat & Blackwell, 1968, p. 532). A basic tenet of marketing is that consumer satisfaction with a product is likely to lead to repeat purchases, acceptance of other products in the product line, and favorable word-of-mouth (Cardozo, 1965).

However, while the idea of post-purchase outcome has been included as a variable in early consumer behavior models (Engel, Kollat & Blackwell, 1968; Howard & Sheth, 1969), the attention until the latter part of the 1970s (Anderson, 1973). Early attempts to understand consumer post-purchase responses focused on the notion of cognitive dissonance (Festinger, 1957). A number of early studies suggested that CS/D was a more definitive outcome of the post-purchase decision (Cardozo 1965; Engel, Kollat & Blackwell 1968). In noting that it "would indeed be an understatement" to say that there is no general agreement on how to define satisfaction, Day (1980) asserts that "while everyone knows what satisfaction means, it clearly does not mean the same thing to everyone" (p. 593). Early conceptualizations of consumer satisfaction view it as a single variable which involves a single evaluative reaction from consumers, which may or may not be related to pre-evaluation concepts. In discussing the conceptualization of consumer satisfaction, for example, Hunt (1977) notes that "... satisfaction is a kind of stepping away from an experience and evaluating it... One could have a pleasurable experience that caused dissatisfaction because even though it was pleasurable, it wasn't as pleasurable as it was supposed to be. Satisfaction/dissatisfaction isn't an emotion; it's the evaluation of the emotion".

Despite extensive research in the years since Cardozo’s (1965) classic article, researchers have yet to develop a consensual definition of consumer satisfaction. Oliver (1997) addresses this definitional issue by paraphrasing the emotion literature,
noting that "everyone knows what it [satisfaction] is until asked to give a definition. Then it seems, nobody knows" (p. 13). Based on the assumption that satisfaction has been defined, most research focuses on testing models of consumer satisfaction (e.g., Mano and Oliver, 1993; Oliver, 1993; Oliver and DeSarbo, 1988; Spreng, MacKenzie, and Olshavsky, 1996; Tse and Wilton 1988) while definitional considerations have received little attention. As a result, the literature is replete with different conceptual and operational definitions of consumer satisfaction (see Table 1). As Peterson and Wilson (1992) suggest, "Studies of customer satisfaction are perhaps best characterized by their lack of definitional and methodological standardization" (p. 62).

A basic definitional inconsistency is evident by the debate of whether satisfaction is a process or an outcome (Yi, 1990). More precisely, consumer satisfaction definitions have either emphasized an evaluation process (e.g., Fornell, 1992; Hunt, 1977; Oliver, 1981) or a response to an evaluation process (e.g., Halstead, Hartman, and Schmidt, 1994; Howard and Sheth, 1969; Oliver, 1981, 1997; Tse and Wilton, 1988; Westbrook and Reilly, 1983). From a general definition perspective, process definitions are problematic in that there is little consistency in the satisfaction process. From an operational perspective, process definitions are plagued by antecedent constructs included in the conceptual definition; thus, there is an overlap between the domains of the determinative process constructs and the consumer satisfaction construct.

Most definitions have favored the notion of consumer satisfaction as a response to an evaluation process. Specifically, there is an overriding theme of consumer satisfaction as a summary concept (i.e., a fulfillment response (Oliver, 1997); affective response (Halstead, Hartman, and Schmidt, 1994); overall evaluation (Fornell, 1992); psychological state (Howard and Sheth, 1969); global evaluative judgment (Westbrook, 1987); summary attribute phenomenon (Oliver, 1992); or evaluative response (Day 1980). However, there is disagreement concerning the nature of this summary concept. Researchers portray consumer satisfaction as either a cognitive response (e.g., Bolton and Drew, 1991; Howard and Sheth, 1969; Tse and Wilton, 1988) or an affective response (e.g., Cadotte, Woodruff, and Jenkins, 1987; Halstead, Hartman, and Schmidt, 1994; Westbrook and Reilly, 1983). Furthermore, operational definitions may include a behavioral dimension of satisfaction (e.g., "I
would recommend the school to students interested in a business career" (Halstead, Hartman, and Schmidt, 1994). Although conceptual definitions are void of a behavioral orientation.

A final discrepancy occurs in the terms used as a designation for this concept. Researchers have used discrepant terms to mean satisfaction as determined by the final user: consumer satisfaction (e.g., Cronin and Taylor, 1992; Oliver 1993; Spreng, MacKenzie, and Oshavsky, 1996; Tse and Wilton, 1988; Westbrook, 1980), customer satisfaction (e.g., Churchill and Surprenant, 1982; Fornell, 1992; Halstead, Hartman, and Schmidt, 1994; Smith, Bolton, and Wagner, 1999), or simply, satisfaction (e.g., Kourilsky and Murray, 1981; Mittal, Kumar, and Tsiros, 1999; Oliver, 1992; Oliver and Swan, 1989). These terms are used somewhat interchangeably, with limited, if any, justification for the use of any particular term.

The lack of a consensus definition for satisfaction creates three serious problems for consumer satisfaction research: selecting an appropriate definition for a given study; operationalizing the definition; and interpreting and comparing empirical results. These three problems affect the basic structure and outcomes of marketing research and theory testing.

While discussing and testing theory it is critical to explicate the conceptual domain. Part of this process is defining the constructs of interest and explaining why this conceptualization is appropriate. For constructs having a consensus definition, this issue does not need to be addressed in each and every study. However, if multiple definitions for a construct exist, then researchers must explicitly define and justify the definition selected. Unfortunately, most satisfaction researchers do not justify their choice of definition. In some cases, satisfaction is not defined at all. Even if a researcher attempts to define satisfaction, there are no clear guidelines for selecting an appropriate definition for a given context. As a result, the selection of a definition for satisfaction becomes idiosyncratic.

A second problem is the development of valid measures of satisfaction. Defining a construct’s theoretical meaning and conceptual domain are necessary steps to developing appropriate measures and obtaining valid results (Bollen, 1989; Churchill, 1979; Gerbing and Anderson, 1988). If the choice of a consumer satisfaction definition, or lack thereof, is not justified, it is unclear whether the
measures used are appropriate or valid. As Marsh and Yeung (1999) point out, "the meaning attributed to the items and the underlying nature of the measured . . . construct are changed by the context within which they appear" (bold added). This problem becomes more serious as the measure becomes more global in nature. Thus, the "chameleon effect" described by Marsh and Yeung (1999) is rampant in satisfaction research. Generally worded, global measures provide no guidance to respondents or other researchers for interpreting the exact meaning of satisfaction. In this situation, respondents will interpret the meaning of "satisfaction" based on the other cues including instructions, other measured constructs, and products being assessed.

Given the lack of a clear definition or definitional framework, developing context-specific items becomes difficult and idiosyncratic. For example, Westbrook (1987) defines satisfaction as a "global evaluative judgment about product usage/consumption" (p. 260). This definition provides little guidance for developing context-specific measures. Based on this definition, satisfaction was assessed using an item like the following: How do you feel about the product or product usage? (I feel delighted/terrible). While this item is consistent with the definition, Marsh and Yeung (1999) would argue it is subject to chameleon effects. As they note:

We evaluate support for the chameleon effect that hypothesizes that an open-ended (content-free) item such as those appearing on most esteem scales (e.g., "I feel good about myself, "Overall, I have a lot to be proud of," "Overall, I am no good") takes on the meaning of items with which it appears. For example, if the item "I feel good about myself" appears on a survey in which all of the other items refer to academic situations, then respondents are more likely to respond in terms of how they feel about themselves academically. On the other hand, if all of the other items on the survey refer to their physical conditions, then respondents are more likely to respond to the same item in terms of how they feel about themselves physically (page 49).

Similarly, the meaning of the "delighted-terrible" question posed above would change depending on other items and contextual information in the study. Without a consensus definition of satisfaction that can be used to develop context-specific measures, the combination of explicit and implicit (chameleon effect) inconsistencies prevents meaningful conclusions about consumer satisfaction.
Perhaps the most serious problem caused by the lack of a consensus definition is the inability to interpret and compare empirical results. Peterson and Wilson (1992) note that differences in results depend on how satisfaction was operationalized. For example, how do expectations influence satisfaction? It is impossible to compare results across studies since differences in the definition and operationalization of satisfaction will influence the role of expectations in the model. Furthermore, expectations may be irrelevant for the particular context in which satisfaction is being determined. A specific concern to managers is that uninterruptible results are essentially results that can not provide information to make decisions. Thus, a lack of definitional and measurement standardization limits the degree to which generalizations can be developed; a lack of definitional standardization limits the degree to which results can be explained, justified, and compared.

Without definitional explication, true satisfaction can be elusive. A brief example may illustrate the relevance of a standardized definition of consumer satisfaction. Two automobile purchasers respond to the same seven-point satisfied/dissatisfied scale. Consumer A marks a '5' and Consumer B marks a '7.' Most likely, the interpretation is that Consumer B is more satisfied than Consumer A. Given only this much information, however, it is virtually impossible to interpret what these consumers mean from the number that they have marked. How they define satisfaction is integral to interpreting their response.

In sum, it becomes impossible to create a unified, comparable body of research on consumer satisfaction if researchers do not agree on what satisfaction is and cannot base measurement decisions on a consensual definition. Furthermore, it is imperative to define and measure satisfaction according to consumers’ views of the relevant satisfaction situation. For these and other reasons, Yi (1990) concludes, "For the field of consumer satisfaction to develop further, a clear definition of consumer satisfaction is needed". The purpose of this research is to resolve existing inconsistencies by proposing a framework that researchers can use to develop clear and conceptually consistent, context-specific definitions of consumer satisfaction. Given the complexity and context-specific nature of satisfaction, it is impossible to develop a generic global definition. Rather, the definition of satisfaction must be contextually adapted. The proposed framework ensures that the context-specific
definition captures the complete domain of satisfaction and is consistent with the conceptual domain of other researchers.

This study will focus on the concept of consumer satisfaction. As noted previously, the literature has been lax in distinguishing between consumer satisfaction, customer satisfaction, and satisfaction (see Cadotte, Woodruff, and Jenkins (1987) versus Churchill and Surprenant (1982) or Spreng, MacKenzie, and Olshavsky (1996) versus Smith, Bolt for examples). In other cases, neither consumer nor customer is used to qualify the term, satisfaction (e.g., Gardial et al. 1994; Mittal, Kumar, and Tsiros, 1999). All of these studies, however, tend to be focused on the final user.

Consistent with the literature, we will define the consumer as the ultimate user of the product. Although our focus is on the end user of the product, we recognize that, in some situations, the end user is also the purchaser. It is evident that the concept of consumer satisfaction applies in many marketing contexts: purchase, consumption (e.g., Cadotte, Woodruff, and Jenkins, 1987), and information considered (e.g., Spreng, MacKenzie, and Olshavsky, 1996); and, even business consumption (Mowen and Minor, 1998; Schiffman and Kanuk, 2000; Solomon, 1999). Thus, consumer satisfaction must be explicitly defined to delineate the context. In this study, consumer satisfaction pertains to the response of the end user who may or may not be the purchaser.

2.5 Why Measure Consumer Satisfaction

The average business loses between 10 and 30 per cent of its consumers each year; but they often don’t know which consumers they have lost, when they were lost, or how much sales revenue and profit this consumer decay has cost them. This view has been supported by Hunt and Keith (1997). Far from worrying about consumers they are losing, most companies have traditionally placed more emphasis on winning new consumers. Companies can become like a bucket with a hole in the bottom: their consumers drain away but the company managers, instead of concentrating on fixing the hole, devote resource to pouring more and more new consumers into the top.
2.5.1 The Cost of Consumer Decay

“Research has now demonstrated conclusively that it is far more costly to win one new consumer/customer than it is to keep an existing consumer/customer (Barden and Teel, 1983). For example, let us assume that in the UK a company has a cost per appointment or sales lead of £250. To this must be added a cost per sales call of perhaps £200 and possibly nine visits for each new consumer won. The average number of visits per sale will be a factor of the average number of visits required to convert a new consumer and the conversion ratio. If you have to make an average of three calls to a new prospect before making your first sale and you convert only one in three of the new prospects you visit, your average number of visits per sale is nine. The selling and promotional cost will give you a total cost per new consumer— that is, the gross profit you need to earn to make any money out of that new account” (Bollen, 1989). All this may well underestimate the real cost of consumer acquisition because it ignores the cost of salaries and other overheads in sales and promotional support. A more accurate, if more complicated, method is to isolate sales and marketing costs including salaries and other overheads. Split your selling costs between servicing existing consumer wining new consumer. Take the proportion of selling costs, add 100 per cent of promotional costs and divide this figure by the number of new consumers your company won in the past-year, giving a true average acquisition cost for each new consumer.

2.5.2 The Value of Consumer Retention

Just as winning new consumers is very costly, keeping existing consumer is very profitable. In recent years more and more organizations have realized this fact, resulting in a proliferation of ‘loyalty schemes’. The best loyalty scheme is, of course, customer satisfaction. This achieved by ‘doing best what matters most to customers’, with tokens, bonus points and other loyalty schemes making only a marginal difference. The fundamental justification for measuring customer satisfaction is to provide the information which enables managers to make the right decision to maximize consumer satisfaction and therefore improve consumer retention. “Examining the concept of lifetime consumer values will enable us to see how improved consumer retention feeds through into increased profitability. The lifetime value of a consumer is functions of the consumer’s average spend with the business,
multiplied by the length of time the business will retain the consumer” (Cadotte et al. 1987). Without accurate consumer satisfaction measurement, management is most unlikely to make the right decisions so as to consistently achieve the required incremental improvements in consumer retention. Success will always rely, as we have already seen, on ‘doing best what matters most to customers’.

2.5.3 **Motivation and Commitment**

If sustainable improvements in consumer service are to be made the whole organization needs to be motivated and committed from top bottom. However, all the evidence points to the fact that whilst senior management claims to be committed to improving consumer services that message are not percolating through the ranks. Carrying out a through consumer satisfaction measurement exercise, communicating the results internally and then updating the survey and monitoring progress will do more than anything to demonstrate the importance of consumer satisfaction to all employees. There is considerable evidence that measurement in itself motivates staff to work for improved result. This is partly because it demonstrates management commitment and partly because human beings are naturally competitive, enjoying the challenge of aiming at targets and the satisfaction of hitting or exceeding them. It is also because the survey and appropriate follow up serve to demonstrate that senior management is serious about the importance of improving consumer service. Where staff believe it is important you management they will take it seriously; but, if they from any suspicion that management is only paying lip-service to the concept they will become totally cynical.

2.5.4 **Profits**

The most powerful reason for doing anything in business is that it will increase profitability. Measuring consumer satisfaction, and acting appropriately on the results, will increase profitability. This view has been supported by (Cardoz, 1965). The surest route to success for most organizations is to ‘do best what matters most of consumers’. Consumer retention rates will improve and consumers will pay more for a product or service which precisely matches their needs. “The well-documented PIMS (Profit Impact of Marketing Strategies) studies have found that companies rated poorly. Moreover, PIMS has also found that a 50 per cent decrease in
the rate of consumer decay leads to a 20-85 per cent increase in profit” (Churchill, 1979).

2.6 The Satisfaction- Profit Chain

That is the question many people put to us before embarking on a programme of research to measure and improve their company’s ability to ‘do best what matters most to consumers’. Adolfs and Dmasio (2000) in their recent research found that “A consumer who is well treated is more likely to bring more business your way, by repeat purchase, recommendation, putting a larger share of spend in your hand and so on” (P.200). In addition loyal consumers are less likely to seek the lowest prices and the cost of selling to them is much less than the cost of capturing new consumers from the competition. Happy consumers are the cheapest and most effective from advertising you can get. Conversely, disappointed consumers will not only take their business away but will probably tell several others about the experience too. Whilst it may take repeated positive encounters to create consumer loyalty it usually only takes two negative ones to make an enemy for life. There are not many third chances. Consider your own experience and behavior as a consumer for a moment and you will recognize these facts, whether in your personal or business life.

It is also true in many cases that the initial sale is only a small part of the client-supplier relationship. When buying cars, household appliances, entertainment equipment, and computers and so on the actual purchase is only the beginning of the consumers’ relationship with the product, but often it is the end of their relationship with the salesperson. If regular servicing is required or a fault occurs then a relationship with service personnel is needed. In three years of car ownership there will be several opportunities for the dealership’s service department to demonstrate their consumer handling skills and if they get it wrong it is likely. Successful organizations plan a consumer handling strategy that respects the change in relationships as they develop. Sales people should be heavily involved before the sale and from time to time afterwards. Service people need to be properly trained and motivated to care for consumers during their ownership experience.

2.6.1 The Link between Satisfaction and Profit

The link between consumer satisfaction and company has historically been a matter of faith but there is now growing body of evidence to support the case. For
many companies profit can be traced back to consumer satisfaction which, in turn is related to employee satisfaction. In essence, this chain of events is depicted. It used to be thought that market share was the best determinant of profitability and this led to many mergers and takeovers in the hope the economies of scale would reduce cost and increase profit. Naturally this works to a degree but there are many exceptions, in which companies who do not have the largest market share are more profitable than those with a bigger share because they have discovered that consumer loyalty is more profitable than market share. Barker (1999) has shown that a 5per cent increase UN consumer loyalty can produce profit increase of 25 to 85 per cent across a range of industries. Retaining existing consumers for longer usually has a much lower associated cost than winning new ones, so a larger proportion of the additional gross profit goes straight to the bottom line.

2.6.2 Committed Consumer Stay Longer

It is misguided to believe that consumer retention will be achieved through ‘loyalty’. This view has been supported by Barsky (1995). This concept simply does not apply in its true sense to most businesses since there is no ‘loyalty’ in a commercial transaction. In commercial markets the onus is on the supplier to convince the consumer and customer that it is in the latter’s best interests to remain a consumer. It self interested, not ‘loyalty’ that keeps consumers ‘loyal’. Commitment is therefore a better word to describe the feeling that produces the benefits of consumer retention such as repeat purchase, recommendation and reduced price sensitiveness. Repeat purchase can be habitual, with very little commitment on that part of the consumer and these apparently ‘loyal’ consumers can be easy per y for competitors (Bhote, 1996). Committed consumers are much less vulnerable to competitors’ advances because they are convinced that their existing supplier meets their long-term requirements better than any other. As mentioned by Bhote (1996) that “commitment is therefore the best lead indicator of retention”. Businesses as diverse as banks, office equipment supplier, telecommunications suppliers and car manufacturers have published figures showing a very strong relationship between consumer satisfaction and commitment. The relationship between satisfaction and commitment is not fixed. It differs across markets and even between suppliers in the same marketplace. This view has been supported by Bowden (1998).
To satisfy consumers you must meet their needs Bhote (1996). You must ‘do best what matters most to consumers’. It sounds so obvious that it’s not worth saying, but many suppliers don’t do it. They make people queue for lengthy periods, they make them use filthy toilets, and they break delivery and service promises and even, on occasion, are downright rude to consumers. Our company conducts hundreds of consumer satisfaction surveys each year and we know that these things are still happening. We also know that a very define relationship usually exists between dissatisfaction and disloyalty. Unhappy consumers are unlikely to return, and will probably discourage others from becoming consumers. The consumer value package is the combined set of benefits provided by the supplier to consumers (Brown, 1992). If your consumer value package meets consumers’ needs they will be satisfied and are much more likely to be committed. Where you do not meet their requirements there will be ‘satisfaction gap’ and if there are many these consumers will not be satisfied and commitment will be low. Improving the consumer value package in the eyes of consumers is often achieved by making significant improvements in a small number of its component elements. These are PFIs, where consumer’s requirements are currently not being met. By following the advice on consumer satisfaction measurement outlined in this thesis, it is possible to determine how much you need to increase consumer satisfaction with the PFIs to produce a specific gain in overall consumer satisfaction and loyalty, and this concept will be pursued.

2.7 A Structural Equation Model of Customer Satisfaction

According to Dick and Basu (1994), consumer loyalty plays a central role in marketing strategy, and marketing planning in the achievement of brand loyalty, vendor loyalty in industrial marketing, service loyalty in the service sector and store loyalty in the retail sector. The marketing literature defines loyalty as an attitude or a behavioral intention (Hallowell, 1996). Attitudinal loyalty reflects an individual’s overall attachment to a product, service or organization. Behavioral loyalty is expressed in terms of intentions to re-purchase, to increase the scale and scope of a relationship, brand-switching or the act of recommendation (Yi, 1990; Biong, 1993). The widest perspective of behavioral loyalty is set within the context of the quality value satisfaction (Q-V-S) literature. In a review of this literature Cronin et al. (2000) report that research interest in Q-V-S has proceeded from a focus on perceived quality to satisfaction and hence to value according to national awards or paradigm shifts.
such as total quality management, consumer satisfaction measurement, and consumer value measurement. Research studies have paid attention to the measurement of the constructs (Dabolkar et al. 2000), the relationships between them (Cronin et al. 2000) and how they affect behavioral intentions (Bou-Llusar et al. 2001). The elements within the Q-V-S framework tend to be defined as constructs with multiple measures. Typically a construct of ‘Sacrifice’ is specified to depict the sacrifice in terms of price, time and effort to accomplish the transaction. An independent construct of ‘Perceived Quality’ along with ‘Sacrifice’ is linked to a construct of ‘Perceived Value’. ‘Perceived Value’ thus reflects the influence of the trade-off between ‘Sacrifice’ and ‘Perceived Quality’. Three alternative forms of measurement have been applied to the perceived quality construct. One approach has been to address perceived quality (Very poor, Very good). Another has been to employ disconfirmation measures that are related to expectations (Much worse than expected, Much better than expected). A third approach employs computed disconfirmation that employs measures of perceived quality and expectations and computes disconfirmation by subtraction. A further issue is whether disconfirmation is more suitable measured in a cross-section study or longitudinal study. In the latter approach expectations are measured prior to service delivery while service quality is measured afterwards. The need for firms to measure consumer satisfaction has led to the use of instruments such as consumer satisfaction and purchase intentions surveys, analysis of complaints and suggestions, ghost shopping and lost consumer analysis. A study by Wilson (2002) researched the use of consumer satisfaction measurement within the retail sector. The research reveals a high degree of usage for monitoring customer attitudes, the overall performance of the firm and to identify problem areas. Yet more than two-thirds of firms indicated that satisfaction measures are most useful when combined with complementary measures. Hausknecht (1990), in a review of methods of measuring consumer satisfaction/dissatisfaction, provides a taxonomy of measurement scales, which are classified as evaluative or cognitive, emotional or affective and, behavioral or conative approaches. However, Halstead (1989) makes the point that satisfaction is not desirable as an end but rather as a means to understand future consumer responses. Hence interest in satisfaction is linked to consumer loyalty and retention. However, satisfaction is regarded as a necessary but not a sufficient condition to lead to repeat purchase behavior (Van Looy et al. 1998; Bloemer and Kasper, 1995).
Satisfaction is typically measured as an overall feeling or as satisfaction with elements of the transaction in terms of its ability to meet customers’ needs and expectations (Fornell, 1992; Zeithaml and Bitner, 2000). Another approach employs a disconfirmation paradigm, which examines deviations of performance from customer expectations and norms (Bearden et al., 1981). A series of studies has further elaborated the satisfaction-loyalty relationship for products and services, brands and retailers and considered the interaction between these (Bloemer and Lemmink, 1992). For example, Dabholkar and Thorpe (1994) employ multiple measures of both overall satisfaction and loyalty. Bloemer and Kasper (1995) distinguish between spurious and true (brand) loyalty and between manifest and latent satisfaction. They also provide explicit treatment of the situation in which purchase takes place. In a study of customers of a car dealership Bloemer and Lemmink (1992) distinguish between the satisfaction-loyalty relationship for both dealers and brands. La Barbera and Mazursky (1983) employ a longitudinal study, which enables them to consider the analysis of satisfaction over time, including brand-switching behavior. A further issue within the Q-V-S framework is the nature of the interactions between its components constructs including direct and indirect links to behavioral intentions. In their review of the applications Cronin et al. (2000) identify three broad approaches that reflect researchers’ interests in different perspectives. The Value Model is typical of service value studies and specifies that behavioral intentions are directly influenced by service value and where service value is influenced independently by sacrifice, service quality and satisfaction or a subset of these constructs (Zeithaml, 1988; Cronin et al. 1997). In the Satisfaction Model behavioral intentions are directly influenced by satisfaction and where this construct is simultaneously influenced by service value and service quality, and where service value is simultaneously influenced by sacrifice and service quality (Cronin and Taylor, 1992; Hallowell 1996; Oliver, 1999). A third model, the Indirect Model reflects a focus on the interaction between service quality, value and satisfaction. Hence there are direct effects on behavioral intentions from value and satisfaction constructs. Value is influenced directly by quality and in turn, has a direct effect on satisfaction. Hence there are indirect effects on behavioral intentions by quality, via value and also via value and satisfaction, and value, via satisfaction (Ennew and Binks, 1999).
Anderson et al. (1994) provide a framework for the estimation of the economic returns arising from the delivery of consumer satisfaction. Evidence in support of the satisfaction-loyalty-profitability relationship is provided by Heskett et al. (1994) and Hallowell (1996). Apart from the application to individual firms, the concept has been extended, for example in the form of the American Consumer Satisfaction Index (ACSI), to industrial sectors or economies (Fornell 1992). Subsequently, the ACSI inspired the development of the European Consumer Satisfaction Index (ECSI) in association with the European Foundation for Quality Management (EFQM) and the European Academic Network for Consumer Oriented Quality Analysis (IFCF). In 1999 a pilot study was implemented in 12 European countries (Kristensen et al. 2001).

A related development extends the satisfaction-loyalty relationship to include profitability. Loyalty enhances profitability through an increase in the scale and scope of the relationship with loyal consumers, lower consumer recruitment costs, reduced consumer price sensitivity and lower consumer servicing costs (Hallowell, 1996). However, Reinartz and Kumar (2002) warn against the assumption that loyalty automatically promotes greater profitability. These authors test four assertions from the consumer relationship marketing paradigm, that loyal consumers: are more profitable, cost less to serve, pay higher prices; and, act as word-of-mouth marketers. They established that the respective associations between bivariant measures of loyalty with profit, costs, price and marketing activity were generally ‘weak’ to ‘moderate’.

2.8 An Overview of Consumer Satisfaction Models

Both public and private sectors have given much attention to the concept of customer satisfaction in the past couple of decades. Naturally, administrators have requested their staff to do customer satisfaction studies for their own organizations. An analyst or researcher must operationalize the concept of customer satisfaction in order to measure it. More importantly, in order for any measurements to have validity, the analyst needs to assume some model of the subject matter. The analyst must use very explicit conceptualizations of the subject matter (in other words, models) if she/he expects to do research and analysis that has relevance for organizational decisions. In this paper, we try to provide the analyst an overview of models of customer satisfaction. These models come from a vast literature from the marketing
research discipline. This pool of research includes models that integrate the concept of customer satisfaction in a network of related concepts, such as value, quality, complaining behavior, and loyalty. In this thesis, we will label these kinds of models as “macro-models.” Macro-models have special importance for the policy-level implications of an organization’s research in customer satisfaction. Macro models give the researcher the strategic context of the design and of the results for a study of customer satisfaction.

The marketing research literature extensively covers the elements that make up the concept of customer satisfaction, such as disconfirmation of expectations, equity, attribution, affect, and regret, because these elements explain the composition of the customer satisfaction concept (or “construct”), we will label these kinds of models as “micro-models.” Micro-models enable an analyst to properly operationalize measurements of customer satisfaction, thus helping her/him to achieve construct validity in the eventual satisfaction survey. Finally, for didactic purposes, we hypothesize how one type of public-sector organization, the community college, can apply these models that were originally designed for private sector activities.

2.8.1 Macro-models

To begin this discussion about customer satisfaction it will help to define customer satisfaction. A widely accepted definition would be the following: “Satisfaction is the consumer’s fulfillment response. It is a judgment that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment…” this view has been supported by Oliver (1997).

This is a remarkable definition. First, the focus is on a consumer rather than a “customer.” Traditionally speaking, the consumer uses a product or service, whereas a customer pays for the product/service but may not be the consumer (that is, the direct user). Granted, this is a fine distinction that gets lost in daily rhetoric, but it makes a difference in a researcher’s modeling of satisfaction. Satisfaction with a product/service is a construct that requires experience and use of a product or service (Oliver, 1997). Individuals who pay for a product/service but who do not use this product/service should not be expected to have the type of (dis)satisfaction that a product/service user (the consumer) will have. So we need to realize that the concept
of customer satisfaction is about consumer satisfaction (that is, user satisfaction), rather than about buyer satisfaction (which may include non-users).

Second, satisfaction is a feeling. It is a short-term attitude that can readily change given a constellation of circumstances. It resides in the user’s mind and is different from observable behaviors such as product choice, complaining, and repurchase.

Third, satisfaction commonly has thresholds at both a lower level (insufficiency or under fulfillment) and an upper level (excess or over-fulfillment). This means that a consumer’s satisfaction may drop if she/he “gets too much of a good thing.” Many people focus upon the lower threshold and neglect the potential for an upper threshold. With this definition in mind, we move to the traditional macro-model of customer satisfaction. This is the model shown in Figure 1. This model underlies much of the research in customer satisfaction over the past decade. Note the following:

1. Perceived performance often differs from objective or technical performance, especially when a product/service is complex, intangible, and when the consumer is unfamiliar with the product/service.

2. Comparison standards can come from numerous sources that can vary widely by individual, by situation, and by product/service type.

3. Perceived disconfirmation is the evaluation of perceived performance according to one or more comparison standards. Disconfirmation can have a positive effect (generally implying a satisfying result), a negative effect (generally implying a dissatisfying result), or a zero effect.

4. Satisfaction feeling is a state of mind, an attitude. The phrase “mixed feelings” applies here, as a consumer may have different levels of satisfaction for different parts of a product/service experience.

5. Outcomes of satisfaction feelings may involve intent to repurchase, word-of-mouth (the consumer’s communication with her/his network of her/his approval/disapproval for a product/service), and complaints. These outcomes also are moderated by other variables. For example, extreme dissatisfaction will not necessarily generate complaint behavior, especially if the consumer believes complaining will be futile.
Later research has produced a new model shown in Figure 2.1. This model highlights the concept of value as a driving force in product choice and satisfaction’s relationship to it as a brief psychological reaction to a component of a value chain (or “hierarchy”). Oliver (1999) provides another version of this model, which appears in an abbreviated form as Figure 2.3 below. An important point about customer value models is the use of gross benefit-cost judgments by consumers.

Another important macro-model would be the linkage of overall service satisfaction, encounter satisfaction, and perceived service quality, as shown in Figure 2.2. Research for this model supports the conceptualization of perceived quality as a separate construct, distinct from satisfaction (Bitner & Hubbert, 1994). Furthermore, it highlights the construct of a “global” level of satisfaction (the overall service satisfaction) in contrast to the construct of a component level of satisfaction (the encounter service satisfaction). This model helps explain survey results that indicate different levels of satisfaction for a service that one individual may experience.

Some models differentiate between technical service quality and perceived service [quality]. Figure 2.3 shows one such model and how satisfaction results from
a comparison between expected service and perceived service (Bateson, 1991). This model is explicit about the cyclical, feedback loop that affects satisfaction. A consumer’s prior experience joins “other data inputs” to shape current satisfaction with a service. The above models are but a sample of the many models that give the analyst the context for the meaning and analysis of customer satisfaction. In the next section, we deal with narrower issues in customer satisfaction. Because these models provide explicit detail about the formation of satisfaction itself, this paper refers to them as micro-models.

2.8.2 Micro-models

Erevelles & Leavitt (1992) provide an excellent summary of our micro-models. Table 2.1 lists the seven types of models they review in their article, and we will briefly comment on each type:

1. The Expectations Disconfirmation Model has been the dominant model in satisfaction research. The model has consumers using pre-consumption expectations in a comparison with post-consumption experiences of a product/service to form an attitude of satisfaction or dissatisfaction toward the product/service. In this model, expectations originate from beliefs about the level of performance that a product/service will provide. This is the predictive meaning of the expectations concept.

Figure 2.1 Current Types of Micro-Models for Satisfaction

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Expectations Disconfirmation Model</td>
</tr>
<tr>
<td>2</td>
<td>Perceived Performance Model</td>
</tr>
<tr>
<td>3</td>
<td>Norms Models</td>
</tr>
<tr>
<td>4</td>
<td>Multiple Process Models</td>
</tr>
<tr>
<td>5</td>
<td>Attribution Models</td>
</tr>
<tr>
<td>6</td>
<td>Affective Models</td>
</tr>
<tr>
<td>7</td>
<td>Equity Models</td>
</tr>
</tbody>
</table>

Source: Erevelles and Leavitt (1992)

2. The Perceived Performance Model deviates from the model 1 above in that expectations play a less significant role in satisfaction formation. The model performs especially well in situations where a product/service performs so positively that the consumer’s expectations get discounted in her/his post-consumption reaction to the product/service.
3. Norms Models resemble the Expectations Disconfirmation Model in that the consumer compares perceived performance with some standard for performance. In this case, however, the standard is not a predictive expectation. Rather than considering what will happen in the consumption experience, the consumer uses what should happen as the comparison standard. This is the normative meaning of “should” rather than its occasional chronological connotation in the English language.

4. Multiple Process Models characterize the satisfaction formation process as multidimensional.

That is, consumers use more than one standard of comparison in forming a (dis)confirmation judgment about an experience with a product/service.

5. Attribution Models integrate the concept of perceived causality for a product/service performance into the satisfaction process. Consumers use three factors to determine attribution’s effect in satisfaction. These are locus of causality, stability, and controllability. The locus of causality can be external (that is, the service provider gets the credit or blame) or internal (that is, the consumer is responsible for the product/service performance). Stable causes would tend to have more impact in satisfaction because consumers tend to be more forgiving of product/service failures that appear to be rare events. Finally, controllability affects attribution in that a poor outcome in a consumption experience may mean that the consumer will be unsatisfied with the product/service provider if the consumer believes the provider had the capacity, that is, control, to perform in a better fashion.

6. Affective Models differ from previous models in that it goes beyond rational processes. In these models, emotion, liking, and mood influence (dis)satisfaction feelings following the consumption experience.

7. Equity Models emphasize the consumer’s attitude about fair treatment in the consumption process. Fair treatment can use the concept of the equity ratio (that is, the amount of her/his return for her/his effort made) or the concept of social comparison (that is, the perceived, relative level of product/service performance that other consumers experience). Oliver (1997) breaks equity down further into three categories, procedural fairness; interactional fairness; and distributational fairness.

The above listing is extensive but not all-inclusive. Oliver (1997) also has summarized the comparison standards from his perspective, and these appear in Table
2.1. Table 2.1 introduces the comparison standards of needs, regret, and nothing. In the needs standard, consumers evaluate whether a consumption experience gave them what they need. Of course, the need can be defined in different ways, with Maslow’s hierarchy of needs being just one typology for needs. The standard of excellence refers to technical perfection, that is, some objective, widely recognized criteria. The standard of regret refers basically to the “what might have been” scenario for a consumer. This commonly occurs when a consumer realizes that what she/he got in one encounter could well have been improved if she/he had chosen a different provider. Finally, the nothing standard denotes the situation where consumers form a (dis)satisfaction feeling without cognition.

Another relevant modeling issue at the micro-model level is the multidimensionality of the satisfaction construct. Research, such as that by Mackoy & Spreng (1995) has found that satisfaction can have two coexisting dimensions, satisfaction and dissatisfaction for the same individual and the same consumption experience. A two-dimensional model of satisfaction helps explain the seemingly paradoxical occurrence of both high and low satisfaction scores on a satisfaction survey. This model can affect survey measurement methodology. Traditionally, researchers have measured satisfaction with a Likert-type scale with endpoint anchors of “satisfaction” and “dissatisfaction” because it was thought that satisfaction and dissatisfaction were the ceiling and floor of the continuum of a one-dimensional satisfaction construct. A two-dimensional model puts the validity of this attitude scale into doubt.

Methodological problems may motivate researchers to use a particular model. For example, recent research indicates that the measurement of expectations may not be necessary to measure satisfaction. The researcher’s use of performance measures without measurement of expectations (the Perceived Performance model) helps avoid the potential for ambiguity, and hence unreliability, in the survey measurement of consumer expectations. Because research has found that consumers use different standards to form expectations, a researcher cannot know that the attitude scores from the survey analysis have consistent meaning across individuals (Oliver 1997).

In addition, the use of the disconfirmation paradigm has meant the calculation of “difference scores” (that is, the difference between a rating for expected performance and a rating for perceived performance). The use of difference scores, as
a psychometric issue, has raised some debate about statistical validity in satisfaction research (Chiou & Spreng, 1996).

2.9 A Definitional Framework for Consumer Satisfaction

Based on the insights provided by the literature review and interviews, we propose a framework for developing context specific definitions of consumer satisfaction. This framework is not a generic definition of satisfaction. As noted above, innumerable contextual variables will affect how satisfaction is viewed. As such, any generic definition of satisfaction will be subject to chameleon effects. Rather than presenting a generic definition of satisfaction, we identify the conceptual domain of satisfaction, delineate specific components necessary for any meaningful definition of satisfaction, and outline a process for developing context-specific definitions that can be compared across studies. As concluded by the literature review and validated by the group and personal interview data, consumer satisfaction is:

► A summary affective response of varying intensity: The exact type of affective response and the level of intensity likely to be experienced must be explicitly defined by a researcher depending on the context of interest.

► With a time-specific point of determination and limited duration: The researcher should select the point of determination most relevant for the research questions and identify the likely duration of the summary response. It is reasonable to expect that consumers may consciously determine their satisfaction response when asked by a researcher; therefore, timing is most critical to ascertain the most accurate, well-formed response.

► Directed toward focal aspects of product acquisition and/or consumption: The researcher should identify the focus of interest based on the managerial or research question they face. This may include a broad or narrow range of acquisition or consumption activities/issues. By fleshing out these components, researchers should be able to develop specific definitions that are conceptually richer and empirically more useful than previous definitions. To develop context-relevant definitions and measures, researchers must be able to identify both the questions they are interested in answering and some basic information about the setting and consumers. Specifically, the researcher will need to provide details about all three components of satisfaction.
Consumer behavior as a distinct discipline dates only from the mid 1960s. Interest in understanding and tracking specific consumer problems grew dramatically in the late 1970s under the broad label of consumer satisfaction/dissatisfaction (CS/D) research. Its growth coincided with a growing interest on the part of government regulators and consumer advocates in making policy formulation more rational and systematic. The earliest comprehensive CS/D studies were, in fact, motivated by the policy planning needs of a public regulatory agency, the Federal Trade Commission (Technical Advisory Research Program, 1979), and a private non-profit sector organization, Ralph Nader's Center for Study of Responsive Law. Most CS/D research from 1975 to 1985 was conducted within product and goods industries. Only after 1980 were initial concepts and models developed to measure consumer satisfaction/dissatisfaction within service industries. Since 1985, two different patterns have emerged. First, there has been a considerable drop in CS/D research from a public policy perspective. At the same time, however, there has been substantial growth in interest in the topic of consumer satisfaction research in the private sector. This has been driven primarily by the growth of the service sector of the economy where managers have realized that tracking satisfaction is crucial to success when intangibles such as personal attention and atmospheres are the "product". A number of private sector satisfaction tracking services have emerged. Many of these services have made extensive use of earlier methodological developments in social policy research.

Most of the early studies were based on survey data. An alternative approach was complaints data, data on the extent to which consumers voluntarily speak up about their dissatisfactions. Such data have the advantage of not requiring field surveys; however, they are typically biased in two important ways. First, some types of problems in some types of industries are more likely to be voiced than others, and some problems are less serious than others, and/or less costly than others. Monopolies, such as some transit systems, are often relatively "immune" to complaining except from small elite. Finally, not all consumers complain. These problems have led researchers in recent years to fall back on the more costly, but more objective, survey research methods. Initial survey research studies on CS/D sought to calibrate the amount and types of dissatisfaction in the marketplace as a basis for policy planning. This body of research was largely descriptive. Wide variation was found across purchase categories. These studies differ widely in the
basic measure of dissatisfaction they used. Some focused on more or less objective measures of "problems", others on subjective feelings of "dissatisfaction." Some counted any negative experience whatsoever, some only "serious" dissatisfactions, and some only the most recent problem. Also, there was the issue of opportunity for problems. Definitional problems persist today.

**Figure 2.4 the American Customer Satisfaction Index (ACSI) Model**

![ACSI Model Diagram](image)

*Source: Fornell et al., (1996)*

### 2.9.1 The ACSI Model

The concept behind ACSI, namely, a measure of overall customer satisfaction that is uniform and comparable, requires a methodology with two fundamental properties. First, the methodology must recognize that ACSI and the other constructs in the model represent different types of customer evaluations that cannot be measured directly. Accordingly, ACSI uses a multiple indicator approach to measure overall customer satisfaction as a latent variable. The result is a latent variable score or index that is general enough to be comparable across firms, industries, sectors, and nations.
Second, as an overall measure of customer satisfaction, ACSI must be measured in a way that not only accounts for consumption experience, but also is forward-looking. To this end, ACSI is embedded in the system of cause and effect relationships shown in Figure 1, which makes it the centerpiece in a chain of relationships running from the antecedents of overall customer satisfaction—expectations, perceived quality, and value—to the consequences of overall customer satisfaction—voice and loyalty. As was indicated, the primary objective in estimating this system or model is to explain customer loyalty. It is through this design that ACSI captures.

The served market's evaluation of the firm's offering in a manner that is both backward- and forward-looking. Moreover, modeling ACSI as part of such a system serves to validate the index from a nomological standpoint. Nomological validity, a form of construct validity, is the degree to which a construct behaves as predicted within a system of related constructs called a nomological net (Cronbach and Meehl 1955). To the extent that the model predictions are supported, the validity of the ACSI is supported.

2.9.2 ACSI Antecedents

As is shown in Figure I, overall customer satisfaction (ACSI) has three antecedents: perceived quality, perceived value, and customer expectations. The first determinant of overall customer satisfaction is perceived quality or performance, which is the served market's evaluation of recent consumption experience, and is expected to have a direct and positive effect on overall customer satisfaction. This prediction is intuitive and fundamental to all economic activity. To operationalize the perceived quality construct, we draw on the quality literature to delineate two primary components of consumption experience: (1) customization, that is, the degree to which the firm's offering is customized to meet heterogeneous customer needs, and (2) reliability, that is, the degree to which the firm's offering is reliable, standardized, and free from deficiencies. The second determinant of overall customer satisfaction is perceived value, or the perceived level of product quality relative to the price paid. Adding perceived value incorporates price information into the model and increases the comparability of the results across firms, industries, and sectors. Using value judgments to measure performance also controls for differences in income and budget constraints across respondents (Lancaster, 1971), which enables us to compare high-
and low-priced products and services. For perceived quality, we expect a positive association between perceived value increases and customer satisfaction.

The third determinant of overall customer satisfaction is the served market's expectations. The served market's expectations represent both the served market's prior consumption experience with the firm's offering-including no experiential information available through sources such as advertising and word-of-mouth-and a forecast of the supplier's ability to deliver quality in the future. As such, the expectations construct is both backward- and forward-looking. It captures all previous quality experiences and information from t - 1, t - 2... t - m. Hence, it naturally has a direct and positive association with a cumulative evaluation of the firm's performance, such as overall customer satisfaction. At the same time, the served market's expectations at time t forecast a firm's ability to satisfy its market in future periods t + 1, t + 2, ..., t + n. This role of expectations is important because the nature of the ongoing relationship between a firm and its customer base is such that expected future quality is critical to overall customer satisfaction. This predictive role of expectations also suggests that it should have a positive effect on overall customer satisfaction (Anderson, Fornell, and Lehmann, 1994).

Finally, customer expectations should be positively related to perceived quality and, consequently, to perceived value. Customer knowledge should be such that expectations accurately mirror current quality. Hence, we expect the served market to have expectations that are largely rational and that reflect customers' ability to learn from experience and predict the levels of quality and value they receive (Howard, 1977).

2.9.3 ACSI Consequences

Following Hirschman's (1970) exit-voice theory, the immediate consequences of increased customer satisfaction are decreased customer complaints and increased customer loyalty (Fornell and Wernerfelt, 1987). When dissatisfied, customers have the option of exiting (e.g., going to a competitor) or voicing their complaints in an attempt to receive retribution. An increase in overall customer satisfaction should decrease the incidence of complaints. Increased overall customer satisfaction should also increase customer loyalty. Loyalty is the ultimate dependent variable in the model because of its value as a proxy for profitability (Reichheld and Sasser, 1990).
The final relationship in the model is between customer complaints and customer loyalty.

2.10 **Definition of Service Quality**

There are many researchers who have defined service quality in different ways. For instance, Bitner, Booms and Mohr (1994, p. 97) define service quality as ‘the consumer's overall impression of the relative inferiority / superiority of the organization and its services’. While other researchers (e.g. Cronin and Taylor, 1994) view service quality as a form of attitude representing a long-run overall evaluation, Parasuraman, Zeithaml and Berry (1985, p. 48) defined service quality as ‘a function of the differences between expectation and performance along the quality dimensions’. This has appeared to be consistent with Roest and Pieters’ (1997) definition that service quality is a relativistic and cognitive discrepancy between experience-based norms and performances concerning service benefits.

2.10.1 **Defining Service Quality Measurement**

Customer satisfaction research literature traditionally agrees that service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis (Lewis and Booms, 1983). However, clearly, the fact that expectations are confirmed is not always sufficient for satisfaction. Generally, a set of discrepancies or gaps exists regarding organizational perceptions of service quality and the tasks associated with service delivery to consumers. These gaps can be major hurdles to attempting to deliver a service that consumers would perceive as being high quality. Figure 2.7 on the following page shows the five gap areas identified. These are:

**GAP 1: Consumer expectation — management perception gap**

These are discrepancies between executive perceptions and consumer expectations. Transit agency executives may not always understand what features connote high quality to consumers in advance, what features a service must have in order to meet consumer needs, and what levels of performance on those features are needed to deliver high quality service.
GAP 2: Management perception — service quality specifications

There may be constraints (resources or market conditions) which prevent management from delivering what the consumer expects, or there may be an absence of total management commitment to service quality.

GAP 3: Service quality specifications — service delivery gap

There may be difficulty in standardizing employee performance even when guidelines exist for performing services well and treating consumers correctly.

GAP 4: Service delivery — external communications gap

Media advertising and other communications by an agency can affect consumer expectations. Promising more than can be delivered will raise initial expectations but lower perceptions of quality when the promises are not fulfilled. Also, transit agencies can neglect to inform consumers of special efforts to assure quality that are not visible to consumers, thereby affecting consumer perceptions of the delivered service.

GAP 5: Expected service — perceived service gap

This is how consumers perceive the actual service performance in the context of what they expected. The quality that a consumer perceives in a service is a function of the magnitude and direction of the gap between expected service and perceived service. Service quality, as perceived by a consumer, depends on the size and direction of GAP 5 which, in turn, depends on the nature of the gaps associated with the design, marketing, and delivery of services. That is, the magnitude and direction of each gap will have an impact on service quality.
2.10.2 Determinants of Service Quality

Exploratory investigation suggests that, within most service industries, consumers use basically similar criteria in evaluating service quality (Parasuraman et al. 1985). These criteria seem to fall into 10 key categories labeled "service quality determinants". These determinants are listed below. Overlap among the 10 determinants may exist:

- RELIABILITY: involves consistency of performance and dependability;
- RESPONSIVENESS: concerns the willingness or readiness of employees to provide service. It also involves timeliness of service;
- COMPETENCE: means possession of the required skills and knowledge to perform the service;
- ACCESS: involves approachability and ease of contact;
► COURTESY: involves politeness, respect, consideration, and friendliness of contact personnel;

► COMMUNICATION: means keeping customers informed in language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers — increasing the level of sophistication with a well educated customer and speaking simply and plainly with a novice;

► CREDIBILITY: involves trustworthiness, believability, and honesty. It involves having the customer's best interests at heart;

► SECURITY: is the freedom from danger, risk, or doubt;

► UNDERSTANDING/KNOWING THE CUSTOMER: involves making the effort to understand the customer's needs;

► TANGIBLES: include the physical environment and representations of the service.

Research in other service industries indicates consumers "group" a wide array of attributes of service under one of the 10 dimensions noted when judging service quality. However, this research is preliminary and also suggests that it is advisable to determine, within the industry of study, whether identifiable service quality segments exist — and whether, and in what ways, consumer expectations differ across industry segments. Investigating how transit customers aggregate attributes of service into collapsed quality dimensions is important to understanding how customer satisfaction should be measured within an industry.

Grönroos (2001), Lehtinen (1982) and Czepiel et al. (1985) have considered the service quality of the service encounter as two different dimensions, one being technical or output quality and the other functional or process quality. These dimensions were assessed according to attitudes and behavior, appearance and personality, service mindedness, accessibility and approachability of customer contact personal. Czepiel et al. (1985) not only pinpointed the process and outcome quality dimensions but also identified three different dimensions of the service encounter, distinguishing between customer perception, provider characteristics and production realities; they listed elements which were then judge along a continuum. The customer perception included purpose, motivation, result, salience, cost, reversibility,
and risk. The production realities related more to elements such as technology, location, content, complexity and duration. These two dimensions can be compared to the customer’s perception of a web site of provider characteristics relates to the expertise, attitude and demographic attribute of the staff. Parasuraman et al. (1988) subsequently reduced these ten determinants to five, the following first three being the original ones and the other seven original ones categorized into (4) and (5):

1. Tangibles; 2. Reliability; and 3. Responsiveness; 4. Assurance (knowledge and courtesy of employees); and 5. Empathy (caring, individualized attention the firm provides its customers). These five determinants were used in their SERVQUAL measurement instrument. Johnson et al. (1990) carried out similar research using empirical data in ten UK service organizations which resulted in 12 determinants of Parasuraman et al. (1985): (1) Access; (2) Appearance/aesthetics; (3) Availability; (4) Cleanliness/tidiness; (5) Comfort; (6) Communication; (7) Competence; (8) Courtesy; (9) Friendliness; (10) Reliability; (11) Responsiveness; and (12) Security.

2.10.3 Consumer Satisfaction and Service Quality

Strandvik (1994) in the recent research found that Service quality and customer satisfaction are inarguably the two core concepts that are at the crux of the marketing theory and practice. Sauerwein et al. (1996) found that in today’s world of intense competition, the key to sustainable competitive advantage lies in delivering high quality service that will in turn result in satisfied customer. The prominence of these two concepts is further manifested by the cornucopia of theoretical and empirical studies on the topic that have emanated over the past few years. As mentioned by Sureshchandar (2002) that there is not even an iota of doubt concerning the importance of service quality and customer satisfaction as the ultimate goals of service providers. Parasuraman et al. (1991) found that a basic agreement emanating from the wide range of literature on service quality and customer satisfaction is that service quality and customer satisfaction are conceptually distinct but closely related constructs.

The interest in studying satisfaction and service quality as the antecedents of consumer behavioral intentions in this paper has been stimulated, firstly, by the recognition that customer satisfaction does not, on its own, produce customer lifetime
value (Appiah-Adu 1999). Secondly, satisfaction and quality are closely linked to market share and customer retention (Fornell 1992; Rust and Zahorik 1993; Patterson and Spreng 1997). There are overwhelming arguments that it is more expensive to win new consumers than to keep existing ones (Ennew and Binks 1996; Hormozi and Giles 2004). This is in line with Athanassopoulos, Gounaris and Stathakopoulos’s (2001) arguments that consumer replacement costs, like advertising, promotion and sales expenses, are high and it takes time for new consumers to become profitable. And lastly, the increase of retention rate implied greater positive word of mouth (Appiah-Adu 1999), decrease price sensitivity and future transaction costs (Reichheld and Sasser 1990) and, finally, leading to better business performance (Fornell, 1992; Ennew and Binks, 1996; Bolton 1998; Ryals, 2003). From the literature that has been reviewed so far, consumer satisfaction seems to be From the literature that has been reviewed so far, consumer satisfaction seems to be the subject of considerable interest by both marketing practitioners and academics since 1970s (Churchill and Surprenant, 1982; Jones and Suh, 2000). Companies and researchers first tried to measure consumer satisfaction in the early 1970s, on the theory that increasing it would help them prosper (Coyles and Gokey, 2002). Throughout the 1980s, researchers relied on consumer satisfaction and quality ratings obtained from surveys for performance monitoring, compensation as well as resource allocation (Bolton 1998) and began to examine further the determinants of consumer satisfaction (Swan and Trawick, 1981; Churchill and Surprenant, 1982; Bearden and Teel, 1983). In the 1990s, however, organizations and researchers have become increasingly concerned about the financial implications of their consumer satisfaction (Rust and Zahorik, 1993; Bolton, 1998).

While satisfaction has been examined by many researchers in different industries (Fornell 1992; Anderson and Sullivan, 1993; Bolton, 1998; Caruana, 2002; Ranaweera and Prabhu, 2003), service quality is also likely to influence consumer behavioral intentions (Bitner 1990; Cronin and Taylor 1992, 1994; Choi et al. 2004). Cronin, Brady and Hult (2000) stated that examining only one variable at a time may confound the understanding of consumer decision-making and this may lead to inappropriate marketing strategies. This view is supported by Caruana (2002) and it is crucial to study the effect of other constructs such as quality on behavioral intentions in addition to consumer satisfaction.
2.10.4 The Distinction between Service Quality and Consumer Satisfaction

A review of the emerging literature suggests that there appears to be relative consensus among marketing researchers that service quality and customer satisfaction are separate constructs which is unique and share a close relationship (Cronin and Taylor, 1992; Oliver 1993). Most researchers in the services field have maintained that these constructs are distinct (Bitner 1990; Carman, 1990; Boulding et al. 1993; Spreng and Mackoy, 1996). Table 1.2, identifies a number of key elements that distinguish customer satisfaction from service quality.

Table 2.2 The Distinction between Consumer Satisfaction and Service Quality

<table>
<thead>
<tr>
<th>Customer Satisfaction</th>
<th>Service Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction can result from any dimension, whether or not it is quality related.</td>
<td>The dimensions underlying quality judgments are rather specific.</td>
</tr>
<tr>
<td>Customer satisfaction judgments can be formed by a large number of non-quality issues, such as needs, equity, perceptions of fairness.</td>
<td>Expectations for quality are based on ideals or perceptions of excellence.</td>
</tr>
<tr>
<td>Customer satisfaction is believed to have more conceptual antecedents.</td>
<td>Service quality has less conceptual antecedents.</td>
</tr>
<tr>
<td>Satisfaction judgments do require experience with the service or provider.</td>
<td>Quality perceptions do not require experience with the service or provider.</td>
</tr>
</tbody>
</table>

Source: Adapted from various sources (Taylor 1993; Oliver 1993; Rust and Oliver 1994; Spreng and Mackoy 1996; Choi et al., 2004; Grace and O’Cass 2005).

While satisfaction and quality are different concepts, a relation between the two has been identified. Incidents of satisfaction, over time, result in perceptions of quality in services (Rodwin, 1994). This relationship, however, has not been widely tested empirically. The literature on satisfaction, particularly patient satisfaction, shows that satisfaction ratings are derived from satisfaction with various components of their care, and that consumers are able to make summary judgments regarding their care.

2.10.5 Conceptual Framework

Based on the narrow down scope of literature review above, the relationship between service quality and customer satisfaction can be shown in Figure 1. The five service quality dimensions have been selected from the SERVQUAL. In the SERVQUAL instrument, 50 statements measure the performance across these five
dimensions. For each statement, the expectation and the experience of a customer are determined. Although alternative models have been proposed for the measurement of service quality, the SERVQUAL scale has been widely used by academic and practitioners to measure service quality. Therefore, this model has been used as point of reference in this thesis.

2.10.6 SERVQUAL Dimensions

The Met-Expectations Model of customer satisfaction has been applied in the development of an instrument to measure service quality. Known as SERVQUAL, this instrument was developed and refined by Parasuraman, Berry, and Zeithaml in particular response to the fifth gap – that of expected versus perceived service (Parasuraman, Berry, and Zeithaml, 1988). SERVQUAL is composed of 22-items describing service quality, along five dimensions (Selber and Streeter, 2000), as follows:

**Tangibles:** This quality dimension involves the appearance of physical facilities, equipment, materials, and personnel of the organization. This is the only dimension related specifically to the palpable and readily discernible of service provision.

**Reliability:** This quality dimension involves the consistent, dependable, and accurate delivery of promised services. The actual provision of service is the element in this case.

**Responsiveness:** This dimension of service quality encompasses those aspects of personnel that demonstrate a willingness of an organization’s personnel to help customers and provide prompt service. The service-orientation of the staff members is the characteristic.

**Assurance:** This dimension includes the knowledge, skill, and ability of personnel, as well as the level of courtesy and ability to inspire trust and confidence from customers. This relates to the expected and perceived aptitude and abilities of personnel.

**Empathy:** This dimension of service quality relates to the level of caring, and individualized attention that personnel provides to customers. The “person-to-person” or “people skills” of staff is the question.
The items are arranged as a pair of structured statements related to specific elements of service quality. The customer is asked to rate each statement in terms of expected levels of service and in perceived levels of actual service. Each statement is rated along a five-point Likert scale that is anchored by "strongly disagree" to "strongly agree" (Parasuraman, Berry, & Zeithaml, 1988).

2.10.7 Today’s View on Service Quality

The construct of service quality as conceptualized in the service marketing literature centers on perceived quality, defined as consumer’s judgment about an entity’s overall excellence or superiority (Zeithaml, 1987). As virtually all organizations compete some degree on a basis of service (Zeithaml et al., 1990), service quality then becomes significantly important to achieve a genuine and sustainable competitive advantage. Service-based companies are compelled by their nature to provide excellent service in order to prosper in increasingly competitive domestic and global marketplaces, i.e. there is no “tangible” product to equate otherwise to quality. Customer – driven strategies require satisfying customer preferences.

Customer perceptions and expectations of service quality are increasingly used to forecast company profitability and prospect for improved market share. Although many other “quality- focused” initiatives have often failed to enhance company performance, customer- perceived service improvement have been shown empirically to improve profitability (Buzzel and Gale, 1987). The shift from an industrial to a customer-value paradigm (Albrecht, 1992) places service at the center of company efforts improves profitability. Many companies intending to employ a customer service- based strategy find the processes of identifying and measuring customer preferences very difficult, often owing to mistaken business perception of customer wants (Drucker, 1964; Miller, 1992; Andrews et al., 1987; Fornell, 1992). Nonetheless, providing superior service quality requires creating a distinct relationship between the customer wants and that which the company provides, or a relationship between customer requirements and essential business elements (Evelyn and Decarlo, 1992). Service quality literature recognizes expectations as an instrumental influence in consumer evaluation of service quality (GroEnroos, 1982; Parasuraman et al., 1985; Brown and Swarts, 1989). Expectations are understood as the desires or wants of customers, i.e. what the service provider should offer
(Parasuraman et al., 1988), and studying companies understood to be leaders in various industries i.e. “bench marketing” or “studying the winners”, has become a vital source in identifying gaps that exit between customer expectations and company performance (Park and Smith, 1990; Drege, 1991). Quality is found to be measured most accurately through the eyes of the customer (Miller, 1992) and it is not found to improve unless it is regularly measured (Reichheld and Sasser, 1990). Customers are therefore never mistaken when they say that (service) quality is bad, because if they perceive it so, it necessarily is so (Bowen, 1995), companies that actively search for and incorporate the best service methods and process to improve the performance, regardless of sources and ultimately the perception of their customers, are found to excel in relation to their competitors (Seller, 1991). In practice, companies that exceed customer expectations without impairing profit margins have frequently been found to develop a solid foundation of customer loyalty, based on segmented service (Drucker, 1964; Farber and Wycoff, 1991).

Determining optimum levels of customer service is understood to depend on accurately assessing customer expectations, so that companies are able to meet highly-valued customer expectations and avoid employing those services that customers do not value, regular customer feedback has been determined essential to such successful consumer satisfaction strategies (Evelyn and DeCarlo, 1992; Miller, 1992; Sonnenberg, 1991). Successful customer service focused companies measure their service to ascertain how well they are satisfying their customers (Peter and Waterman, 1982; Evelyn and DeCarlo, 1992; Albrecht 1992), and superior companies have been shown to be consistently excellent listeners to their customers (Albrecht, 1992).

2.11 The Theoretical Background of Pricing

In a competitive marketplace, the effectiveness of any element of the marketing mix is determined not only by its absolute value, but also by its relative value with respect to the competition. For example, the effectiveness of a price cut in increasing demand is critically related to competitors’ reaction to the price change. Managers therefore need to know the nature and extent of competitive reactions. Recognizing this, there is substantial literature on the estimation of competitor reaction functions. Because the reaction function methodology is a reduced- form technique, the reaction coefficients do not separate out demand, cost, and competitive
effects. Therefore the reaction coefficients are useful to managers only when the demand and cost structure of the market is the same as for the period of estimation.

Price in economics and business is the assigned numerical monetary value of a good, service or asset. The concept of price is central to microeconomics where it is one of the most important variables in resource allocation theory (also called price theory). Price is also central to marketing where it is one of the four variables in the marketing mix that business people use to develop a marketing plan.

In general terms price is a component of an exchange or transaction that takes place between two parties and refers to what must be given up by one party (i.e., buyer) in order to obtain something offered by another party (i.e., seller). Yet this view of price provides a somewhat limited explanation of what price means to participants in the transaction. In fact, price means different things to different participants in an exchange. While product pricing is a main topic for discussion when a company is examining its overall profitability, pricing decisions are not limited to for-profit companies. Not-for-profit organizations, such as charities, educational institutions and industry trade groups, also set prices, though it is often not as apparent. For instance, charities seeking to raise money may set different "target" levels for donations that reward donors with increases in status (e.g., name in newsletter), gifts or other benefits. While a charitable organization may not call it a price in their promotional material, in reality these donations are equivalent to price setting since donors are required to give a contribution in order to obtain something of value.

In ordinary usage, price is the quantity of payment or compensation for something. People may say about a criminal that he has 'paid the price to society' to imply that he has paid a penalty or compensation. They may say that somebody paid for his folly to imply that he suffered the consequence (Anglin & Arnott, 1999).

Economists view price as an exchange ratio between goods that pay for each other. In case of barter between two goods whose quantities are x and y, the price of x is the ratio y/x, while the price of y is the ratio x/y (Bartlett, 1981).

This however has not been used consistently, so that old confusion regarding value frequently reappears. The value of something is a quantity counted in common units of value called numeraire, which may even be an imaginary good. This is done
to compare different goods. The unit of value is frequently confused with price, because market value is calculated as the quantity of some good multiplied by its nominal price. Theory of price asserts that the market price reflects interaction between two opposing considerations. On the one side are demand considerations based on marginal utility, while on the other side are supply considerations based on marginal cost. An equilibrium price is supposed to be at once equal to marginal utility (counted in units of income) from the buyer's side and marginal cost from the seller's side. Though this view is accepted by almost every economist, and it constitutes the core of mainstream economics, it has recently been challenged seriously. The difference between nominal price and relative or real price (as exchange ratio) is often made. Nominal price is the price quoted in money while relative or real price is the exchange ratio between real goods regardless of money. The distinction is made to make sense of inflation. When all prices are quoted in terms of money units, and the prices in money units change more or less proportionately, the ratio of exchange may not change much. In the extreme case, if all prices quoted in money change in the same proportion, the relative price remains the same. It is now becoming clear that the distinction is not useful and indeed hides a major confusion. The conventional wisdom is that proportional change in all nominal prices does not affect real price, and hence should not affect either demand or supply and therefore also should not affect output. The new criticism is that the crucial question is why there is more money to pay for the same old real output. If this question is answered, it will show that dynamically, even as the real price remains exactly the same, output in real terms can change, just because additional money allow additional output to be traded. The supply curve can shift such that at the old price, the new higher output is sold. This shifts if not possible without additional money. From this point of view, a price is similar to an opportunity cost, that is, what must be given up in exchange for the good or service that is being purchased (Miceli, 1991). The price of an item is also called the price point, especially where it refers to stores that set a limited number of price points.

2.11.1 Pricing

Pricing is one of the four P's of the marketing mix. The other three aspects are product, promotion, and place. It is also a key variable in microeconomic price allocation theory. Price is the only revenue generating element amongst the 4ps, the
Pricing is the manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated systems require more setup and maintenance but may prevent pricing errors. A well chosen price should do three things:

- To achieve the financial goals of the company (e.g.: profitability);
- To fit the realities of the marketplace (will customers buy at that price?);
- To support a product’s positioning and be consistent with the other variables in the marketing mix;
- Price is influenced by the type of distribution channel used, the type of promotions used, and the quality of the product;
- Price will usually need to be relatively high if manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns;
- A low price can be a viable substitute for product quality, effective promotions, or an energetic selling effort by distributors.

From the marketers’ point of view, an efficient price is a price that is very close to the maximum that customers are prepared to pay. In economic terms, it is a price that shifts most of the consumer surplus to the producer. A good pricing strategy would be the one which could balance between the Price floor (the price below which the organization ends up in losses) and the Price ceiling (the price beyond which the organization experiences a no demand situation). Effective price is the price the company receives after accounting for discounts, promotions, and other incentives (Owen, 1977).

Price lining is the use of a limited number of prices for all your product offerings. This is a tradition started in the old five and dime stores in which everything cost either 5 or 10 cents. Its underlying rationale is that these amounts are seen as suitable price points for a whole range of products by prospective customers. It has the advantage of ease of administering, but the disadvantage of inflexibility, particularly in times of inflation or unstable prices (Owen, 1977).
A loss leader is a product that has a price set below the operating margin. This results in a loss to the enterprise on that particular item, but this is done in the hope that it will draw customers into the store and that some of those customers will buy other, higher margin items (Owen, 1977).

The price/quality relationship refers to the perception by most consumers that a relatively high price is a sign of good quality. The belief in this relationship is most important with complex products that are hard to test, and experiential products that cannot be tested until used (such as most services). The greater the uncertainty surrounding a product, the more consumers depend on the price/quality hypothesis and the more of a premium they are prepared to pay (Schroeter, 1987). Premium pricing (also called prestige pricing) is the strategy of consistently pricing at, or near, the high end of the possible price range to help attract status-conscious consumers (Schroeter, 1987). Demand-based pricing is any pricing method that uses consumer demand - based on perceived value - as the central element. These include: price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing. Pricing factors are manufacturing cost, market place, competition, market condition, Quality of product.

► Price skimming is a pricing strategy in which a marketer sets a relatively high price for a product or service at first, then lowers the price over time. It is a temporal version of price discrimination/yield management. It allows the firm to recover its sunk costs quickly before competition steps in and lowers the market price (Sirmans & Turnbull 1997).

► Price discrimination exists when sales of identical goods or services are transacted at different prices from the same provider. In a theoretical market with perfect information, no transaction costs or prohibition on secondary exchange (or re-selling) to prevent arbitrage, price discrimination can be a feature only of monopoly markets. Otherwise, the moment the seller tries to sell the same good at different prices, the buyer at the lower price can arbitrage by selling to the consumer buying at the higher price but with a tiny discount. However, market frictions in oligopolies such as the airlines and even in fully competitive retail or industrial markets allow for a limited degree of differential pricing to different consumers. Price discrimination also occurs.
when it costs more to supply one customer than it does another, and yet the
supplier charges both the same price (Sirmans & Turnbull, 1997).

► Price points are prices at which demand is relatively high. In introductory
microeconomics, a demand curve is downward sloping to the right and either
linear or gently convex to the origin. The first is usually true, but the second is
only piecewise true, as price surveys indicate that demand for a product is not
a linear function of its price and not even a smooth function. Demand curves
look more like a series of waves than a straight line (Sirmans & Turnbull,
1997).

Psychological pricing or price ending is a marketing practice based on the
theory that certain prices have a psychological impact. The psychological
pricing theory is based on one or more of the following hypotheses:

► Consumers ignore the least significant digits rather than do the proper
rounding. Even though the cents are seen and not totally ignored, they may
subconsciously be partially ignored. Some suggest that this effect may be
enhanced when the cents are printed smaller (for example, $19).

► Fractional prices suggest to consumers that goods are marked at the lowest
possible price.

► When items are listed in a way that is segregated into price bands (such as an
online real estate search), price ending is used to keep an item in a lower band,
to be seen by more potential purchasers.

Product bundling is a marketing strategy that involves offering several
products for sale as one combined product (Bakos & Brynjolfsson 1995). Penetration
pricing is the pricing technique of setting a relatively low initial entry price, a price
that is often lower than the eventual market price. The expectation is that the initial
low price will secure market acceptance by breaking down existing brand loyalties.
Penetration pricing is most commonly associated with a marketing objective of
increasing market share or sales volume, rather than short term profit maximization.
2.11.2 *Purchasing power*

Purchasing power is the amount of value of good/services compared to the amount paid. As Adam Smith noted, having money gives one the ability to "command" others' labor, so purchasing power to some extent is power over other people, to the extent that they are willing to trade their labor or goods for money. If money income stays the same, but the price level increases, the purchasing power of that income falls. Inflation does not *always* imply falling purchasing power of one's real income, since one's money income may rise faster than inflation.

A price index is a numerical time series measure designed to help comparing how the prices of some class of goods and/or services, taken as a whole, differ between time periods or geographical locations. In the latter case, these are known as purchasing power parity measures. The class of goods can be quite broad; in a consumer price index, for instance, the class of goods is roughly "things bought by a typical urban consumer". As an example of a narrower index, the United States Bureau of Labor Statistics has a price index for "steel mill products". Sometimes an index will be very specific, as in the US Energy Information Administration index entitled "Gasoline - All Grades". By design, a price index reduces all the distinct prices for the class of goods in question to a single number. On one hand, doing this has the potential to cut through the noise and make it easy to see the big picture. On the other hand, it has the risk of hiding potentially important details; for instance, a price index can potentially increase even though a sizable minority of the prices is actually decreasing. The usefulness of a price index may therefore depend on both the nature of the particular dataset and the intended use of the index. Price indexes have several potential uses. For particularly broad indexes, the index can be said to measure the economy's price level, and the extent to which there is inflation. This information is useful to central banks as they plan out monetary policy. A broad index can also be used to estimate changes in the cost of living. This can be useful in, for example, contract negotiation; one party, for instance, may be more willing to accept a certain salary if it's scheduled to automatically increase as costs goes up. Price indices can also be used to help measure other economic statistics such as Gross Domestic Product. A consumer price index (CPI) is an index number measuring the average price of consumer goods and services purchased by households. It is one of several price indices calculated by national statistical
agencies. The percent change in the CPI is a measure of inflation. The CPI can be used to index (i.e., adjust for the effects of inflation) wages, salaries, pensions, or regulated or contracted prices. The CPI is, along with the population census and the National Income and Product Accounts, one of the most closely watched national economic statistics.

2.11.3 **Pricing Perceptions**

Consumer price perceptions, like consumer satisfaction, are also influenced by external economic factors; in particular, the short-term interest rates of an adjustable rate mortgage and consumer confidence. As prices rise, as reflected in a rise of the CPI, consumers' pricing perceptions about a brand, in particular the perception that "prices are competitive," will decline. This will occur even if the cost of that brand has remained the same. When squeezed financially, consumers tend to generalize about prices and assign negative perceptions across the board.

2.12 **The Theoretical Background of Branding**

The word brand comes from the Old Norse brand, meaning to burn, and from these origins made its way into Anglo-Saxon. It was of course by burning that early man stamped ownership on his livestock, and with the development of trade buyers would use brands as a means of distinguishing between the cattle of one farmer and another. A farmer with a particularly good reputation for the quality of his animals would find his brand much sought after, while the brands of farmers with a lesser reputation were to be avoided or treated with caution. Thus the utility of brands as a guide to choice was established, a role that has remained unchanged to the present day. Some of the earliest manufactured goods in mass production were clay pots, the remains of which can be found in great abundance around the Mediterranean region, particularly in the ancient civilizations of Etruria, Greece and Rome. There is considerable evidence among these remains of the use of brands, which in their earliest form were the potter's mark. A potter would identify his pots by putting his thumbprint into the wet clay on the bottom of the pot or by making his mark: a fish, a star or cross, for example. From this we can safely say that symbols (rather than initials or names) were the earliest visual form of brands. In Ancient Rome, principles of commercial law developed that acknowledged the origin and title of potters’ marks, but this did not deter makers of inferior pots from imitating the marks of well-known
makers in order to dupe the public. In the British Museum there are even examples of imitation Roman pottery bearing imitation Roman marks, which were made in Belgium and exported to Britain in the first century AD. Thus as trade followed the flag – or Roman Eagle – so the practice of unlawful imitation lurked close behind, a practice that remains commonplace despite the strictures of our modern, highly developed legal systems.

With the fall of the Roman Empire, the elaborate and highly sophisticated system of trade that had bound together in mutual interdependence the Mediterranean and west European peoples gradually crumbled. Brands continued to be used but mainly on a local scale. The exceptions were the distinguishing marks used by kings, emperors and governments. The fleur-de-lis in France, the Hapsburg eagle in Austria-Hungary and the Imperial chrysanthemum in Japan indicated ownership or control. (Interestingly, the chrysanthemum signifies death in Korea, intermittently over the centuries a Japanese colony). In a similar fashion the cockleshell, derived from the legend attached to the shrine of St. James at Santiago de Compostella in northwest Spain, a favorite medieval center of pilgrimage when the holy places of Palestine were closed to pilgrims by the Muslims was widely used in pre-Renaissance Europe as a symbol of piety and faith. In the 17th and 18th centuries, when the volume manufacture of fine porcelain, furniture and tapestries began in France and Belgium – largely because of royal patronage – factories increasingly used brands to indicate quality and origin. At the same time, laws relating to the hallmarking of gold and silver objects were enforced more rigidly to give the purchaser confidence in the product. However, the wide scale use of brands is essentially a phenomenon of the late 19th and early 20th centuries. The industrial revolution, with its improvements in manufacturing and communications, opened up the Western world and allowed the mass-marketing of consumer products. Many of today’s best-known consumer brands date from this period: Singer sewing-machines, Coca-Cola soft drinks, Bass beer, Quaker oats, Cook’s tours, Sunlight soap, Shredded Wheat breakfast cereal, Kodak film, American Express travellers’ checks, Heinz baked beans and Prudential Insurance are just some examples.

Hand in hand with the introduction of these brands came early trademark legislation. This allowed the owners of these brands to protect them in law (indeed, the Bass “Red Triangle” trademark was the very first registered in the UK in 1876,
and the beaming Quaker, who adorns the pack of the eponymous oats, is now well into his second century). The birth of advertising agencies such as J. Walter Thompson and NW Ayer in the late 19th century gave further impetus to the development of brands. But it is the period since the end of the Second World War that has seen the real explosion in the use of brands. Propelled by the collapse of communism, the arrival of the Internet and mass broadcasting systems, and greatly improved transportation and communications, brands have come to symbolize the convergence of the world’s economies on the demand-led rather than the command-led model. But brands have not escaped criticism. Recent anti-globalization protests have been significant events. They have provided a timely reminder to the big brand owners that in the conduct of their affairs they have a duty to society, as well as customers and shareholders.

2.12.1 Elements of the Brand

The dictionary definitions quoted above suggest that brands are intrinsically striking and that their role is to create an indelible impression.

2.12.1.1 Intrinsically striking

The visual distinctiveness of a brand may be a combination of any of the following: name, letters, numbers, a symbol, a signature, a shape, a slogan, a color, a particular typeface. But the name is the most important element of the brand as its use in language provides a universal reference point. The name is also the one element of the brand that should never change. Name changes of products and services are rare; they are uncommon too among companies, but perhaps a little more frequent. With products and services, the main reasons for change are either to extend the appeal of a brand to new markets where the original name may not be optimal, or to standardize the company's international trademark portfolio. Companies generally change their names either because their function or their ownership has changed, or because their name is in some way misleading.

2.12.1.2 Creating an Indelible Impression

In developed economies consumers have an astonishing – often bewildering – array of choice. There are, for example, dozens of car manufacturers, hundreds of car models and thousands of different vehicle specifications to choose from. The days
when Henry Ford offered “any color you want as long as it’s black” are now long
gone. This diversity of choice puts pressure on those making or selling products or
services to offer high quality, excellent value and wide availability. It also puts
pressure on them to find more potent ways of differentiating themselves and securing
competitive advantage. Much of the skill of marketing and branding nowadays is
concerned with building equity for products whose characteristics, pricing,
distribution and availability are really quite close to each other. Brands allow the
consumer to shop with confidence, and they provide a route map through a
bewildering variety of choices.

2.12.2 Brands as Business Assets

The value to businesses of owning strong brands is incontestable. Brands that
keep their promise attract loyal buyers who will return to them at regular intervals.
The benefit to the brand owner is that forecasting cash flows becomes easier, and it
becomes possible to plan and manage the development of the business with greater
confidence. Thus brands, with their ability to secure income, can be classed as
productive assets in exactly the same way as any other, more traditional assets of a
business (plant, equipment, cash, investments and so on). The asset value of brands is
now widely recognized, not just by brand owners but by investors. Brands can
generate high-quality earnings that can directly affect the overall performance of the
business and thus influence the share price.

Services branding

The developed world has seen a huge shift in output from industry and
manufacturing to services, and as demand for financial and leisure services increases,
brands will play an increasing role in a brand savvy world in which people have
become more and more discriminating and difficult to please. Brand owners therefore
need to ensure that they deliver high-quality services that are aligned with a
compelling vision and delivered with a genuine commitment to customer satisfaction.

2.12.3 What is Branding?

Branding is the process of creating an association between a
symbol/object/emotion/perception and a product/company with the goal of driving
loyalty and creating differentiation. For example, through product packaging and
advertising, Coca Cola has created an association between many different objects and
its brands. The hourglass shaped bottle, the red and white colors, and even the font of its logo together make Coca Cola distinctive from competitors. The product’s past ability to satisfy consumer needs and its widespread distribution play an important role in consumption, however constant advertising has been successful in reinforcing past positive associations between the brand and consumers (Assael, 1998). Branding is a complex process, but its goal is simple: It is the creation and development of a specific identity for a company, product, commodity, group, or person. It is carefully designed to present qualities that its creators believe will be attractive to the public, and it is meant to be developed and perpetuated for the long haul. An ad campaign launches a product. Branding, when it’s done right, creates an institution. In addition to recognition, branding may consist of building emotional responses (Volvo with a feeling of safety) or cultural responses (Mountain Dew with youth). As consumers are bombarded with a variety of products to meet the same need, branding provides a way for consumers to reduce their decision making to consider only those products that they feel are relevant to them or that have met their needs acceptably in the past. There is no question that a strong brand is an important corporate asset.

**Brand equity** cannot be measured in dollars and cents but rather it is a direct result of how consumers value a brand based on their experiences and perceptions (Spaeth, 1993). It is these experiences and perceptions that permit the brand to earn greater volume or margins than it could without the brand name. There are many steps involved with building a brand’s equity including; brand awareness (unaided/aided), brand attributes, message association, brand favorability, brand preference, and ultimately brand loyalty. Each has an important role in moving a consumer towards a purchase and should be understood in terms of their specific function. Most, if not all of these metrics are derived through attitudinal research. While loyalty can be measured behaviorally, behavioral metrics alone cannot help marketers understand why consumers act the way they do. Having the answer to the ‘why’ question, or what Duboff and Spaeth call ‘true commitment,’ will identify the reasons for loyalty and as a result help marketers identify the source of brand profitability (Duboff and Spaeth, 2000).

Branding is an often misunderstood concept, which is why it is useful to define what it is not: it is not simply the name of a company or product; it is not simply using an existing name for a new product; it is not an advertising campaign, a
marketing slogan, or a logo (Levine, 2003, p. 2). ‘Brand management’ no longer means advertising alone, but instead focuses on a customer’s experience around the brand (Rubinson & Pfeiffer, 2005). In fact, brands add social and cultural meaning to a product or organization (Danesi, 2006). Brands are only useful where there exists ambiguity and risk, helping the consumer makes a choice (Kapferer, 2000). The value of a brand has evolved in legal terms as well and is thought to reside in its brand equity (Arvidsson, 2006). Reynolds and Phillips (2005) contend that brand equity is the key to understanding the net impact of marketing. Branding can facilitate the increasingly difficult task of differentiating a product or service, provided it is actively managed (Aaker, 2003). In essence, brand equity is thought to protect a brand from competitive attacks (Cobb-Walgren et al., 1995). Ries & Trout (1986) go as far as arguing that organizations should not be customer oriented but competitor-oriented, an approach they consider much more strategic. Similarly, there has been a shift in focus from product branding to corporate branding, which is thought to be more strategic to the organization, albeit much more complex to manage (Clow & Baack, 2004; Knox & Bickerton, 2003). Brands frequently fail, contrary to popular belief, which can put the whole organization at risk (Haig, 2003).

### 2.12.4 Definition of Brand Equity

Branding and brand equity are usually defined around the concept of adding value to a product or service. According to Aaker (2003), a pioneer and icon of branding, ‘brands are pivotal resources for generating and sustaining competitive advantage’. Such an advantage is thought to be generated through the words and actions of consumers, resulting in the value of a brand or brand equity (Hoeffler & Keller, 2003). As Hoeffler and Keller (2003) point out, most definitions of brand equity “rely on brand knowledge structures in the minds of consumers – individuals or organizations – as the source or foundation of brand equity” (p. 421). A strong brand can create differentiation and preference as well as command a premium, all of which contribute to the strength of a brand (Perry & III, 2003). Keller (2003) was able to succinctly define brand equity as “the differential consumer response from knowing the brand.” Such brand knowledge becomes valuable when it leads to specific behavior, as described by Arvidsson (2006) “Brand equity stands for its capacity to generate a future value stream, either through its stability to extract a premium price from consumers (for example being prepared to pay more for a Rolex...
watch than for an unbranded, if functionally equivalent, watch) or through its ability to attract capital (for example, investors prefer to place their funds in a company that they know and sympathize with), or otherwise facilitate relations with interested parties (distributors, producers, etc.,)" (p. 189).

Arvidsson (2006) further contends that brand management’s goal is to create a consistent affective pattern on the masses, which in turn supports brand equity “…in terms of loyalty, awareness, associations and even metaphysical meaning” (p. 190). One can also think about brand equity in two distinct ways: the first involves consumer perceptions, such as awareness brand associations, perceived quality, whereas the second involves consumer behavior, such as brand loyalty or the willingness to pay a high price (Cobb-Walgren et al., 1995). Brand equity adds or subtracts value to a product or service. Thus, for the purpose of this study, brand equity will be divided into the following asset categories (Joachimsthaler & Aaker, 1999): (A) brand awareness, (B) brand loyalty, (C) perceived quality, and (D) brand associations. This chapter will examine the literature around each of these brand assets.

### 2.12.5 Brand Awareness

Brand awareness is a topic of much discussion in contemporary consumer oriented society and will figure prominently in this study. There are several types of brand awareness mentioned in the literature, most of which will be integrated into the planned survey, particularly recognition, recall, top-of-mind and brand opinion (D. A. Aaker & Joachimsthaler, 2000). Although brand awareness can be an undervalued asset, it has been shown that awareness and familiarity affect perceptions, beliefs, taste, and even liking (D. A. Aaker & Joachimsthaler, 2000; Miles Homer, 2006). According to Aaker (1996a, p. 11), when consumers recognize a brand, they assume it must be good since the company would otherwise not spend money on supporting the brand. Brand visibility conveys leadership, success, quality and excitement (Joachimsthaler & Aaker, 1999), which universities are undoubtedly keen to project. Hoeffler and Keller (2003) have investigated the advantages of strong brands and reported numerous interesting results that support building brand equity. For one, they found that high equity brands usually have high familiarity—including prior knowledge, ownership or exposure to the brand—which make the consumer feel
confident about the brand. Other research indicates that consumers also tend to give more attention, comprehension and retention to familiar brands (Tellis, 1988, as cited in Hoeffler & Keller, 2003). Recognition and awareness often reflect familiarity gained from past exposure. Indeed, recognition alone can result in liking and more positive feelings about a brand, sometimes called the ‘halo effect’. Interestingly, consumers also seem to better remember the communication of messages related to stronger brands (Hoeffler & Keller, 2003). Products and services that are believed to hold superior quality create superior profitability for the organization (Gale, 1994).

For universities, perceived quality could be an important brand asset for two reasons—it is often the major if not principal strategic thrust of a business, and it is linked to and often drives other aspects of how a brand is perceived. Perceived quality is linked to and often drives other aspects of how a brand is perceived, such as a measure of “goodness”. It differentiates and positions the brand compared to competitors and thus constitutes a reason to “buy”.

2.12.6 Brand Loyalty

Brand loyalty is sometimes referred to as the “holy grail of branding” because it provides stability (Levine 2003, p. 195). As Aaker and Joachimsthaler (2000) emphasize, brand loyalty is at the heart of any brand’s value; a brand with a small but intensely loyal customer base can have significant brand equity. Moving up the brand equity pyramid from awareness to preference to loyalty to commitment “creates an unbreakable customer relationship” (LePla, Davis, & Parker 2003).

Duncan and Moriarty (1997) examine the nature of brand relationships and differentiate between the uses of social, psychological, financial and structural links between the brand and its users. Social links have long been used to build relationships based on personal interactions, while psychological links are typically associated with a certain lifestyle, status need or self-expression (Duncan & Moriarty, 1997). Universities create an environment that is rich with social and psychological experiences for students, staff, faculty, donors, and all of their other stakeholders. For example, “frosh week”, campus barbeques, charity drives, Homecoming, galas, and many other events are geared at creating a sense of community and thus a sense of loyalty to the institution.
Brand communities are another means of creating and reinforcing brand loyalty, based on social relationships between the users of a brand and other brand community members, including other customers as well as marketers (McAlexander, Schouten, & Koenin, 2002). McAlexander et al. (2002) specifically suggest that a firm can benefit in many ways from proactively ‘cultivating brand community’, including those discussed at the beginning of this section. As much research indicates, retaining existing customers is much less costly than attracting new ones. In addition, loyal customers are more likely to pay a premium, refer others to the brand and generally spend more money (Reichheld, 1994; as cited in Tom Duncan & Moriarty, 1998). The larger the core group of customers, the greater the brand benefits (Reynolds & Phillips, 2005). In fact, Aaker (2003) starts his list of “Brand Equity Ten”, a list of measures that track and evaluate brand equity over products and markets, with brand loyalty. He asserts that the value of other measures such as perceived quality and associations often depends on their ability to influence loyalty. Rubinson & Pfeiffer (2005) echo this sentiment and suggest that consumers’ favourable attitude towards a brand leads them to buy or stay with that brand. Such loyalty among existing “customers” represents a substantial barrier to competitors and decreases the vulnerability of a brand. An individual’s loyalty to a brand consists of three components: beliefs, behaviour and the intention to maintain the brand in the future (Reynolds & Phillips, 2005).

### 2.12.7 Brand Associations

Brand associations have been shown to influence brand ratings, i.e. brand equity (Dillon, Madden, Kirmani, & Mukherjee, 2001). Brand associations are key to building strong brands since they represent what the brand stands for in the customer’s mind (D. A. Aaker, 1996a). In essence, brand association helps process and retrieves information about the brand and, in the ideal case, creates a positive attitude and feelings about the brand. However, brand associations are not always positive.

### 2.12.8 The Value of Branding

Davis (2005) acknowledges the importance for marketers to be more accountable for their spending and thus develop measurements that determine what drives customers’ attitudes, behaviours and results. In fact, he warns that it is easy to
be misled without properly constructed measures for brand equity and argues that marketers who accomplish such accountability will see their budgets increased to sustain their efforts. Regardless of the discussions around the cognitive implications of branding, what most organizations are interested in is an actual change in behavior, not merely attitude towards the brand. It is important to note that numerous studies argue that consumer attitudes may not be consistent with their actual behaviour (Page & Fearn, 2005). While a good reputation is considered a basis for building a strong brand, it does not automatically guarantee success – although a bad reputation is likely to make it difficult to build strong brand equity (Page & Fearn, 2005). A good reputation is nonetheless crucial in attracting highly qualified employees, influencing government decision-makers and meeting the strategic and financial objectives of an organization (Saxton, 1998; Vegrin & Qoronfleh, 1998; as cited in Nakra, 2000). Nakra (2000) further argues that in an age of information overload and countless choices, customers are using corporate reputation as a way to simplify buying decisions. In fact, it has been shown that reputation affects financial performance (Saxton, 1998; Vegrin & Qoronfleh, 1998; as cited in Tom Duncan & Moriarty, 1998; Saxton, 1998; Vegrin & Qoronfleh, 1998; as cited in Nakra, 2000). Several researchers, including Duncan (1997) and Madhavaram, Badrinarayanan, & McDonald (2005), endorse integrated marketing and effective communication as a way to build brand awareness and a positive brand image. In fact, Duncan and Moriarty (1998) argue that “communication, because of its meaning-making and organizing functions, plays a unique role in building brand relationships” (p. 2).

2.12.9 Brand Value Chain

The brand value chain helps assess the financial return of developing the brand. There are four stages to this model. Some of the relationships have not yet been directly measured, but are important to consider when valuing a brand. They are displayed in Figure 2.6. The first line shows the four stages of the brand value chain. The second line shows multipliers, or filters, between these stages. These multipliers are factors that influence the impact of one stage on the subsequent stage. First, brands must invest in the marketing program in such areas as the product, employees, or advertising. All of these factors affect brand value in the future. Program quality factors such as distinctiveness of commercials or consistency of service determine how much the first stage influences the second stage, customer mindset. Customer
mindset includes the 5 A’s: awareness, associations, attitudes, attachment, and activity. These dimensions are hierarchical in nature so that awareness supports consumers’ ability to make brand associations. Those associations, in turn, drive attitudes which can lead to attachment and ultimately activity. Translation of the 5 A’s to brand value depends on multipliers related to marketplace conditions such as competitive reactions and support from channels or intermediaries.

Market performance is the stage where brand performance can be measured in the marketplace. Price premiums and price elasticity demonstrate the brand’s ability to charge a premium, market share demonstrates the brand’s ability to drive sales, expansion success is the brand’s opportunity to increase revenue streams, and cost savings are possible if the consumers’ knowledge is strong enough that marketing expenditures can be decreased while maintaining the same effectiveness. Finally, the first five factors determine a brand’s ability to have profitable sales. These factors ultimately lead to shareholder value, but only after investor sentiment is included in the calculation. Market forces such as growth potential and risk profile can affect the ultimate evaluation. The final stage of the brand value chain is shareholder value. Measurements in this stage include stock price, price/earnings ratios, and market capitalization. Taken together, these stages allow managers to evaluate the value of their brand and can suggest where improvements can be made.

**Figure 2.6 Brand Value Chain**

![Brand Value Chain Diagram]

*Source: Duncan (1997)*
2.12.10 The Brand as a Communication Object

Semiotics provides a framework to look at the brand as a communication object, i.e. a symbolic representation of what the brand stands for. Peirce (1960), a pioneer in semiotics, asserts that “we think only in signs” and thus one could argue that signs should always constitute a key element in any branding strategy to create the desired “image” in the mind of the consumer. Signs can be words, images, sounds, or even flavours to which we attribute meaning. Saussure defined a sign as an entity consisting of a ‘signifier’ and a ‘signified’ (1983). The signifier is the form which the sign takes, often interpreted as the material form of the sign, i.e. the thing that can be seen, touched, or heard. The signified is the concept or notion it represents. It is important to note that the value of a sign always depends on its relation with other signs within the system, similar to a game of chess where the value of each piece depends on its position on the chessboard (Saussure, 1983). The relationship between signs and meaning is one of the most important questions in communication theory, according to Moriarty (1996). Peirce distinguished signs into three categories: symbols, icons and indices (Moriarty, 1996; Pierce, 2003).

- **Symbols** are arbitrary and the relationship must be learnt. The image answers the question: “To what does it refer?” Examples include alphabetical letters, words, phrases, the Statue of Liberty, a flag or traffic lights.

- **Icons** directly resemble the signified or possess a ‘likeness’. The image answers the question: “What or who is it?” Examples include portraits, models, metaphors or gestures.

- **Indices** are directly connected to the signified and such a connection can be observed or inferred in nature, i.e. unseen elements are recognized. The image answers the question: “To what does it point or what does it indicate?”.

Lorimer and Gasher (2004, p. 86) posit that “the semiotic analysis of popular culture has concentrated on decoding the hidden ideological meanings in things…” Such an analysis distinguishes between the denotative (obvious, self-evident) meaning and the connotative (implied) meaning. Lorimer and Gasher (2004) cite examples of advertisements, where images seem banal and obvious on the surface, but contain many connoted meanings that are aimed at appealing to the target consumers in a specific way.
In fact, Chisnall (2003) reminds us that “Contemporary patterns of consumption are influenced by many factors, including, for example, advertising, packaging, product design, colour, brands retail displays, shopping environments, etc. Among its diverse applications, semiotics is said to be ‘cut out for analyzing marketing communications’; e.g. analyzing competitors’ advertising, marketing and selling strategies.” (p. 408) He is also convinced that the impact of marketing will be greater when a greater number of connotations has been evoked (Chisnall 2003, p. 409). One can thus conclude that the strength of a brand is directly linked to evoking the desired meaning and connotations in the minds of a consumer, which can be generated through the skilful use of signs in branding and advertising.

2.12.11 Types of Brands

A premium brand typically costs more than other products in the category. An economy brand is a brand targeted to a high price elasticity market segment. A fighting brand is a brand created specifically to counter a competitive threat. When a company's name is used as a product brand name, this is referred to as corporate branding. When one brand name is used for several related products, this is referred to as family branding. When all a company's products are given different brand names, this is referred to as individual branding. When a company uses the brand equity associated with an existing brand name to introduce a new product or product line, this is referred to as brand leveraging. When large retailers buy products in bulk from manufacturers and put their own brand name on them, this is called private branding, store brand, or private label. Private brands can be differentiated from manufacturers' brands (also referred to as national brands). When two or more brands work together to market their products, this is referred to as co-branding. When a company sells the rights to use a brand name to another company for use on a non-competing product or in another geographical area, this is referred to as brand licensing. An employment brand is created when a company wants to build awareness with potential candidates. Brand rationalization refers to reducing the number of brands marketed by a company. Some companies tend to create more brands and product variations within a brand than economies of scale would indicate. Sometimes, they will create a specific service or product brand for each market that they target. In the case of product branding, they may do this to gain retail shelf space (and reduce the amount of shelf space allocated to competing brands). A company may decide to rationalize their
portfolio of brands from time to time to gain production and marketing efficiencies. They may also decide to rationalize a brand portfolio as part of corporate restructuring (Duboff & Spaeth 2000).

A recurring challenge for brand managers is to build a consistent brand while keeping its message fresh and relevant. An older brand identity may be misaligned to a redefined target market, a restated corporate vision statement, revisited mission statement or values of a company. Brand identities may also lose resonance with their target market through demographic evolution. Repositioning a brand (sometimes called rebranding), may cost some past brand equity, and can confuse the target market, but ideally, a brand can be repositioned while retaining existing brand equity for leverage (McCledon 2003).

Brand Orientation is a deliberate approach to working with brands, both internally and externally. The most important driving force behind this increased interest in strong brands is the accelerating pace of globalization. This has resulted in an ever-tougher competitive situation on many markets. A product’s superiority is in itself no longer sufficient to guarantee its success. The fast pace of technological development and the increased speed with which imitations turn up on the market have dramatically shortened product lifecycles. The consequence is that product-related competitive advantages soon risk being transformed into competitive prerequisites. For this reason, increasing numbers of companies are looking for other, more enduring, competitive tools – such as brands. Brand Orientation refers to “the degree to which the organization values brands and its practices are oriented towards building brand capabilities” (Bridson & Evans 2004).

2.12.12 Brand Resonance

Brand resonance is characterized by strong connections between the consumer and the brand. Brands with strong resonance benefit from increased customer loyalty and decreased vulnerability to competitive marketing actions. The challenge for the brand is to ensure that the customer has the right experiences to create the right brand knowledge. Building this resonance involves a series of steps, as seen in Figure 2.7. The first stage of brand development is identity. At this stage, consumers are just beginning to understand what the brand is. Salience refers to how easily or often a consumer thinks of the brand, especially at the right place and right time. The second
stage is meaning. Here, consumers begin to understand points of difference and points of parity such as performance and reliability. The third stage is response, which is where consumers judge the brand with their heads and hearts. Consumers judge factors such as credibility, expertise, and trustworthiness.

Feelings at this stage can be divided into two categories: experiential and enduring. Warmth, fun and excitement are experiential feelings. They are more immediate and short-lived than enduring feelings. Enduring feelings, such as security, social approval, and self-respect, are private and potentially part of day-to-day life. The final stage is resonance, or intense, active loyalty. This is where customers feel a connection or sense of community with the brand and they would miss it if it went away.

Figure 2.7 Brand Resonance Pyramid

2.12.13 Consumer Satisfaction and Branding

Brand is a focal point of interest for marketing researchers and practitioners. Past research suggests that satisfied consumers spend more than dissatisfied consumers, act as advocates for a brand by engaging in positive word of mouth, and are therefore "at the heart of a company's most valuable consumer group" (Ganesh et al. 2000, p. 65; Zeithaml et al. 1996). However, the literature on brand is incomplete in several important respects. A key area of controversy lies in competing approaches
to the definition and measurement of attitudinal versus behavioral loyalty. Typically, brand is defined with reference to either attitudinal or behavioral components. This view is too simplistic, and there are potential gains from advancing a holistic approach which incorporates both components of satisfaction. Brand in consumer contexts is well researched (e.g., Ajzen and Fishbein, 1991; Baldinger and Rubinson 1996; Day 1969; East and Hammond 1996, Ehrenberg; 1988; Guest 1942; Jacoby, 1971 Oliver 1999). By contrast, the literature is virtually silent on brand in business contexts, and there is almost no research on satisfaction from a small business perspective.

2.13 The Theoretical Background of Advertising

Advertising is only one element of the promotion mix, but it often considered prominent in the overall marketing mix design. Its high visibility and pervasiveness made it as an important social and encomia topic in Indian society. Promotion may be defined as “the co-ordination of all seller initiated efforts to set up channels of information and persuasion to facilitate the scale of a good or service.” Promotion is most often intended to be a supporting component in a marketing mix. Promotion decision must be integrated and co-ordinate with the rest of the marketing mix, particularly product/brand decisions, so that it may effectively support an entire marketing mix strategy.

It has been wrongly assumed that the advertising function is of recent origin. Evidences suggest that the Romans practiced advertising; but the earliest indication of its use in this country dates back to the Middle Ages, when the use of the surname indicated a man’s occupation. The next stage in the evolution of advertising was the use of signs as a visual expression of the tradesman’s function and a means of locating the source of goods. This method is still in common use. The seller in primitive times relied upon his loud voice to attract attention and inform consumers of the availability of his services. If there were many competitors, he relied upon his own personal magnetism to attract attention to his merchandise. Often it became necessary for him to resort to persuasion to pinpoint the advantages of his products. Thus, the seller was doing the complete promotion job himself.

Development of retail stores, made the traders to be more concerned about attracting business. Informing customers of the availability of supplies was highly
important. Some types of outside promotion were necessary. Signs on stores and in prominent places around the city and notices in printed matters were sometimes used.

When customers were finally attracted to the store and satisfied with the service at least once, they were still subjected to competitive influences; therefore, the merchant’s signs and advertisements reminded customers of the continuing availability of his services. Sometimes traders would talk to present and former customers in the streets, or join social organizations in order to have continuing contacts with present and potential customers.

As the markets grew larger and the number of customers increased, the importance of attracting them also grew. Increasing reliance was placed on advertising methods of informing about the availability of the products. These advertising methods were more economical in reaching large numbers of consumers. While these advertising methods were useful for informing and reminding, they could not do the whole promotional job. They were used only to reach each consumer personally. The merchant still used personal persuasion once the customers were attracted to his store. The invention of hand press increased the potentialities of advertising. By Shakespeare’s times, posters had made their appearance, and assumed the function of fostering demand for existing products. Another important event was the emergence of the pamphlet as an advertising medium. The early examples of these pamphlets disclose their sponsorship by companies want to generate goodwill for their activities. The low cost of posters and handbills encouraged a number of publishers to experiment with other methods.

2.13.1 Definition of Advertising

The word advertising originates from a Latin word advertise, which means to turn to. The dictionary meaning of the term is “to give public notice or to announce publicly”. Advertising may be defined as the process of buying sponsor-identified media space or time in order to promote a product or an idea. The American Marketing Association, Chicago, has defined advertising as “any form of non-personal presentation or promotion of ideas, goods or services, by an identified sponsor.” Each advertisement is a specific communication that must be effective, not just for one customer, but for many target buyers. This means that specific objectives should be set for each particular advertisement campaign. Advertising is a form of
promotion and like a promotion; the objectives of advertising should be specific. This requires that the target consumers should be specifically identified and that the effect which advertising is intended to have upon the consumer should be clearly indicated. The objectives of advertising were traditionally stated in terms of direct sales. Now, it is to view advertising as having communication objectives that seek to inform, persuade and remind potential customers of the worth of the product. Advertising seeks to condition the consumer so that he/she may have a favorable reaction to the promotional message. Advertising objectives serve as guidelines for the planning and implementation of the entire advertising programme. Generally, advertising is a relatively low-cost method of conveying selling messages to numerous prospective customers. It can secure leads for salesmen and middlemen by convincing readers to request more information and by identifying outlets handling the product. It can force middlemen to stock the product by building consumer interest. It can help train dealers salesmen in product uses and applications. It can build dealer and consumer confidence in the company and its products by building familiarity, advertising is to stimulate market demand.

While sometimes advertising alone may succeed in achieving buyer acceptance, preference, or even demand for the product, it is seldom solely relied upon. Advertising is efficiently used with at least one other sales method, such as personal selling or point-of-purchase display, to directly move customers to buying action.

Advertising has become increasingly important to business enterprises – both large and small. Outlay on advertising certainly is the voucher. Non-business enterprises have also recognized the importance of advertising. The attempt by army recruitment is based on a substantial advertising campaign, stressing the advantages of a military career. The health department popularizes family planning through advertising Labour organizations have also used advertising to make their viewpoints known to the public at large. Advertising assumes real economic importance too.

Advertising strategies that increase the number of units sold stimulate economies in the production process. The production cost per unit of output is lowered. It in turn leads to lower prices. Lower consumer prices then allow these products to become available to more people. Similarly, the price of newspapers, professional sports, radio and TV programmes, and the like might be prohibitive
without advertising. In short, advertising pays for many of the enjoyable entertainment and educational aspects of contemporary life.

Advertising has become an important factor in the campaigns to achieve such societal-oriented objectives such as the discontinuance of smoking, family planning, physical fitness, and the elimination of drug abuse. Though in India, advertising was accepted as a potent and recognized means of promotion only 25 years ago, its growing productive capacity and output necessitates the finding of consumers and advertising plays an important role in this process. Advertising helps to increase mass marketing while helping the consumer to choose from amongst the variety of products offered for his selection. In India, advertising as a profession is in its infancy. Because of this fact, there is a tremendous scope for development so that it may be productively used for the benefit of producers, traders, consumers, and the country’s economy.

2.13.2 Different Sorts of Advertising

'Advertising' is not easily defined, though many people have tried. Narrowly, it means clearly identifiable, paid for communications in the media, which aim to persuade, inform or sell. But the word is also used to cover a much broader range of activities from design to public relations by what are often the same organizations, using similar skills. Advertising is not a single industry, but spreads untidily across at least three separate kinds of employer organization those who:

- **Use it** (the advertisers);
- **Make it** (the advertising agencies);
- **Display it** (the media).

A number of other, more specialized organizations—eg market research companies are also involved. Using its narrower definition, advertising takes two main forms 'display', and 'classified'. **Display** advertising embraces TV and radio commercials, posters, and large display spaces in the press newspapers and magazines. (The press media also carry a huge volume of **classified** advertising small space commercial, recruitment and personal ads.) Then there are **direct mail** and **circulars** advertisements using the letterbox as a medium. **Direct response** advertising (also called 'direct marketing', i.e. using the ad in place of a retail outlet) cuts across these
divisions. It variously employs direct mail, send away coupons in the press, and phone numbers on radio and TV as the customer's means of contact. At the broadest, a whole gamut of other activities eg sales promotion, exhibitions, design and packaging, and even marketing itself are seen as 'advertising' too. The aggregation of such tools, along with media advertising, price and distribution, are often called the marketing mix. Because all these activities require more or less the same skills (often using the same people), and serve similar objectives, this booklet aims to provide some information about all of them. However the word 'advertising' from here on means display advertising unless otherwise stated.

2.13.2.1 Advertising Audiences

Finally, we also categorise advertising in terms of those to whom it is directed its audience. Two most obviously contrasted audiences are consumers (the general public) and businesses. Within these two big audience categories, advertisers use much more exact definitions of their desired audience (or 'target group'). These describe a consumer target in terms of, for instance, age, class, sex, region, behavior, and lifestyle. A business target can be defined by his or her company size, its type of activity, and the buyers' or decision takers' own particulars.

2.13.3 Advertising Objectives

If advertising takes varied forms, the objectives of individual advertisers are even more diverse. Very often they are commercial marketing objectives for instance to enlarge the profitable sales of someone's goods or services. But to say such ads simply aim to 'sell the product' is an oversimplification. They may be to slow down a brand's gradual decline, or simply to get the public to reappraise its opinion of a particular company or organization, or just to provide information. Moreover noncommercial advertiser's government departments, charities, political parties and trade unions will have entirely different objectives from, say, a cat food or computer manufacturer. Advertising objectives do not lend themselves to generalization. The best general way to look at advertising systematically is as a useful but expensive means (and not the only one available) to achieve various ends. Incidentally, unless you know the actual objectives and results of a particular advertisement you've seen, it's unwise to judge it as 'good' or 'bad'. The only criterion is whether the value of its
effect was worth, or more than worth, its cost. Like it or hate it, advertising is generally recognized to have several practical benefits for society at large.

2.13.4 **Product Advertising**

Most advertising is product advertising, designed to promote the sale or reputation of a particular product or service that the organization sells. Indane’s Cooking Gas is a case in point. The marketer may use such promotion to generate exposure, attention, comprehension, attitude change or action for an offering. It deals with the non-personal selling of a particular good or service. It is of three types as follows:

A. Informative Product Advertising

B. Persuasive Product Advertising

C. Reminder-Oriented Product Advertising

**A. Informative Product Advertising:**

This form of advertising tends to characterize the promotion of any new type of product to develop an initial demand. It is usually done in the introductory stages of the product life cycle. It was the original approach to advertising.

**B. Persuasive Product Advertising:**

Persuasive product advertising is to develop demand for a particular product or brand. It is a type of promotion used in the growth period and, to some extent, in the maturity period of the product life cycle.

**C. Reminder-Oriented Product Advertising:**

The goal of this type of advertising is to reinforce previous promotional activity by keeping the brand name in front of the public. It is used in the maturity period as well as throughout the declining phase of the product life cycle.

2.13.4.1 **Advertising based on Product Life Cycle**

A. Consumer Advertising

B. Industrial Advertising
A. Consumer Advertising

Most of the consumer goods producers engage in consumer product advertising. Marketers of pharmaceuticals, cosmetics, scooters, detergents and soaps, cigarettes and alcoholic beverages are examples. Baring a few, all these products are all package goods that the consumer will often buy during the year. There is a heavy competition among the advertisers to establish an advantage for their particular brand.

B. Industrial Advertising

Industrial executives have little confidence in advertising. They rely on this form of promotion merely out of fear that their competitors may benefit if they stop their advertising efforts. The task of the industrial advertiser is complicated by the multiple buying influence characteristics like, the derived demand, etc. The objectives vary according to the firm and the situation. They are:

- To inform,
- To bring in orders,
- To induce inquiries,
- To get the advertiser’s name on the buyer’s list of sources,
- To provide support for the salesman,
- To reduce selling costs,
- To help get items in the news column of a publication,
- To establish recognition for the firm or its product,
- To motivate distributors,
- To recognition for the firm or its products,
- To motivate distributors, to create or change a company’s image,
- To create or change a buyer’s attitude.

The basic appeals tend to increase the rupee profits of the buyer or help in achieving his non-monetary objectives. Trade journals are the media most generally used followed by catalogues, direct mail communication, exhibits, and general management publications.

2.13.5 Advertising According to Medium

The most common classification of advertising is by the medium used. For example: TV, radio, magazine, outdoor, business periodical, newspaper and direct
mail advertising. This classification is so common in use that it is mentioned here only for the sake of completeness.

2.13.6 Advertising Planning Framework

The advertising management is mainly concerned with planning and decision making. The advertising manager will be involved in the development, implementation, and overall management of an advertising plan. The development of an advertising plan essentially requires the generation and specification of alternatives. Decision making involves choosing from among the alternatives. The alternatives can be various levels of expenditure, different kinds of objectives or strategy possibilities, and kinds of options with copy creation and media choices. Thus, the essence of planning is to find out the feasible alternatives and reduce them to decisions. An advertising plan reflects the planning and decision-making process and the decisions that have been arrived at in a particular product and market situation. Advertising planning and decision making depends on internal and external factors. Internal factors are situation analysis, the marketing program, and the advertising plan. The three legs of advertising planning concern are the

- Objective setting and target market identification,
- Message strategy and tactics, and
- Media strategy and tactics.

The advertising plan should be developed in response to a situation analysis, based on research. Once developed, the advertising plan has to be implemented as an advertising campaign, in the context of social and legal constraints and with the involvement of various facilitating agencies. Let us discuss these factors one after another.

2.13.7 The Advertising Plan

As pointed out earlier, advertising plan and decision making focus on three crucial areas: objectives and target selection, message strategy and tactics, and media strategy and tactics. Let us elaborate on these points:
1. Objectives and Target Selection

Objectives in advertising can be understood in many ways. An important part of the objective is the development of a precise, disciplined description of the target audience. It is often tempting to direct advertising at a broad audience; but everyone is a potential customer. It is best to consider directing the advertising to more selected groups to develop stimulating copy. It is quite possible to develop several campaigns, each directed at different segments of the market, or to develop one campaign based on multiple objectives.

2. Message Strategy and Tactics

Messages strategy must decide what the advertising is meant to communicate – by way of benefits, feelings, brand personality, or action content. Once the content of the campaign has been decided, decisions must be made on the best-most effective-ways of communicating that content. The decisions, such as the choice of a spokesperson, the use of humor or fear or other tones, and the selection of particular copy, visuals, and layout, are what we call “message tactics”.

3. Media Strategy and Tactics

Message strategy is concerned with decisions about how much is to be allocated to create and test advertising copy, media strategy concerns decisions on how many media rupees to spend on an advertising campaign. Media tactics comprise the decisions on which specific media (television, radio magazines, etc.) or media vehicles (Reader’s Digest, etc.) to spend these dollars.

2.13.8 More Media

One of these is that it largely finances the media. Without advertising revenue, the UK would have no commercial TV or radio, far fewer and much more expensive newspapers and magazines, and of course no posters. Cinema tickets would be more expensive.

In this regard, advertising’s effect is vastly to enrich the variety and numbers of media available, and it is an authentic engine of freedom of speech. It also claims this freedom itself, within the law. (In the UK the principle of ‘editorial independence’ means that advertisers pay for the media, but cannot much influence the media’s editorial content, whether excellent or deplorable. Broadcasters and editors say what
they want to say: the advertisers are simply allowed to buy a proportion of discrete spaces to say what they want to say). Advertising, because it is 'competitive', is an agent to improve the range of products available, the speed with which new ones can be introduced, and even the ways in which we shop. Finally, despite its cost (quite often as much as 5 per cent of total product costs) it has the tendency to reduce prices, because of the efficiency it creates through economies of scale, and the nature of competition. Advertising is often criticized, the three most common criticisms being:

That it is wasteful and increases prices (i.e. without its expense, the goods advertised would otherwise be cheaper); that it is vulgar and tasteless; and that it exploits consumers and creates unnecessary needs.

Its defenders point out that advertising seems to reduce rather than inflate prices, especially in competitive markets; Taste is an individual matter, and advertisements are often more attractive, tasteful and entertaining than the programmers or printed text that adjoin them; and ads reflect public needs rather than creating them. Moreover consumers are not mugs. For its part, the general public tends increasingly to like and approve of advertising, seeing it as at worst harmless and, at best, entertaining and helpful. You will have to make up your own mind about this question, and if you strongly share the criticisms, it may be as well not to work in a business of which you disapprove. However as a final thought, most people who work in advertising come to acquire a healthy respect for the public's good judgment.

Most people think 'advertising' is mainly or entirely concerned with the creative process. In fact, only a relatively small number of the jobs available within the industry are to be found in this area. While there is a considerable range of creative jobs, these vary greatly in importance and remuneration. The biggest distinction is between writing and graphic creativity. All advertising involves both verbal and visual elements provided by writers and artists/visualizes respectively. In the case of television, video and film, there are other special creative disciplines. The words in advertising material are called 'copy', so its writers are 'copywriters', who work intimately with art directors to conceive and complete effective advertisements.

The original conception of an ad its central idea may come from either writer or artist, but often they arrive at it together. Advertising ideas, which typically contain an integrated verbal and visual concept, require both the ability to make an imaginative leap, and an intuitive understanding of the public it is aimed at. They also require a
disciplined understanding of the product and grasp of the client's advertising brief. The concept determines the ad's style and character. However, writing the full finished advertisement also demands rare skills. One essential is articulacy: the ability to understand and express ideas concisely, clearly and of course persuasively. Another is the command of a wide variety of writing styles. Copywriters must also be able to write at length and be able to master and paraphrase highly technical subjects. Some specialize in this. But whatever the length, topic or subject matter, the essence of effective writing is a deep understanding of both the subject and the readers or viewers being written to. Advertising copy involves constant, detailed revision and rewriting either to polish the communication, or to accommodate required changes from other people. Many distinguished novelists and some poets (Fay Weldon is one) have worked in advertising. The meticulous craftsmanship, command of varied styles, and conciseness demanded by advertising, somehow make it a better school for the creative writer than, for instance, journalism. The difficulty of writing a short, perfectly crafted advertisement, in the terms of the reader and not the writer, has been compared with that of writing a sonnet. This may sound pretentious (advertisements are certainly not sonnets!) but is nonetheless technically true. Many writers enjoy practical and busy careers far from the limelight. Industrial writing, for instance can include or lead to specialization in highly technical subjects. Here the work typically focuses on specialized printed literature or video programmers, including user manuals. Such writers often combine an expert knowledge of the subject computers, photography, and the chemical industry with their own special writing gifts. Writers need no formal qualifications. Evidence that you can write, and write in the terms of people very dissimilar from yourself, is the only criterion. On the other hand, the ability to write is much assisted by wide reading, an ear for dialogue, and practice in a number of writing and speaking styles. Unlike copywriting, the visual or 'art' side of advertising employs two completely distinct skills, offering quite separate career paths. These are visualization art direction and/or design; and finished art.

Visualisers, often working closely with a writer, create original ideas in the form of proposed rough designs or layouts which give an impression of what the finished job will look like. **Finished art** skills provide the meticulously accurate 'artwork' the assembly of original photography, drawings, typesetting and mechanical instructions etc required to carry out the visualiser's idea. For the visual side of
advertising, formal study at an art school or other vocational training in a graphic discipline is almost essential. Commercial, rather than academic, art training is on the whole the more useful. As will be explained below, each of these two broad areas contain a multitude of specializations. The main career opportunities for visualisers are as an advertising art director, a promotional literature designer (of printed promotional material, direct mail shots and sales leaflets), or a formal design specialist. Agency art directors will mainly be involved (in close collaboration with a partner writer) in display advertising press advertisements, television commercials and posters etc. Printed literature designers also work in agencies, printing companies or specialized design houses. The collaboration with writers is less close. Graphic design 'Design' is recognized as a separate discipline. It may include literature, but also encompasses pack designs, symbols and brand or company logotypes, stationery, or a complete corporate facelift. This can embrace everything from letterheads to vehicles, building and showroom fascias and the products themselves in a single graphic 'handwriting'. Product design increasingly employs CAD/CAM (computer assisted design and/or manufacture). Finished arts is the craft of perfectly accomplishing the intention of the visualize, and itself contains many specializations drawing or painting; photography; retouching, making up and so on. Your own particular abilities will tend to suggest which of these specializations to pursue. A career in finished art often starts with a spell as a studio junior, where you may get a chance to try out many of these activities, and find out what suits you best. However, most photographers start and afterwards work in a photographic studio, and may have trained formally in photography. TV commercials, and also training videos, documentary films etc, are physically produced in specialized production houses, although larger advertising agencies employ expert producers to supervise the production on behalf of the art director and writer. As the same skills and firms are also employed in creating TV programming and feature films, there is sometimes a chance to cross over (like Lord Puttnam) into this field later. The general pattern is to work up from one of the junior film production jobs, either to a craft specialization or perhaps to become a highly paid director, producer or lighting cameraman. Qualifications: entrants may have studied film or video formally, worked for one of the big television contractors, or simply entered at the bottom of the pecking order with no qualifications apart from interest and natural aptitude.
2.13.9 **Developing of the Advertising Campaign**

In designing and evaluation an ad campaign, it is important to distinguish the message strategy or positioning of an ad (what the ad attempts to convey about the brand) from its creative strategy (how the ad expresses the brand claims). So designing effective advertising campaigns is both an art and a science. To develop a message strategy, advertising go through three steps: message generation and evaluation, creative development and execution, and social-responsibility review. It is important to generate fresh insight and avoid using the same appeals and position others (Aaker & Norris 1982). Many of toddy’s automobile ads have sameness about them— a car driving at high speed on a curved mountain road or cross a desert. A good ad normally focuses on one or two core selling proposition. As part of refining the brand positioning, the advertiser should conduct market research to determine which appeal work bet with it audience target. Once they find an effective appeal, advertisers should prepare a creative brief, typically covering one or two pages. It is an elaboration of the positioning statement and includes: key message, target audience, communication objectives, key brand benefits, supports for the brand promise, and media (Barker & Groenne 1996).

2.13.9.1 **Creative Development and Execution**

The advertising’s impact depends not only on hat is said, but often more important, on ho it is said. Message execution can be deceived. In preparing and an ad campaign, the advertiser can prepare a copy of strategy statement describing the objective, content, support, and tone of the desired (Berthon et al. 1996). The same advertising techniques used to promote commercial goods and services can be used to inform, educate and motivate the public about non-commercial issues, such as, political ideology, energy conservation, religious recruitment, and deforestation. Advertising, in its non-commercial guise, is a powerful educational tool capable of reaching and motivating large audiences. "Advertising justifies its existence when used in the public interest - it is much too powerful a tool to use solely for commercial purposes" (Burnett & Moriarty 1998). Public service advertising, non-commercial advertising, public interest advertising, cause marketing, and social marketing are different terms for (or aspects of) the use of sophisticated advertising and marketing communications techniques (generally associated with commercial enterprise) on
behalf of non-commercial, public interest issues and initiatives. In the United States, the granting of television and radio licenses by the FCC is contingent upon the station broadcasting a certain amount of public service advertising. To meet these requirements, many broadcast stations in America air the bulk of their required Public Service Announcements during the late night or early morning when the smallest percentage of viewers are watching, leaving more day and prime time commercial slots available for high-paying advertisers. Public service advertising reached its height during World Wars I and II under the direction of several governments. If you can't spell then just go away now, before it's too late. Fact: This is your final warning.

### 2.13.10 Types of Advertising

Commercial advertising media can include wall paintings, billboards, street furniture components, printed flyers and rack cards, radio, cinema and television ads, web banners, shopping carts, web popup, skywriting, bus stop benches, human directional, magazines, newspapers, town criers, sides of buses or airplanes ("logo jets"), taxicab doors, roof mounts and passenger screens, musical stage shows, subway platforms and trains, elastic bands on disposable diapers, stickers on apples in supermarkets, the opening section of streaming audio and video, posters, and the backs of event tickets and supermarket receipts. Any place an "identified" sponsor pays to deliver their message through a medium is advertising.

Another way to measure advertising effectiveness is known as ad tracking. This advertising research methodology measures shifts in target market perceptions about the brand and product or service. These shifts in perception are plotted against the consumers’ levels of exposure to the company’s advertisements and promotions. The purpose of Ad Tracking is generally to provide a measure of the combined effect of the media weight or spending level, the effectiveness of the media buy or targeting, and the quality of the advertising executions or creative.

#### 2.13.10.1 Media Brief

Each medium has its merits and its handicaps. The suitability and profitability of any one type varies from manufacturer to manufacturer and may vary for a single manufacturer too. Changes are the only rule. The buyers constitute his market; they are to receive his advertising coverage consists of the advertiser’s reaching the maximum number of these buyers include both his current and prospective customers.
The advertiser has to determine how many there are and where they are. Then the selection process involves how to send an effective advertising message economically to the group of buyers, the length of the campaign period and the cost which he can afford—at a figure which will make the advertising effort profitable.

2.13.10.2 **Difficulties in Selection of Media Types**

► **Audience Measurement:**

The media sell circulation or the opportunity to develop circulation. There is a gross aspect to circulation (how many products were bought last month) and a net aspect (how many of those purchasers are prospects for the product saw the advertisement in the broadcast media). Measurement of the same is not so easy as advertisers would think.

► **Difficulty of Cost Comparisons:**

There is a cost per thousand concept in every medium type such as cost per thousand homes or thousand viewers, cost per thousand passersby, cost per page per thousand copies sold. How does the reaction of a thousand housewives, who read a food advertisement about Magi noodles, compare with that of a different thousand housewives who watch the same on TV?

► **Reliance on a Particular type of Medium:**

How much of his promotion effort should a manufacturer place in magazines and how much on TV, how much in outdoor or point of purchase? Which should be dominant and which are supplementary? These factors play a key role in selection of a particular type of media. Media costs, the costs of space and time, are the largest single expense item in most advertising budgets. The selection of media types to be used in an undertaking, therefore, deserves and even demands, the very best thought and judgment of on the part of the top management. The points to be considered are:

(I) **Availability:** Regional markets may be so limited that national circulation of magazines should not be used. A product may have so slight a market that a medium such as the radio would not be indicated for use.

(II) **Selectivity:** Some ideas demand visual presentation and others demand oral presentation. The radio cannot accommodate stories requiring a physical form, and outdoor advertising cannot accommodate long stories.
(III) **Competition** is a matter which the advertiser cannot ignore. A company may select media types not used by its competitors, based on distinctiveness and domination.

► **Selection of Individual Media**

Selection of individual media to carry advertising requires the consideration of the points like circulation; the quality and quantity of a medium’s circulation, Prestige, Influence, Readership, etc.

2.13.10.3 **Television Commercials**

The TV commercial is generally considered the most effective mass-market advertising format and this is reflected by the high prices TV networks charge for commercial airtime during popular TV events. The annual Super Bowl football game in the United States is known as much for its commercial advertisements as for the game itself. Virtual advertisements may be inserted into regular television programming through computer graphics. It is typically inserted into otherwise blank backdrops (Cronin 1995) or used to replace local billboards that are not relevant to the remote broadcast audience (Ducoffe 1996). More controversially, virtual billboards may be inserted into the background (Cronin 1995) where none existing in real-life. Virtual product placement is also possible.

2.13.10.4 **Newer Media and Advertising Approaches**

Increasingly, other mediums such as those discussed below are overtaking television due to a shift towards consumer's usage of the Internet as well as devices such as TiVo. Advertising on the World Wide Web is a recent phenomenon. Prices of Web-based advertising space are dependent on the "relevance" of the surrounding web content and the traffic that the website receives.

E-mail advertising is another recent phenomenon. Unsolicited bulk E-mail advertising is known as "spam". Some companies have proposed to place messages or corporate logos on the side of booster rockets and the International Space Station. Controversy exists on the effectiveness of subliminal advertising (see mind control), and the pervasiveness of mass messages (see propaganda). Unpaid advertising (also called word of mouth advertising), can provide good exposure at minimal cost. Personal recommendations ("bring a friend", "sell it"), spreading buzz, or achieving
the feat of equating a brand with a common noun (in the United States, "Xerox" = "photocopier", "Kleenex" = tissue, "Vaseline" = petroleum jelly, "Hoover" = vacuum cleaner and "Band-Aid" = adhesive bandage.). These are the pinnacles of any advertising campaign. However, some companies oppose the use of their brand name to label an object. Equating a brand with a common noun also risks turning that brand into a genericized- trademark - turning it into a generic term which means that its legal protection as a trademark is lost. SMS (Short Message Service) text messages have taken Europe by storm and are breaking into the USA. The addition of a text-back number is gaining prevalence as a www address of yesterday. Used as part of your companies 'how to contact us' these can be very effective. These can be a (rented) keyword on a short-code or your own system on a standard number (like Mojio Messenger). The benefit of SMS text messages is people can respond where they are, right now, stuck in traffic, sitting on the metro. The use of SMS text messages can also be great ways to get a viral (word-of-mouth) campaign off the ground to build your own database of prospects see viral marketing. Interstitial advertisement is a form of advertisement which takes place while a page loads. From time to time, The CW airs short programming breaks called "Content Wraps," to advertise one company's product during an entire commercial break. The CW pioneered "content wraps" and some products featured were Herbal Essences, Crest, Guitar Hero 2, Cover Girl, and recently Toyota.

2.13.11 Measuring the Impact of Mass Advertising

The most common method for measuring the impact of mass media advertising is the use of the rating point (rp) or the more accurate target rating point (TRP) (Howard 1989). These two measures refer to the percentage of the universe of the existing base of audience members that can be reached by the use of each media outlet in a particular moment in time. The difference between the two is that the rating point refers to the percentage to the entire universe while the target rating point refers to the percentage of a particular segment or target. This becomes very useful when focusing advertising efforts on a particular group of people. One of the reasons advertising is successful, is due to the way in which it endorses a particular audience, to build awareness of what the advertiser has to offer.
2.13.12 *The Advertising Schedule*

What is the optimum schedule? There is no agreement; there is no formula: there is only judgment. It appears that more advertisers make the mistake of using too many than the mistake of using too few. The manufacturer’s proposed advertising plans are consolidated into a schedule which contains the following information:

- List of publications, broadcast stations, markets;
- Dates of appearance of advertisements;
- Size of advertisements (space or time);
- Costs of advertisements.

► *Duplication*

An advertiser must have coverage or else his message will not reach as many buyers as he must reach. As an advertiser adds magazine after magazine to his list to increase his coverage; he finds duplication inevitable. One way of averting duplication is to use only one of the magazines; another is to run a different advertisement. The duplication limits an advertiser’s coverage. The points in favour of duplication are repetition and frequency.

► *Frequency*

The term frequency refers to the number of advertisements of the same size appearing in an individual medium for a given period such as per day, per week, per month, or per campaign. There is no formula to determine the ideal frequency. The two factors are the size of the advertising fund and the size of the advertisement to be run. If these are known, frequency can be derived. The two other factors are the number of media and the advertising period. As the number of media increases, there is pressure for a lower frequency, or to shorten the advertising period. The other possibilities are to enlarge the fund, or to reduce the size of the advertisement. Manufacturers cannot ignore the fact that what the competitors are doing in respect of frequency. The more often a message is repeated, the greater the proportion of it the consumer remembers.
Size of advertisement

The size of advertisement influences the frequency. The size of an advertisement can be derived if the advertiser:

- Determines the size of the advertising fund,
- Decides the numbers of individual media to be used, and
- Decides the number of advertisements to appear during the advertising period.

The purpose of the advertisement may be the strongest influence in determining its size; a large space is used to announce, a small space is used to remain. The amount of copy, the number of products included in one advertisement and the illustration needs of the advertisement all help to determine size. Salesmen and dealers may also decide how large advertisements should be.

Re-run on Advertisement

Repetition has a considerable effect on advertising costs, and its frequency. Re-run is considered unless it has performed well on its first appearance. It is most common in mail order business and advertising that uses small space. It is not common for large advertisements. Indirect action advertisements should be re-run. The reinforcement of consumer memory is another benefit of a re-run. There are savings on a re-run. New readers are added whenever an advertisement is re-run.

Timing

The crucial questions under timing is when should a campaign start, and when should it stop? For this purpose the seasonal angle and festival seasons should be considered. Advertising can be scheduled heavily just before and during the heavy buying season. Off-season advertising is used profitably during the off-season to level out the. For example, tourists can be motivated through advertising to visit tourist areas during the off-season.

Positioning

It involves the development of a marketing strategy for a particular segment of the market. It is primarily applicable to products that are not leaders in the field. These products are more successful if they concentrate on specific market segments than if they attack dominant brands. It is best accomplished through an advertising strategy, or theme, which positions advertisements in specified market segments.
2.13.13 *Creativity in Advertising*

The creative part of advertising involves the process of selecting and presenting the messages. Writing, designing and producing these messages is called “advertising creativity” and the key wordsmith is called a copywriter or copy chief or copy supervisor. The success of advertising depends to a great extent on the quality of the message or copy of advertisement rather than the money spent on advertising. The conventional theory of advertising includes the concept of AIDA (Attention, Interest, Desire and Action). Most of the advertisers believe that the message in advertisement copy must attract the attention and interest of the consumer if buying is to result. But they forget that only good advertisement copy or good message can attract the attention and interest of the receiver until and unless the much advertise product attributes have a strong impact on consumers. The consumers come to know the existence of the product only through the advertisement. Advertising tries to persuade the consumers that they need the product. But if the product attributes fail to satisfy the need of buyers, good creativity will not pay.

Creativity is an art. An artiste, writer, poet, novelists, play writer takes well known ideas, words and phrases and relates them in a fresh, often brilliant manner while preparing an advertising copy. They combine the product attributes and the ideas, words and phrases in such a manner that persuades the consumers to buy the product. This combination really represents and art or a creativity. A child can draw a smiling picture of a woman, but it does not carry a creative message of some worth.

The advertising copy writer writes with a purpose to achieve client’s objectives to express features or attributes of particular products and services, presented in terms of consumer benefits and in the language most appropriate to defined target audience. Thus advertising messages should present merchandise in ways that interest people in buying. Print ads and broadcast commercials portray products as problem solvers or methods whereby wants and needs may fulfilled.

When creating, copy writer builds messages according to specific plans, to fulfill specific objectives, and he should follow a disciplined way in creating them. In the words of Alfred Polite –“Advertising creativity has to follow rules which are guide by a well defined purpose, by an analysis of thoughts supplied by imagination, by a selection of the useful ones which meet the purpose.
2.14 The Theoretical Background of Product Features

In marketing, a product is anything that can be offered to a market that might satisfy a want or need. In retailing, products are called merchandise. In manufacturing, products are purchased as raw materials and sold as finished goods. Commodities are usually raw materials such as metals and agricultural products, but a commodity can also be anything widely available in the open market.

2.14.1 Single Unique Product

Product may refer to a unique product, such as a single carton of brand X milk, a single customized interior design, a single piece of lumber, or a single hour of technical support. Serial numbers are used to identify certain unique products. A vehicle identification number identifies a unique motor vehicle. The term "defective product" usually refers to a single instance or a few instances of unique products not meeting specifications or standards. Every product is unique in the sense that it cannot be sold to different customers such as customer A and customer B at the same time, or sold twice at the same time to a single customer. An invoice is a business document requesting payment for actual product delivered. Double billing is the error of charging a customer twice for the same unique product.

2.14.2 Equivalent or Interchangeable Product

The distinction between a new product and a minor modification to an existing product is not always clear. Certain products have a product life cycle in which the supply and demand for the product increases then decreases over time. The demand for certain food products such as bread will tend to increase with population, but the supply and demand for a specific brand of bread may decline over time. In the United States, a patent for a product is recognition that the product is new in a legal sense. "Utility patents may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement thereof; design patents may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture; and, plant patents may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant." In business an equivalent, interchangeable or fungible product is defined by a company and its customers. A company's inventory is comprised of physical products, or goods, that are usually
recorded as counts of equivalent unique products. Product numbers in many businesses clearly identify the product by linking to a full description.

2.14.3 Product Groups

In its online product catalogue, retailer Sears, Roebuck and Company divides its products into departments, and then presents products to shoppers according to (1) function or (2) brand. Each product has a Sears item number and a manufacturer's model number. The departments and product groupings that Sears uses are intended to help customers browse products by function or brand within a traditional department store structure.

2.14.4 Sizes and colors

A catalog number, especially for clothing, may group sizes and colors. When ordering the product, the customer specifies size, color and other variables. Example: you walk into a store and see a group of shoes and in that group are sections of different colors of that type of shoe and sizes for that shoe to satisfy your need.

2.14.5 Product line

A product line is "a group of products that are closely related, either because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges."

Many businesses offer a range of product lines which may be unique to a single organization or may be common across the business's industry. In 2002 the US Census compiled revenue figures for the finance and insurance industry by various product lines such as "accident, health and medical insurance premiums" and "income from secured consumer loans". Within the insurance industry, product lines are indicated by the type of risk coverage, such as auto insurance.

2.15 Literature Survey

A large number of empirical studies have been conducted in India and Iran; a few of them have been reviewed in order to highlight the problem under study.

2.15.1 Empirical studies in Iran

Saeedi (1998) during his research on “Analyzing customer satisfaction and quality: the case of Iran khodro’s Customers” found that improving quality and
Customer satisfaction has received considerable attention in Iran’s automobile industry. This study examines construction in terms of customer satisfaction and quality. A framework is developed to evaluate the dynamics of customer satisfaction and quality. An empirical analysis is conducted to explore customer satisfaction in this industry. Results indicate that the need for contractors to improve performance relates mostly to quality assurance, handover procedures and material. For a contractor, the main benefit of high customer satisfaction is the opportunity to maintain a customer’s potential partnership in the future.

Komaie (2000: 22-45) found that due to global competition, companies have indeed emphasized that quality should have top priority, integrated into all aspects of products and services within their management system. Hence total quality management (TQM) has become increasingly popular as one of the managerial devices in ensuring continuous improvement in order to enhance customer satisfaction and retention as well as to ensure its product services, especially service quality. Employees are regarded as the most important entity in ensuring that total quality management (TQM) is carried out successfully in an organization. Therefore, this paper will address certain issues based on employees’ perspectives with regard to TQM implementation in the SMEs of the automobile industry in Iran. Firstly, the research identifies the perceptions towards TQM among the employees in the small-medium sector in the automobile industry. Secondly, it determines the important factors towards TQM implementation as perceived by those employees. Finally, it ascertains whether there are other measurements employed by the SMEs of the automobile industry in ensuring quality.

Mather and Tamjidi (2004) in their work “Making Cars in Iran: Working for Iran Khodro”, examine work, employment relations and industrial conflict at Iran Khodro, Iran’s largest car plant. It pays particular attention to work intensification and the spread of contract work, which according to the workers have led to a rise in the number of fatal industrial accidents at the plant. These developments, as we argue, are rooted in an alliance between the Islamic regime and its neo-liberal policies on one hand, and the western multinational companies that have returned to Iran on the other. They also briefly examine workers’ resistance to these developments, which has taken place despite the absence of permanent workers’ organizations.
The paper “Demand Estimation for Iranian Automobile” studied by Rahmati and Yousefi (2004) focuses on the frequently-used methods of demand estimation for discrete choice models in the Iranian automobile industry. It provides estimation of demand with different methodologies and compares the accuracy of each model in estimating demand parameters. Furthermore, a couple of counterfactuals are investigated in the studied case. Effects of changes in population attributes on automobile demand are predicted through multinomial logic methodology. Using nested logic method, a nested structure is suggested to characterize consumer behavior in the market. And finally, the BLP (Berry, Levinsohn and Pakes, 1995) and Nevo (2000) method is used to predict marginal costs and markups of firms in order to investigate the tariff policy on imported and domestic goods.

Farhadi (2005) researched on “Brand managers' expected and perceived responsibilities in the automobile industry” and found that fast-moving consumer goods and industrial brand managers' perceived responsibilities have been examined in the past. Very little is known, however, about the organisation of the marketing activities and the brand managers' role in various durable consumer goods industries. In addition, the effectiveness in the delegation of duties to the lower-level marketing personnel, the expectations of the marketing managers from their subordinates, and the perceived responsibilities of the employees themselves have not been investigated. Using data collected from a sample of 18 brand managers and nine marketing managers via personal interview in Greece, this paper aims to give some insight into the above mentioned issues. It reveals that brand managers have a relatively clear understanding of what their job involves. Acting as middle managers, they are expected to scan the environment, implement brand programmes and evaluate how their brand performs.

Talaei (2005) who researched on “Corporate Social Responsibility in Auto Industry: An IRANIAN PERSPECTIVE” and found that Corporate Social Responsibility (CSR) is a concept which suggests organizations, especially (but not only) corporations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations. CSR is closely linked with the principles of Sustainable Development, which argues that enterprises should make decisions not only based on financial factors such as profits or dividends, but also based on the immediate and
long-term social and environmental consequences of their activities. In the absence of evidence of research in the area of CSR in auto industry domain in Iran, the current paper may be a starting-point for a debate and possible strategies to implement CSR concept in this area. Also, CSR indicators for assessing companies of the industry based on their commitment toward their social responsibilities are proposed in this research. These indicators can also be adapted with appropriate modifications to meet the needs and conditions of similar companies in other countries or companies in other industries.

Afsharipour and Sahaf (2006) who studied “E-Procurement in Automotive Supply Chain of Iran” aimed to find out how e-procurement is being used in Iranian automotive supply chain and what benefits and barriers are associated with its implementation. To this end a qualitative approach was used and multiple case studies were conducted. Our finding shows that Iranian automotive supply chain can gain a lot through implementing an integrated and standard e-procurement solution, while, some chronic impediments like technology infrastructure; culture and legal system have to be changed considerably before any pragmatic endeavor.

Taghavi (2007) did a study on “Business Competitiveness: Strategies for Iranian Automobile Industry”. Peter Drucker has called the automobile industry as "the industry of industries". During the last few years, the production and management systems have been revolutionized worldwide in the automobile industry. One of the major changes in the industry has been the opening up and growth of several emerging markets. The automotive industry is now facing new and pressing challenges. Globalization, individualizations, digitalization and increasing competition are changing the face of the industry. In addition, increasing safety requirements and voluntary environmental commitments have also contributed to the changes ahead. Size of the organization is no longer a guarantee of success. Only those companies that find new ways to create value may prosper in the future. The purpose of this paper is to present a short overview of the automotive industry today and highlight challenges facing the industry. Based on this perspective, some strategic methodology for enabling them to transform into competitive enterprises has been discussed. The information and opinions presented in this paper are based on a series of interviews that were held with automotive industry experts, who gave us the benefit of their extensive knowledge.
2.15.2 Empirical studies in India

Pingle (2000) study on “Modularisation in the auto industry: interlinked multiple hierarchies of product, production and supplier systems” analyses modularization in the world’s auto industry. Modularization in the industry has involved architectural changes in product, production, and supplier systems, with each region (India, Europe and the USA) emphasizing different purposes and aspects. As an attempt to understand such multi-faceted, complex processes coherently, this paper proposes a conceptual framework that sees development and production activities as interlinked, multiple hierarchies of products, processes, and inter-firm boundaries. With this framework, drawing on case studies and questionnaire survey data, the paper examines the ongoing processes of modularization in the industry. It is argued that tensions exist among the three hierarchies, and such tensions may lead to further changes in product, production and supplier-system architectures in the auto industry, in a dynamic and path-dependent manner.

Sutton (2000), in his study “Comparison of the Auto-component Supply Chains in India and China, based on field surveys” and found that in both these countries, the supply chain has developed very rapidly at the level of car makers and Tier-1 suppliers, with quality levels close to world standards, largely driven by the entry of multinational car makers. But, the Tier-2 suppliers are still not up to the global standards. The domestic content requirements, based on the infant industry argument, have helped the international car makers in enhancing the production capabilities of the domestic players effectively, as shown by increases in auto-component exports from India and China. Of the top ten exporting firms in India and China, five and six are domestic ones, respectively. Enhanced supply-chain capabilities have benefited the domestic auto-makers as well, such as Mahindra and Mahindra in India, who have been able to capture a sizeable market share with their indigenously designed and assembled MUV.

Occasionally, despite the low wages, some leading component producers in China and India strategically use highly capital intensive techniques such as robotics, mainly on account of their concerns to achieve high levels of quality. This in combination with employing high-quality workforce even at the shop level, floor is another strategic choice of a few leading firms in India to promote exports. Many Tier-1 firms follow the standard Japanese work practices to improve quality and
minimize costs. Interactions between carmakers and component suppliers have also helped the latter improve quality.

**Tewari** (2000), in this work "Addressing a larger question of the impact of Foreign Direct Investment (FDI) on the domestic industry and economy" studies the automotive supply chain of Tamil Nadu in India, based on field surveys. Studies such as Humphrey (1999) show that entry of global auto majors in India and Brazil have impeded domestic firms, because of ‘follow source’, while this study shows evidence of the fact that medium-sized firms, which entered in the mid-1990s in Tamil Nadu have formed networks with smaller domestic suppliers and helped them upgrade their technologies. These medium-sized suppliers require more support from the government, since they play a crucial role in facilitating the development of the domestic auto industry. Joint ventures and technical tie-ups with overseas suppliers have been the strategies that were followed by well-performing auto component manufacturers, long before the global auto majors entered India. These relationships and the entry of foreign OEMs not only promoted employment and income, but also enabled diffusion of technologies and knowledge to the entire supply chain, including smaller firms.

**Piplai** (2001) explores links between car users’ satisfactions; repurchase intentions, purchase behavior, and customer profitability with empirical data on attitudes, behavior, and profitability at the customer level of analysis in his work "Customer Satisfaction and Links to Customer Profitability in Automobile Industry". Purchase behavior and profitability data, derived from the accounting system of automobile firms, are matched with the responses of the firm’s customers to survey questions distributed prior to the behavior and profitability outcomes. The analysis reveals a strong link between customer behavior and customer profitability, while modest links exist between repurchase intentions and subsequent behavior. Only a weak and non-significant direct link can be observed between customer satisfaction and customer profitability. This paper, then, questions customer satisfaction’s commonly assumed role as a proxy for profitability.

**Veloso and Kumar** (2002) concluded that consumer preferences, government regulations and intense competition have been driving the firms towards new technologies, modernization, research and changes in design and production. In their thesis on “Overview of the Major Trends Taking place in the Global Automotive
they also discuss about market saturation in the Triad regions (the United States, Western Europe and Japan) and rapid emergence of markets in Asia that have led to increasing diversity in market needs. As a result, there are many models and segments coming up rapidly. Auto majors have started adopting a global perspective and reorganizing their vehicle portfolio around product platforms, modules and systems. They are also minimizing the number of suppliers, by opting for bigger ones, based on cost and quality competitiveness, R&D capacity and proximity to development centers. Mergers and acquisitions are taking place for consolidation. Suppliers have been taking on new roles, as systems integrators, global standardized systems manufacturers, component specialists and raw material suppliers. These roles are based on their focus, market presence, critical capabilities and types of components and systems. The automobile industry in India had been facing the problem of overcapacity till 2000 and the auto-component sector was not so developed as to be able to deliver products of world-class quality. Chinese tariff and quota policies, coupled with local content regulations protect the auto industry in China immensely. However, the Chinese auto industry suffers from fragmentation, lower quality, lack of technological upgradation and managerial skills. Consolidation and liberalization that are happening recently in China are expected to promote its auto industry. Auto industries in the ASEAN and Korea have recovered quickly from the Asian crisis of 1998. This report concludes with some aspects that any study on auto sector should focus on factors such as evaluation of the capabilities of auto-component supply chain – both large and small suppliers, strategies of OEMs, cost, delivery, dependability, quality, product development, process development, flexibility, facilities/equipment, technology, process, workforce and organization, logistics and supply chain, research and engineering and interfaces.

Sharma (2006), in his thesis “Analyses of the Performance of the Indian Auto Industry with Respect to the Productivity Growth” calculated partial and total factor productivity of the Indian automobile industry for the period from 1990-91 to 2003-04, using the Divisia-Tornquist index for the estimation of the total factor productivity growth. The author finds that the domestic auto industry has registered a negative and insignificant productivity growth during the last one and a half decade. Among the partial factor productivity indices only labour productivity has seen a
significant improvement while the productivity of the other three inputs (capital, energy and materials) haven’t shown any significant improvement. Labour productivity has increased mainly due to the increase in the capital intensity, which has grown at a rate of 0.14 per cent per annum from 1990-91 to 2003-04.

Amit (2007), in his thesis “Virtual team working in the Indian automotive industry” found that the globalization of the automotive industry and increasing competition from U.S. and Asian-Pacific firms are forcing the Indian automotive industry to introduce information technology and telecommunications that enable more efficient collaboration along the supply chain, and hence a reduction in the time to market the new vehicles. This paper illustrates the nature of the automotive supply chain and summarizes current barriers to collaborative working between Indian automotive manufacturers and suppliers. To achieve a greater degree of concurrent engineering, organizational and user requirements are outlined, drawn from a series of collaborative European automotive projects. Finally, a case study is presented, based on the development, demonstration, and evaluation of a heterogeneous computer-supported cooperative working platform to support the working between virtual teams during the product introduction process.

2.15.3 Empirical Studies on Product Feature

Pangburn and Sundaresan (1997) in their work “Capacity decisions for high-tech products with obsolescence” discuss how modern high-tech products experience rapid obsolescence. Capacity investments must be recouped during the brief product lifecycle, during which prices fall continuously. They employed a multiplicative demand model that incorporates price declines due to both market heterogeneity and product obsolescence, and study a monopolistic firm’s capacity decision. The researchers investigated profit concavity, and characterize the structure of the optimal capacity solution. Moreover, for products with negligible variable costs, they identified two distinct strategies for capacity choice demarcated by an obsolescence rate threshold that relates both to market factors and capacity costs. Finally, they empirically tested the demand model by analyzing shipping and pricing data from the PC microprocessor market.

Pérez (2000) found that dynamic analysis considering starving and blocking of machines in networks of closed loops has a great importance in most automobile
assembly lines. In this work, an actual automobile assembly line is modeled as a network of closed loops of machines and intermediate buffers formed by conveyors. As a consequence of it, machines can work in both, stationary or transitory regimes. The influence of the working regimes of the machines or the proportion of four-door cars between the doors’ disassembly and assembly stations on the starving and blocking transmission from the main assembly line has been analyzed. These factors have not been considered yet by the existing literature and they have a great significance in the performance of this kind of manufacturing systems.

Watanabe and Yoshiyasu Yamada (2001) studied the product line decisions of firms under two consumer segments differing in their quality-sensitivity. In their work “Full-line or specialization strategy, the negative effect of product variety on product line strategy”, they focused on a negative impact of the product variety on the consumers’ motivation to purchase, while each product is horizontally differentiated. In the presence of this impact and high fixed costs relative to variable costs, it is shown that when a highly quality-sensitive segment exists, it is always advantageous for the monopoly to specialize in only one product serving this segment. However, the appearance of a competitor can drastically change the product line in the market. Under the duopolistic setting where two firms sequentially determine their product lines, they showed that the leader gains a better financial result by offering its product to the low segment for many cases, including the case where no product is offered to the high segment by either of the firms who are in equilibrium. Furthermore, they obtained another interesting result that indicates that the follower’s profit can exceed the leader’s profit when the quality-sensitivities between the two consumer segments are sufficiently different, even though the two firms are symmetric except for the order of their product offerings.

Arditi (2002:87-103) in his research work “Automated stochastic quality function deployment system for measuring the quality performance of design build contractors”, introduces an automated tool named Stochastic Quality Function Deployment (SQFD) system, which measures the quality performance of a Design Build (D/B) contractor. SQFD integrates stochastic simulation modeling and analysis techniques into traditional QFD to deal efficiently with the uncertainties in the input data, to support the quality performance measurement that is involved in multi-attribute and multi-participant decision-making, and to predict the variability in the
output. D/B construction owners who are in the process of selecting a D/B firm for a project would benefit from SQFD, because the system allows an owner to expeditiously assess the quality performance of potential D/B firms in their bidding list. An example in D/B contractor evaluation is presented to illustrate the functioning of the system. This quantitative method is a significant contribution to the field of quality performance measurement, because (1) SQFD is totally automated, (2) SQFD's reliability is higher than conventional QFD, and (3) SQFD efficiently deals with uncertainties in multi-attribute and multi-participant decision-making, and therefore generates more accurate results. The system helps to improve the D/B project bidding system.

Galea (2004) studies on “Evacuation modeling analysis within the operational research context: A combined approach for improving enclosure” reveal that evacuation models have been playing an important function in the transition process from prescriptive fire safety codes to performance-based ones over the last three decades. In fact, such models became also useful tools in different tasks within fire safety engineering field, such as fire risks assessment and fire investigation. However, there are some difficulties in this process when using these models. For instance, during the evacuation modeling analysis, a common problem faced by fire safety engineers concerns the number of simulations which needs to be performed. In other terms, which fire designs (i.e., scenarios) should be investigated using the evacuation models? This type of question becomes more complex when specific issues such as the optimal positioning of exits within an arbitrarily structure needs to be addressed. Therefore, this paper presents a methodology which combines the use of evacuation models with numerical techniques used in the operational research field, such as Design of Experiments (DoE), Response Surface Models (RSM) and the numerical optimization techniques. The methodology here presented is restricted to evacuation modeling analysis; nevertheless this same concept can be extended to fire modeling analysis.

2.15.4. Empirical Studies on Advertising

Burns et al. (1999) studied “False Advertising, Suggestive Persuasion, and Automobile Safety: Assessing Advertising Practices in the Automobile Industry”. The present study compares the safety-related content of automobile advertising with government-sponsored crash test evaluations. It examines all major automakers and
their respective divisions and observes the claims made regarding specific vehicle models in relation to their individual crash test scores. This comparison facilitates analysis regarding the relationship between automakers’ stated or implied concern for safety in their advertising, and their actual concerns for safety as evidenced in crash tests. The findings shed further light on the relative accuracy or inaccuracy of automobile advertising, and call into question automakers’ demonstrated concern for automobile safety in their advertising.

Communication and promotion decisions are a fundamental part of retailer customer experience management strategy. Beauchamp (2000) addressed two key questions from a retailer's perspective: (1) what have they learned from prior research about promotion, advertising, and other forms of communication and (2) what major issues should future research in this area address. In addressing these questions, the researchers proposed and follow a framework that captures the interrelationships among manufacturer and retailer communication and promotion decisions and retailer performance. He examined these questions under four major topics: determination and allocation of promotion budget, trade promotions, consumer promotions and communication and promotion through the new media. His review offers several useful insights and identifies many fruitful topics and questions for future research.

McAfee, and Vincent (2001) during their research on “Brand extension feedback: The role of advertising” found that firms often use brand extensions as a way of introducing their new products, although they also risk diluting their brand image. In order to understand how consumers assess extensions and extended brands, the present work proposes and estimates a theoretical model, using the structural equation methodology. The results of the estimation indicate that the attitude towards the extension influences brand image and that this attitude is a consequence of the initial brand beliefs and the coherence of the new product. A multisampling analysis also reveals that favoring the introduction of extensions through adequate advertising constitutes an efficient way of protecting brand image.

A study done by Poels and Dewitte (2003) referred to as “Hope and self-regulatory goals applied to an advertising context: Promoting prevention stimulates goal-directed behavior” proposes the existence of two types of hope which differ in terms of self-regulatory goals: prevention hope and promotion hope. Consistent with the functional emotion approach and regulatory focus theory, they showed that
prevention hope generates more goal-directed behavior compared to promotion hope. Next, the researchers replicate these findings in an advertising context. Results from three experiments show that prevention hope ads lead to more goal-directed consumer behaviors like (1) greater memory for product information, (2) greater willingness to test the advertised product, and (3) more intentions to focus on product information and undertake product-related action than promotion hope ads.

Chemmanur and Yan (2007) analyzed the interaction between a firm's product market advertising and its corporate financing decisions in their work “A product market advertising and new equity issue”. The researchers considered a firm that faces asymmetric information in both the product and financial markets and that needs to raise external financing to fund its growth opportunity (new project). Any product market advertising undertaken by the firm is visible to the financial market as well. In equilibrium, the firm uses a combination of product market advertising, equity under pricing, and under financing (raising a smaller amount of external capital than the full information optimum) to convey its true product quality and the intrinsic value of its projects to consumers and investors. The following two predictions arise from their theoretical analysis for the relation between product market advertising and equity under pricing around new equity issues. First, firms choose a higher level of product market advertising when they are planning to issue new equity, compared with situations in which they have no immediate plans to do so. Second, product market advertising and equity under pricing are substitutes for a firm issuing new equity. They empirically tested the above two predictions and found supporting evidence in the context of firms making initial public offerings and seasoned equity offerings.

A particularly interesting area of research Gabrielsson (2008) concerns how international fast-moving consumer goods (FMCG) companies from small and open economies that operate in turbulent markets plan successful advertising campaigns for international markets. The objective of this research was to determine how they are planned and what factors affect this planning. The theoretical part of the study reviews literature related to the internationalization of firms, international advertising campaigns, and standardization versus adaptation of international advertising. Based on the literature, a theoretical framework and propositions regarding the international campaign planning process for FMCG companies were developed. The empirical part
uses the multiple-case study method to examine four FMCG companies that were founded in Finland. The empirical results show that five stages are especially important in the international campaign planning of FMCG companies. Moreover, the companies need to consider a number of factors when deciding on international advertising campaigns. The study presents a number of theoretical contributions and managerial implications. A novel finding relates to the importance of understanding the impact of the internationalization/globalization phase of the company. During internationalization often within the home continent, companies increasingly adapt advertising campaigns to different countries, whereas globalization to other continents calls for increased standardization across countries. Another interesting finding was that FMCG companies from small and open-economy (SMOPEC) countries often use innovative non-traditional campaigns to overcome the resource limitations.

Davies and Madran (2008) in their study “Universal differences in advertising avoidance behavior: A cross-cultural study” found that avoidance of TV advertising categories often include either mechanical (e.g., switching channels) or behavioral (e.g., talking to someone). Previous research seeking to explain avoidance with demographic and attitudinal factors shows conflicting results. Their aims were: to identify from these factors any that might consistently predict avoidance (by conducting surveys in three quite different cultures, the UK, Chile and Turkey), and: to compare the influence of demographic factors on avoidance with those of attitude to advertising. Males use more mechanical avoidance methods, whereas females use more behavioral avoidance methods. More educated people generally report higher behavioral avoidance. Family size and age help to explain avoidance in some countries but not in others. A negative overall attitude towards advertising is important generally in explaining mechanical avoidance. Behavioral avoidance is more important and is best explained by a combination of demographic and attitudinal factors. Country of residence is significant in predicting behavioral avoidance.

Laco (2008) concluded that publicity represents one of the most visible elements of public relations and as such draws a lot of attention from both within and outside the profession. Public relations practitioners seem to rely on the concept that news in the media has a superior value to advertising, if both messages are similar in content. This study aimed to establish the relationship between advertising and news editorials in terms of communication effects. Since public relations specialists claim
that editorials are more credible and have greater impact than advertising it is clear
how the results of this study could have potentially important implications for both
advertising and public relations professionals.

2.15.5 Empirical Studies on Branding

Research done by Jill Sweeney and Joffre Swait (2001) showed that
Customer churn is an ever-growing issue in the relational services sector (e.g., retail
banking, telecommunications), where business models ultimately depend upon long-
term relationships with customers as the basis for profitability. Businesses in this
sector have tended to view satisfaction and service quality as the key tools for
increasing customer retention. The present study investigates the important additional
role of the brand in managing the churn of current customers of relational services.
Based on information economics, they propose specifically that the credibility of the
brand underlies the role that the brand can play in this process. This research leads to
the enhanced understanding that the brand has a significant role to play in managing
long-term customer relationships, and details how the usual tools of customer
relationship management, satisfaction and service quality, relate to brand credibility.
Results from samples of retail bank and Long Distance Telephone Company
customers indicate that brand credibility serves in a defensive role: it significantly
enhances word-of-mouth and reduces switching behaviors among customers; these
relationships are mediated by customer satisfaction and commitment. Implications of
the study for theory and practice are discussed.

Soyoung Boo (2002) study “The influence of brand image and company
reputation where manufacturers market to small firms: A customer satisfaction
perspective” examined empirical information to develop a destination brand model by
employing customer-based brand equity models through a scale purification process,
ensuring its reliability and validity. Both the proposed model and the alternative
model were tested with an online survey sample of Las Vegas and Atlantic City
visitors. The results provide support for the concept of customer-based brand equity
and corroborate its application to the destination context. However, multi-sample
invariance tests implied that destination-specific items should be considered when
developing a destination brand model.
Jung-Chae Suh (2003) wrote a paper titled “When Brand Attitudes Affect the Customer Satisfaction-Loyalty Relation: The Moderating Role of Product Involvement”. They investigated the moderating role of product involvement in the customer satisfaction-loyalty relation. Structural equation modeling shows that customer satisfaction has both direct and indirect effects on loyalty, whereas advertising attitudes and corporate image have only indirect effects through their mediating influence on brand attitudes. Furthermore, product involvement decreases the direct effects of satisfaction on brand attitudes and loyalty, but it increases the indirect effects of advertising attitudes and corporate image.

Charmine and Janet (2005) examine the relative influence of two key antecedents of brand loyalty—satisfaction and involvement and the moderating role of experience, using a sample of business buyers in their work “Experience as a moderator of involvement and satisfaction on brand loyalty in a business-to-business setting”. The central argument being that the strength of the effect of these variables on attitudinal brand loyalty will vary with the level of customer experience with purchasing the service. This study shows that for a high-risk setting, involvement with the service category will be more dominant in its influence on brand loyalty than satisfaction with the preferred brand. Furthermore; it was found that experience moderated the influence of involvement and satisfaction on attitudinal brand loyalty for a high-risk business-to-business service. This study provides new insights into the theory and practice of buyer behavior and business-to-business brands.

Russell-Bennett (2007) introduces the concept of customer-based brand equity and applies it to a destination. The theoretically proposed and empirically verified model complements previous research findings on a destination’s evaluation from the tourist’s perspective. In addition to numerous studies, which have stressed the importance of image, the results of this study imply that an image plays a vital role in evaluation but is not the only brand dimension that should be considered. For a more complete evaluation, the dimensions of awareness, quality, and loyalty should also be examined. The concept of brand equity was tested on two Slovenian markets. Results reveal that brand equity differed between the markets according to their evaluation of brand dimensions.

Han and Sung (2008), paper developed a general model of industrial brand value and relationship performance in business-to-business markets from the
The structural equation model integrates the analysis of industrial brand value and relationship performance. The model researched to in their work “Industrial brand value and relationship performance in business markets — A general structural equation model “describes the extent to which supplier–buyer transaction performance is influenced by the eight important factors: supplier competence, purchasing value, customer satisfaction, switching cost, brand trust and loyalty, relationship quality, commitment, and transactional performance. The general model is applied to organizational buyer groups of comprehensive industrial markets (Electronics, Chemicals, Equipment, etc). The analysis finds that supplier competence directly affects purchasing value and customer satisfaction, and via purchasing value and customer satisfaction, it indirectly affects commitment, switching cost, brand trust and loyalty. The managerial implications of the study results are also discussed.

2.15.6 Empirical Studies on Pricing

Monroe and Lee (1980) in their study titled “Style goods pricing with demand learning” argued that for many industries (e.g., apparel retailing) managing demand through price adjustments is often the only tool left to companies once the replenishment decisions are made. A significant amount of uncertainty about the magnitude and price sensitivity of demand can be resolved using the early sales information. In this study, a Bayesian model is developed to summarize sales information and pricing history in an efficient way. This model is incorporated into a periodic pricing model to optimize revenues for a given stock of items over a finite horizon. A computational study is carried out in order to find out the circumstances under which learning is most beneficial. The model is extended to allow for replenishments within the season, in order to understand global sourcing decisions made by apparel retailers. Some of the findings are empirically validated using data from U.S. apparel industry.

Zhou and Li (1995) in their research work “Dynamic pricing and warranty policies for products with fixed lifetime” emphasize that online grocers accept delivery bookings and have to deliver groceries to consumers’ residences. Grocery stores operate on very thin margins. Therefore, a critical question that an online grocery store needs to address is the cost of home delivery operations. In this paper, the researchers developed a Markov decision process-based pricing model that
recognizes the need to balance utilization of delivery capacity by the grocer and the need to have the goods delivered at the most convenient time for the customer. The model dynamically adjusts delivery prices as customers arrive and make choices. The optimal prices have the following properties. First, the optimal prices are such that the online grocer gains the same expected payoff in the remaining booking horizon, regardless of the delivery option independently chosen by a consumer. Second, with unit order sizes, delivery price can increase due to dynamic substitution effects as there is less time left in the booking horizon.

Pan and Leung (1998) discuss capacitated arc routing problem (CARP) a well-known in their work “Two-period pricing and ordering policy for the dominant retailer in a two-echelon supply chain with demand uncertainty” and fundamental vehicle routing problem. A promising exact solution approach to the CARP is to model it as a set covering problem and solve it via branch-cut-and-price. The bottleneck in this approach is the pricing (column generation) routine. In this paper, they noted that most CARP instances arising in practical applications are defined on sparse graphs. They showed how to exploit this sparsity to yield faster pricing routines. Extensive computational results are given.

Huang and Swaminathan (2002) studied the optimal pricing strategies when a product is sold on two channels such as the Internet and a traditional channel. They assumed a stylized deterministic demand model where the demand on a channel depends on prices, degree of substitution across channels and the overall market potential. The researchers first studied four prevalent pricing strategies which differ in the degree of autonomy for the Internet channel. For a monopoly, they provided theoretical bounds for these pricing strategies. They also analyzed the duopoly case where an incumbent mixed retailer faces competition with a pure retailer and characterize price equilibria. Finally, through a computational study, the researchers explored the behavior (price and profits) under different parameters and consumer preferences for the alternative channels.

A study by Tsai and Hung (2007) shows how competition and demand volatility often cause modern enterprises to be confronted by uncertain environments. When a firm manages revenue in such competitive and risky environments, the optimization of pricing and capacity allocation, subject to a fixed time and capacity, becomes a complicated problem. Many previous papers concerning revenue
management (RM) and pricing require that the firm possesses the ability to know the demand curve (or demand distribution) and set prices on it to maximize profits. However, this assumption may not be the case in some industries. Therefore, this paper focuses on the dynamic lead indicators rather than assumptive lag indicators to establish a concise and flexible decision model for practical use. This paper provides an integrated real option (IRO) approach with analytic hierarchy process (AHP) for the auction RM problem under competitive/dynamic pricing and revenue uncertainty in Internet retailing. A numerical example is also presented to illustrate that the IRO approach can generate better decisions than the naïve (or risk unawareness) approach in revenue quality of safety and profitability. The new perspective and approach proposed by this paper can be extended to other RM fields whenever both profitability and risk are critical to decision making.

Karray and Martín-Herrán (2007) studied the relationship between the pricing and advertising decisions in a channel where a national brand is competing with a private label in their research work “A dynamic model for advertising and pricing competition between national and store brands”. The researchers consider a differential game that incorporates the carryover effects of brand advertising over time for both the manufacturer and the retailer and they account for the complementary and competitive roles of advertising. Analysis of the obtained equilibrium Markov strategies shows that the relationship between advertising and pricing decisions in the channel depends mainly on the nature of the advertising effects. In particular, the manufacturer reacts to higher competitive retailer’s advertising levels by offering price concessions and limiting his advertising expenditures. The retailer’s optimal reaction to competitive advertising effects in the channel depends on two factors: (1) the price competition level between the store and the national brands and (2) the strength of the competitive advertising effects. For example, in case of intense price competition between the two brands combined with a strong manufacturer’s competitive advertising effect, the retailer should lower both the store and the national brands’ prices as a reaction to higher manufacturer’s advertising levels. For the retailer, the main advantage from boosting his competitive advertising investments seems to be driven by increased revenues from the private label. The retailer should however limit his investments in advertising if the latter generates considerable competitive effects on the national brand’s sales.
Chen and Bell (2008) addressed the simultaneous determination of price and inventory replenishment when customers return product to the firm. The researchers examined cases when the quantity of returned product is a function of both the quantity sold and the price, in single and multi-period problems, with and without uncertainty in demand. They derived results for optimal prices and order quantities and discuss how the firm should change price and inventory quantities in order to mitigate the negative effects of returns from customers.

Karlık (2008), through his research “An artificial neural networks approach on automobile pricing” aimed to find an automobile pricing model using artificial neural networks (ANN). As commonly known, pricing is a difficult matter for both automobile manufacturers and buyers/sellers. Developing a neural networks based on the technical properties of automobiles will allow both groups to price autos with great ease. However, in this study there are two basic assumptions. The first is that supply and demand are in equilibrium and they have no positive or negative effect on pricing. They described how the price and availability of goods and services are related to consumer demand in competitive markets in the Law of supply and demand. The second is that their data set represents the whole market since they will determine market prices of other automobiles according to the network that is trained by this dataset. Proposed novel model estimates prices of automobiles on a stable market from their technical and physical properties.

Magnini (2008) found that national culture an influence on the price empowerment decision. This study titled “The influence of national culture on the strategic use of salesperson pricing authority: A cross-country” showed that at some hotel properties individual catering sales managers are empowered with the authority to make price adjustments, but at other properties they must ascertain the permission before adjusting prices. This research collected and analyzed data from 392 hotels in 28 countries and found that national culture has an influence on the price empowerment decision. Specifically, catering sales managers are more likely to be granted pricing authority in: (1) individualistic societies than in collective societies; (2) low power distance cultures than in high power distance cultures; and (3) low uncertainty avoidance societies than in high uncertainty avoidance societies.
2.16 Conclusion

Fulfilling consumers’ needs and desires are essential for business success. The activities of an automobile manufacturer have to be orientated towards the expectations and satisfaction of customers. Nowadays, needs like functionality, comfort, safety, reliability, as well as a high level of quality, are taken for granted. Design, material quality and their perception, reflected for example in visual, haptic, smell, as well as acoustic senses are important factors in relating to a vehicle and therein its enjoyment. Besides correct material selection, surface treatment, for example for decorative or functional reasons, has become increasingly important. Selected examples demonstrate current and future surface treatment methods in automotive engineering. Development related applications together with their advantages and disadvantages are discussed.

In a hierarchically structured market, marketing activities of a product may affect not only the performances of competitive products in the same product category but also that of products in other competing categories. In the automobile industry, advertising for mid-size cars may affect not only the sales of other mid-size cars but also that of full-size cars and compact cars. To make effective marketing decisions in such hierarchically structured markets, marketers should consider competitive effects of marketing activities between competing product categories as well as those within the product category. For example, a retailer making the location decision of a new outlet should take the impact of other competing shopping malls into consideration as well as that of competing outlets in the same shopping mall. Market structuring studies typically have focused on identifying the hierarchical structure in the market by grouping most similar or substitutable products into the same subcategories. The automobiles classified in the same category are likely to show more intensive competitive reactions to marketing activities of a product in the category compared to those classified in other subcategories. Analysis of the competitive market structure gives significant insights into positioning of new products and development of competitive marketing strategies. It helps automobile manufacturers reduce negative effects of cannibalization. In addition, it can help marketers save marketing budget by helping them allocate the budget more efficiently.

Many researchers incorporated competitive elements in their marketing decision models. Roberts and Samuelson (1988) reported an empirical study on
dynamic nonprime competition in an oligopoly market. Erickson (1995) used a
dynamic model of oligopolistic advertising competition where competitors were
assumed to make a series of single-period advertising decisions with salvage values
attached to the achieved sales in each period. However, these advertising competition
models do not incorporate the competitive effects in hierarchically structured markets.
In India, the process of economic reforms started in 1983, which was followed by
fierce liberalization in 1991. The Indian market was opened up for foreign firms and
Indian organizations were allowed to compete in the overseas markets with local and
multinational organizations. In the wake of globalization of trade, commerce and
industry, and liberalization of economies of the various countries of the world, it has
become mandatory for all the players to have a sound technology base, without which
accomplishing operational and strategic goals would become not only uneconomical
but almost impossible. The increasingly demanding global business environment calls
for a separate management function which looks after corporate interests on the
technology front.

Competitiveness of an organization can be assessed from various parameters,
the most important of them being technological innovations and breakthroughs which
the organizations realize or has the potential to realize over a period of time. It may be
difficult to measure the impact of adopting an innovation or rejecting the same, but
over a period of time overall financial and marketing results can definitely help in
drawing conclusions regarding technology-based decisions. Technological changes
and decisions to adapt to changes in the environment can make or break an
organization. Examples of the significant impact of commercializing a technology on
the overall performance of the organization are numerous, from the invention of the
steam engine to intelligent cars. In the changing global scenario, those organizations
that integrate technology related decisions into business strategies have considerably
improved their chances of reaping benefits from technological innovations. There is
always an element of risk associated with adoption of a new technology. This
indicates that technological innovations cannot be adopted without prior analysis in
context to a particular organization. Technology involves moderate to high
investments, and it also has an effective lifetime, after which the same technology
may not remain commercially viable and hence, needs either upgrading or total
replacement. Under the circumstances, where total replacement is called for, the
previous technology which was in use must generate enough revenues so that the
investment for the new one may be either totally or partly funded for operations.
Branding has been thought of as a solution to problems between a brand name
manufacturer and its dealers. Thus, branding can help overcome obstacles that make it
difficult for a company to successfully create and establish a brand name. For
instance, branding may reduce the coordination problems associated with centralized
corporate management. But are all franchises successful at offering the benefits of a
brand name product? The observation at the heart of this question is commonplace—
companies that are franchised and those that are not often compete and coexist side by
side. Although the scene is familiar, it is disconcerting to entrepreneurs and
economists alike. To entrepreneurs who may be considering the option of branding,
the observation suggests that not all franchise contracts are the same. Some types of
franchise contracts may work better than others at establishing and maintaining a
brand name. In a competitive environment, the prices of two competing suppliers
could differ if the automobiles produced are differentiated. As long as the automobile
industry offers consumers an important set of benefits above that of a generic
supplier, the price charged by a car manufacturer is likely to be higher than that
charged by independent firms. The amount of the price differential is therefore one
measure of the magnitude of the benefits offered by the automobile.