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CONSUMER TRUST AND PRODUCT LOYALTY

M.J. Alhabeeb, University of Massachusetts
mja@resecon.umass.edu

ABSTRACT

Using a multidimensional conceptualization, and drawing on previous theoretical frameworks, this study identifies the dynamic relationships between consumer trust and product loyalty, and explores the mechanism, by which consumer trust and product loyalty are formed. It further examines the nature and direction of the chain of effects among the different constructs related to consumer trust and loyalty and their links in the context of the core relationship between consumers and firms from the production to consumption, and back to production again.

INTRODUCTION

The conventional wisdom for marketers and consumer economists has, for long, dictated that the core attention by both firms and consumers must be given to the "product" and to whatever constitutes and maintains the product goodness. The underlying assumption has been that product quality and its service characteristics would naturally pave the way to consumer's heart, bringing about his satisfaction, and gaining his loyalty. Recent theoretical and empirical evidence have been documenting that the consumer-firm relationship can be as powerful as the characteristics of the product in the formation of both consumer satisfaction and loyalty. The focus here is on how the links switch and extend from product-consumer-firm to consumer-firm-product, where the latter forms a circle in which the relationship of firms to consumers becomes an intermediary to either help attract the consumer to the product, or turn him off and cause the rejection of the product. In this scenario, a significant portion of the formulation of consumer satisfaction/dissatisfaction can take place even before the start of product consumption. The first consumer-firm link has been referred to as "consumer trust", the significance of which has been well documented in several theoretical and empirical studies. In their study on the Internet business, Reichheld and Schefter (2000) emphasize that gaining consumer loyalty to the business has to come through gaining his trust in the business first. Urban, Sultan and Qualls (2000) suggest that consumer trust is crucial not only in building a stronger customer-firm connection but also in forming a sustainable market share. Other studies described consumer trust as a pivotal cornerstone and a key factor in the establishment of the relational commitment between firm and consumers (Garbarino and Johnson (1999); Tax, Brown and Chandrashekaran (1998); Nooteboom, Berger, and Noorderhaven (1997); Gundlach and Murphy (1993); and Spekman (1988). Other studies such as Berry (1996) went further to declare that consumer trust represents "the single most powerful marketing tool available to a company" today (p.42).

While the significance of consumer trust in a firm and the direction of its consequences on buying the product, satisfaction, and consumer loyalty have been well recognized, the firm's behavior, practice, and policies which can build or deplete consumer trust, and the mechanism by which these practices and policies contribute to either consumer trust enhancement or depletion, have not been well examined, according to Sirdeshmukh, Singh, and Sabol (2002) who suggested a framework to fill such a gap in the understanding of the factors that might explain the orientation of the trust toward either strengthening or weakening the consumer-firm relationships.

THE BI-DIRECTIONAL CONSUMER TRUST

A viable consumer-firm link cannot be established unilaterally. For each side, the link has to extend based on certain feedback from the opposite side, where a consumer cannot offer his trust to a firm that does not contribute into the building of the bridges on which consumer trust would advance. To identify the nature of the two different directions in the way consumer trust operates, two constructs, trust and trustworthiness have to be distinguished. Drawing on consumer behavior literature and diverse social research (Sorrentino et al. 1995; Morgan and Hunt 1994; Moorman, Deshpande, and Zaltman 1993, and Deutsch 1958), Sirdeshmukh, Singh, and Sabol (2002) propose a conceptual model in which they draw the line between these two constructs, separate their orientations, and clarify their make-up. They move from the typical definition of trust in the literature as a behavioral term referring to the "willingness to rely on an exchange partner in whom one has confidence (Mayer, Davis, and Shoorman 1995; Ganesan 1994; Moorman. Zaltman, and Deshpande, 1992) to a cognitive and evaluative concept reflecting the "extent of confidence in the exchange partner's reliability and integrity (Doney and Cannon 1997; Morgan and Hunt 1994). They define consumer trust as "the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promises" (p.17). Because they adopt the notion of consumer satisfaction as multifaceted construct of service, where a satisfaction can be registered at three stages: with the contact person, at the core service, and with the firm as a whole (Doney and Cannon 1997; Crosby and Stevens 1987), Sirdeshmukh, Singh, and sabol posit that the second direction of the consumer-firm link refers to the firm's trustworthiness, which is hypothesized to "develop around two distinct facets: the frontline employees (FLEs), and the management policies and practices (MPPs) that indicate a motivation to safeguard customer interests" (p.17). Trustworthiness here is structured as three-dimensional construct that includes: operational competence, operational benevolence (Smith and Barclay 1997; Ganesan 1994), and problem-solving orientation (Sirdeshmukh, Singh, and Sabol, 2002).

Operational competence in this model is distinguished from competence in general. While competence refers to a static stock of one's human capital characteristics such as knowledge, skills, and adaptability, operational competence refers to the dynamic aspect of those characteristics, where "service in action" means putting that knowledge and skill into practice to serve customers. A knowledgeable clerk who would not help cannot impress any consumer, nor can he gain any consumer trust. Empirical studies such as Doney and Cannon (1997) supported the validity of the concept of operational competence. They found that a utilized expertise of a salesperson could be a major predictor of the consumer trust.

In a parallel logic, operational kindness and generosity is indicated by the actual "behavior that reflects an underlying motivation to place the consumer's interest ahead of self-interest" (p.18). This implies that possessing kindness and generosity alone would not bring about consumer trust unless such kindness and generosity by a company or any of its agents are utilized to unequivocally advance consumer interest to the forefront. Sako (1992) called this dimension "goodwill trust", and other studies (Ganesan and Hess 1997; Morgan and Hunt 1994; and Barber 1983) explain that operational benevolence should also include the firm's willingness to assume fiduciary responsibility, if needed, in addition to restraining from self-serving approaches in order to demonstrate the ultimate customer service.

The third dimension of trustworthiness is the problem-solving orientation, which is best justified by Hart, Heskett and Sasser (1990) who suggest that all customer problems, including those for which the firm cannot be blamed, represent valuable opportunities for firms to prove their commitment to service and build consumer trust. Sirdeshmukh, Singh, and Sabol (2002) define problem-solving orientation as the "consumer evaluation of the frontline employees and management motivations to anticipate and satisfactorily resolve problems that may arise during and after a service exchange" (p.18). Graham and Mintu-Wimsatt (1998) further describe this dimension

as to exhibit the firm's behavior that is cooperative, integrative, needs-focused, and information-exchange oriented, and Zeithaml and Bitner (2000) spelled out the tasks, which constitutes the problem-solving approach as "hearing the customer's problem, taking initiatives, identifying solutions, and improvising (p.179). Empirical findings by Tax, Brown, and Chandrashekaran (1998) suggest that consumer trust in the service organization is directly and strongly influenced by first-time customers' dissatisfaction with problem handling.

THE TRUST-LOYALTY LINK

Although the term of consumer loyalty is "conceptual in nature" (Engel and Blackwell, 1982), sizable research has been operationalizing and testing this concept. The operational dimensions may include brand-choice sequences, preferences over time, and proportion of purchases. Day (1969) distinguishes between intentional and spurious loyalty based on consumer attachment to brand attributes and their propensity to switch to an alternative brand. He stipulates that frequent brand buying alone would not qualify for consumer loyalty unless the consumer continue to hold a favorable attitude toward that brand. Engel and Blackwell's extended definition states that " loyalty is the preferential attitudinal and behavioral response toward one or more brands in a product category expressed over a period of time by a consumer" (p.570). Jacoby and colleagues (1971, 1973, 1978) ushered a historical debate among researchers on the distinction between loyalty and simple repeat purchases. Jacoby and Kyner (1973) present a definition of loyalty, which implies what they described as "a set of six necessary and collectively sufficient conditions". Loyalty, based on these conditions, is defined as " the biased (1) behavioral response(2) expressed over time(3) by some decision-making unit(4) with respect to one or more alternative brands out of a set of such brands(5) and is a function of psychological and evaluative decision-making process(6) (p.2). Looking from a slightly different perspective, other studies (Oliver, 1999; Assael, 1998; Aaker, 1991; Jacoby and Chestnut,1978; Day, 1969; Tucker, 1964) emphasize the two different aspects of loyalty: The behavioral (purchase) loyalty, which results in repeated purchases, and the attitudinal loyalty, which results in a dispositional commitment to a brand and associates a unique value to it. Oliver (1999) emphasizes these two aspects by defining loyalty as "a deeply held commitment to rebuy or repatronisze a preferred product consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior"(p.34).

As far as the relation to consumer trust is concerned, consumer loyalty, according to Sirdeshmukh, Singh, and Sabol (2002) and Zeithaml, Berry, and Parasuraman (1996), is indicated by "an intention to perform a diverse set of behaviors that signal a motivation to maintain a relationship with the focal firm, including allocating a higher share of wallet to the specific service provider, engaging in positive word of mouth, and repeat purchasing". Chaudhuri and Holbrook (2001) empirically tested the effects of the two aspects of loyalty. Their findings indicate that consumer trust leads to both types of loyalty, where behavioral loyalty results in repeated purchases, and consequently greater market share for the company, while attitudinal loyalty results in consumer commitment to the product allowing a higher relative price for the brand. In their empirical test of the chain of effects from consumer trust to consumer loyalty, Sirdeshmukh, Singh, and Sabol (2002) suggest an alternative mechanism in which "value" mediates the effect of trust on loyalty. They adopted Zeithaml's (1988) definition of value, which considers the consumer's net benefit, derived out of his consumer-firm relationship. This definition states that value refers to the "consumer's perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider"(p.21). This value, therefore, becomes a central objective for both consumers and firms. Consumers naturally seek utility maximization, and firms submit that contributing to the creation of a positive value for consumers would establish consumer trust, which leads to loyalty. According to Kotler (2000), consumers as value-maximizers are thought to consummate exchanges with

product suppliers who provide maximal value, which makes customer value as the fundamental basis for all marketing activities (Holbrook, 1994). Figure 1 shows two sequences of effects: the traditional sequence of product-consumer-firm in the upper panel, and the modified sequence of consumer-firm-product in the lower panel. Here, firms display their trustworthiness to consumers through two channels, FLEs and MPPs, which creates a counter effect of consumer trust. Depending on the context of worthiness and consumer perception, consumer trust can be positive or negative (distrust), but only through a positive value can consumer be loyal to the product, which in turn, and combined with the firm behavior yield satisfaction to consumers.

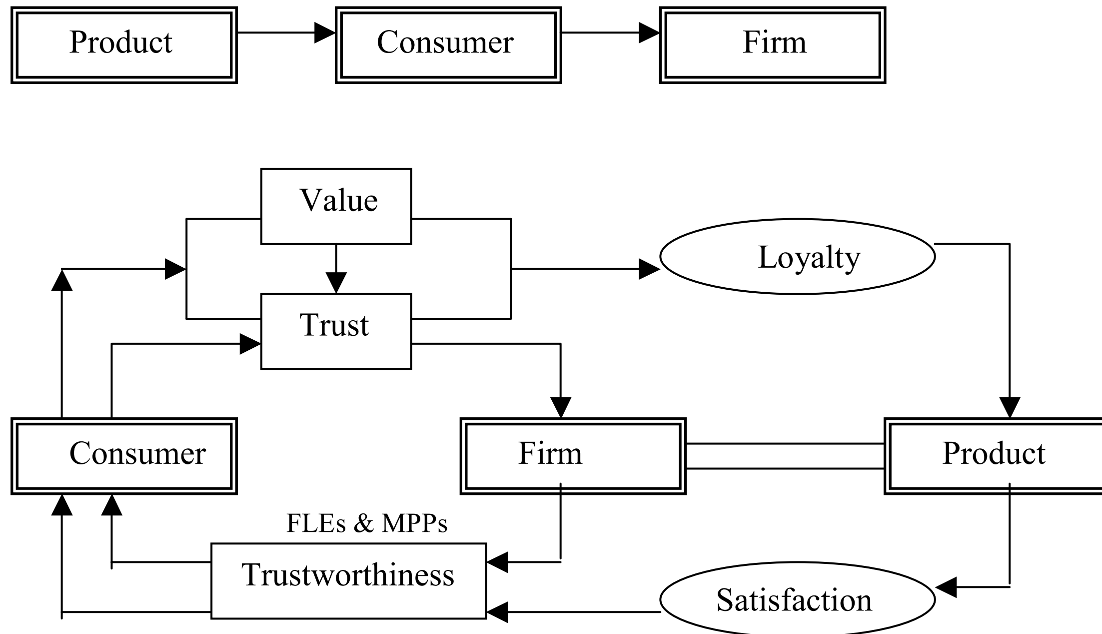

Figure 1. A Conceptual model of the Interrelationships among Consumers and Firms, where Consumer Trust is transformed to Product Loyalty.

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MATRIXING YOUR WAY TO HIGHER SALEFORCE PERFORMANCE: DIAGNOSTIC MODELING OF PERFORMANCE ASSESSMENT

Paul Allen, Mississippi State University – Meridian
pallen@meridian.msstate.edu
Jack E. Tucci, Mississippi State University – Meridian
jtucci@meridian.msstate.edu

ABSTRACT

As more pressure is placed on sales personnel to deliver the goods, sales managers are continually seeking new ways to assess performance. This paper explores sales force performance by linking three key variables as identified in the literature as essential for high performance. The three variables, Ability, Motivation, and Satisfaction are essential elements for continued success. When these three variables are placed in a two tiered two-by- two matrix, a sales manager can more conveniently identify strong and week areas in performance. This paper offers suggested remedies for several of the sixteen possible situations sales personnel might find themselves lacking. Suggestions are also given on how to enhance performance.

ROLE PORTRAYAL IN AGRICULTURAL ADVERTISING: DO ROLES MATCH TARGET MARKET PROFILES?

Christie H. Amato, University of North Carolina, Charlotte
chamato@email.uncc.edu
Louis H. Amato, University of North Carolina, Charlotte
ltamato@email.uncc.edu

ABSTRACT

The agricultural industry is undergoing a transition from the stereotypical white, male farmer to a more diverse farming population. The 2002 Census of Agriculture, for example, reports that there are 797,947 women farm operators (27 percent of farm operators), 36,370 African American farm operators (1.2 percent of farm operators) and 66,589 Spanish, Hispanic or Latinos farm operators (2.2 percent of farm operators). Moreover, these groups have much higher growth rates than do white male farm operators.

Advertisers, however, have been slow to focus advertising campaigns on these emerging market segments within the agricultural industry. While authors such as Bhattacharya and Sen (2003) find that buyers are influenced by promotions where the company's identity is perceived to be similar to their own, agricultural product advertisers continue to use stereotypical white male models in advertising. This research used content analyzes to evaluate the number, role and situation of minorities and women in advertisements appearing in Progressive Farmer magazine for a ten-year period from 1993 to 2003. Of the 295 advertisements appearing during the ten year period, only 26 contained women and only 12 contained minorities. Managerial recommendations are provided.

THE EFFECTS OF AGE AND RELIABILITY ON PRICE IN THE USED CAR MARKET: A TEST OF PROSPECT THEORY AND MULTIPLE REFERENCE POINTS

Stephen C. Betts, William Paterson University
bettss@wpunj.edu
Zinaida Taran, St. John Fisher College
ztaran@sjfc.edu

ABSTRACT

Prospect theory (Kahneman & Tversky, 1979) suggests that consumers compare decision criteria against a reference point when evaluating alternatives. It further posits that consumers are risk seeking for losses (below the reference point) and risk-averse for gains (above the reference point). In this paper we investigate whether consumers behave according to prospect theory in the used car market. We further consider that consumers use available classification schemes and establish separate reference points within each different class of the same product. In this case we test the idea that consumers compare reliability of automobiles using reference points based on age. We find empirical support for the prospect theory predictions that consumers are risk seeking when the reliability of a specific brand/model of a car is below the average for the age category and risk averse when the reliability is above average. The paper concludes with suggestions for alternative reference categories and a discussion of implications for academics and practitioners.

PROSPECT THEORY

Nobel-winning prospect theory (Kahneman and Tversky, 1979) is one of the most influential theories of decision-making. It was developed to explain instances where the traditional expected utility theory failed to explain people's choices. It can be briefly summarized as follows: people 'code' the outcomes of various prospects (alternative outcomes) as either gains or losses relative to some reference point. Then they weigh the resulting gains and/or losses by their subjective probabilities. When weighing the outcomes, they weight gains differently from losses, acting risk-seeking for losses, and risk-averse for gains. Tversky and Kahneman (1986) also observed what they referred to as a "strong distaste for losses", when people derive more disutility from a loss than they derive utility from an equivalent amount of gain.

Prospect theory is utilized in finance, economics, management, decision theory and political science and many more disciplines, including marketing. People's decisions involving money (prices, discounts, coupon promotions, advertising, monetary incentives, product bundling (Stremersch & Tellis, 2002: Johnson, Herrmann, & Bauer, 1999) have been frequent applications of the prospect theory in marketing. Somewhat less frequently, prospect theory was applied to decisions regarding time (Mowen & Mowen 1991) and very rarely to quality (Ong, 1994).

Most empirical research involving the prospect theory relies on designed laboratory experiments (Salminen & Wallenius, 1993), with some studies based on panel data (Mayhew & Winer, 1992). Such reliance on experimental data raises concerns related to external validity (generalizability) of the findings. There have been a great many such experiments however, and they have shown strong support for the basic tenets of prospect theory.

PROSPECT THEORY AND QUALITY

While prospect theory has been widely applied to decision-making situations regarding money and time, it has not found much application to quality (Betts & Taran, 2003; Ong, 1994). Yet quality is one of the major characteristics of the products that impacts customer choices (Kotler 1997).The overall quality of the product may be approached as the aggregate of the quality of each attribute.

For each attribute, there is a level of quality that is considered 'fair', 'average', - a level that serves as a reference point. Relative to that level of quality, the quality of a particular product is either a gain or loss. As long as there is an expectation of performance relative to the reference point, it is not essential for the attribute to be directly observable. The notion of reference effects in quantified quality comparisons is supported by research. (Ong, 1994).

Applying prospect theory to the effects of quality remains an underdeveloped area (Ong, 1994; Liu, 1998), despite all the support in favor of doing so. The general difficulty of operationalizing and quantifying quality is the biggest stumbling block on the way to successful application of prospect theory to it (Ong, 1994).

THE USED CAR MARKET

We narrow the focus of our research to expensive durable goods which retain their value over time and allow for a resale market. In particular, our empirical research relies on the used car market. Unlike the largely oligopolistic market for the new cars, dominated by few strategizing corporations, the market for used cars has many individual buyers and sellers. With none of the players able to affect the price, the used durable goods market is close to pure competition. Thus, prices on used automobiles can be considered as manifestation of the utility placed on them by the buyer.

Since purchasing a car is usually a high involvement decision, consumers are seeking and using information related to automobiles. This demand for information is met with extensive supply, becoming ever easier to use and providing richer data with the advance of the Internet. Consumers base their judgments regarding car prices on this widely available information. We believe that they arrive to these judgments relying on decision-making mechanisms in line with the prospect theory.

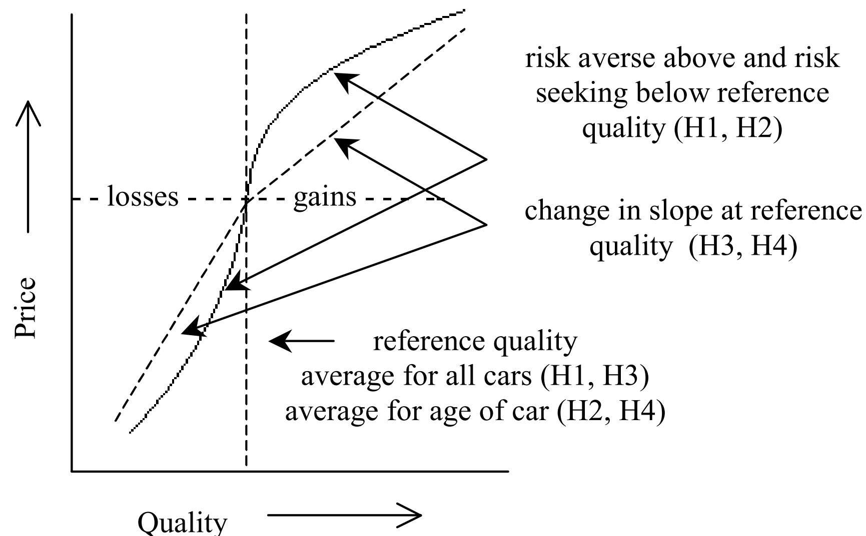
The abundance of information in the used car market makes it possible to study consumer decision making regarding quality in light of the predictions of the prospect theory. While largely unavailable in other product categories, there is a well developed set of quality information in the used car market publicized for more than half a century. Over the years, the ratings and other data related to used cars have served as a powerful external reference tool and developed into a true reflection of consumer metrics.

THEORY AND HYPOTHESES

In line with the prospect theory, we postulate that the used car buyer compares the quality rating of a specific car with a reference quality rating. To be able to operationalize our theory further and test it empirically, we need to choose that reference point for the quality ratings.

First we consider that there is a general perception of what an 'average car' is. In this case, there is a single reference point across all cars, and the 'average car' is a standard reference car. An alternative idea is that cars are compared to each other only within their own age group. The notion of an age reference point seems particularly appealing, since any car classification known to consumers always features the age as the most prominent classification characteristic. For example, reliability tables in Consumer Reports and other reference guides always break the information down by age.

Figure 1 - Prospect Theory Effect of Quality on Price



The first two hypotheses are related to people's evaluation of the car's utility relative to a reference point in accordance with the prospect theory. In situations where the quality rating of a specific car is higher than the reference rating, since people are risk-averse for gains, the incremental utility of the gain due to higher quality decreases the further from the reference point. On the contrary, in a situation where the quality rating of a specific car is lower than the reference rating, since people are risk-seeking for losses, the incremental (dis)utility of the loss due to lower quality increases the further from the reference point. This is a curvilinear relationship illustrated in Figure 1. Hypothesis 1 is based on the assumption of the 'average car', single reference point for all cars.

> Hypothesis 1 - quality will have a decreasingly positive effect on price for cars w/ quality rating above average for all cars and an increasingly positive effect on price for cars w/ quality rating below average for all cars

The second hypothesis is based on the assumption of an age-specific reference point, whereby cars are compared to the average within a certain year of production.

> Hypothesis 2 - quality will have a decreasingly positive effect on price for cars w/ quality rating above average for its year and an increasingly positive effect on price for cars w/ quality rating below average for its year

Hypotheses 3 and 4 refer to the 'distaste for losses' discussed above with regards to average and age reference points, illustrated by the change of slope above the reference point in Figure 1.

> Hypothesis 3- The increase in the relationship between quality and price when quality rating is below average for all cars is greater than the decrease in the same relationship when quality rating is above average for all cars.

> Hypothesis 4- The increase in the relationship between quality and price when quality rating is below average for the car's year is greater than the decrease in the same relationship when quality rating is above average for its year.

We expect, for each hypothesis 1-4, to have additional covariate relationships in as much as more expensive used cars tend to produce more expensive used cars, and so do bigger cars.

METHODS

We used information on used car prices and other pertinent characteristics available in the public sources. Information on passenger cars of 17 makes from 1993 to 1999 was obtained from Kelley Blue Book (Kelley, 2002), Consumer Reports (2001), and Edmunds (2002). "Private-party price" as reported by Kelley Blue Book (Kelley, 2002), was chosen as the indicator of the used car's price and was used as the dependent variable. We used wheelbase to be the indicator of size. The price of a new vehicle produced in 2001 comparable to the used vehicle was as reported by Edmunds (2002). We obtained reliability rating on 14 "trouble spots" for each car from the Consumer Reports (2001) and combined them to create a reliability scale with an alpha reliability of 0.927 (Chronbach, 1951).

Age reliability was computed as the average reliability of all the passenger cars for a given year, across all the brands and models of cars produced in that year. Deviation of the car's reliability from the average for all cars reliability was computed for testing hypotheses 1 and 3, and deviations of the car's reliability from the age reliability was computed for testing hypotheses 2 and 4. To approximate the nonlinear dependency between quality and price depicted in Figure 1, transformation using cubic root of these deviations was suggested.

To analyze the data, we used regression analysis. Since we are expecting the model to be shifting the slope past reference points, we have included an interaction effect with the sign of the transformed deviation from the reference point (the cubic root of the deviation). Two model sets were employed: model set 1 testing hypotheses 1 and 3, and model set 2 testing hypotheses 2 and 4. We added the curve term and the shift in slope term sequentially after first adding the price new and wheelbase into the equation.

ANALYSIS AND RESULTS

First, the interrelationships among the variables have been assessed (See Table 1.)

Table 1.
Correlation coefficients and descriptive statistics.

		mean	SD	1	2	3	4	5	6
1	Price used	10674.7	6819.7						
2	Price new	23373.6	9903.5	0.72					
3	Wheelbase	106.66	5.148	0.188	0.508				
4	Age	5.277	2.151	-0.542	-0.063	-0.041			
5	Reliability	51.79	10.44	0.472	0.043	-0.084	0.695		
6	Curve term with mean as reference	0.107	2.005	0.431	0.021	-0.074	-0.705	0.95	
7	Curve term with age as reference	0.041	1.673	0.106	0.008	-0.118	-0.042	0.624	0.613

** Correlation larger than .188 is significant at the 0.01 level (2-tailed).
* Correlation larger than .106 is significant at the 0.05 level (2-tailed).

According to the results of partial F-test for nested models, adding every variable significantly improves the model fit in both cases, with model set 1 (hypotheses 1 and 3), and model set 2 (hypotheses 2 and 4). Table 2 presents the regression coefficients for the model set 1, and Table 3 for the model set 2. Every variable is significant in both cases, and both the curve term and the shift in slope term have appropriate signs

Table 2. Coefficients for Model set 1

#	Variable	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	24084.14	4267.404		5.644	0
2	Price new	0.564	0.022	0.819	25.735	0
3	Wheelbase	-268.347	42.24	-0.203	-6.353	0
4	Curve term with mean as ref	2355.102	366.363	0.692	6.428	0
5	Slope change term	-1950.72	694.452	-0.303	-2.809	0.005

Dependent Variable: Private Party Used Price; R-Square 0.725

However, the average across cars reference point leads to the R-square of 0.725, while the R-square for the model relying on the age average is 0.575

Table 5. Coefficients for Model set 2

#	Variable	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	33363.47	5489.928		6.077	0
2	Price new	0.579	0.027	0.841	21.307	0
3	Wheelbase	-329.92	53.459	-0.249	-6.171	0
4	Curve term by Age	971.913	277.116	0.238	3.507	0.001
5	Slope shift	-1480.173	524.093	-0.195	-2.824	0.005

Dependent Variable: Private Party Used Price R-square 0.575

Thus, our hypotheses are supported. Additionally, ‘average car’ reference point is superior to age-specific reference point.

CONCLUSIONS

We have empirically shown that consumers behave according to the prediction of the prospect theory when it comes to forming judgments based on the reliability of used vehicles in the used car market. We have further shown that consumers rely on all the cars rather than particular age groups. Further research can extend the vehicle research by using brands as a classification characteristic for reference quality.

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provided upon request

REACHING UNDERSERVED BORROWER PROSPECTS: A CASE OF A SMALL RURAL BANK

Alice Ann Chester, The University of Tennessee at Martin
Timothy C. Johnston, The University of Tennessee at Martin
Teresa Brundige, Banker
Tom Payne, The University of Tennessee at Martin
johnston@utm.edu

ABSTRACT

Banks want to serve all members of their market, to meet government regulations as well as to follow company policy. This paper describes a case study of the efforts of a small rural bank to develop a marketing plan to target potential borrowers in underserved groups. This paper illustrates the difficulty for a small, rural bank to diversify its borrower base, and presents some efforts that a bank can take to pursue its goal of serving all members of its community.

INTRODUCTION

Banks want to serve all members of their communities. One reason is to fulfill their charter as a community bank. Another reason is to follow corporate policies that direct managers to reach out to all members of society. The goal to serve the entire community sometimes leads banks to make special efforts to reach "underserved" people. Underserved can be defined as people who use financial services at a rate lower than their proportion in the market population. Underserved can also mean a group of people whose rate of borrowing, for example, is lower than the rate of other groups in the market. Underserved groups can be identified by income, gender, race, geography or other factors.

A study by the Association of Community Organizations for Reform Now (ACORN, 2003) found that (1) African-American applicants for conventional home purchase loans were two and one third times more likely to be turned down than white applicants, and (2) the disparity of denial rates cannot be explained by income, among other findings. ACORN concluded that "traditional lending institutions continue to fail to adequately serve low and moderate-income communities of all races."

This paper discusses a bank located in a rural Tennessee market, for which data is not as readily available as for urban markets. For example, for conventional home purchase loan applications in the Memphis metropolitan area the denial rate for African-Americans in 2003 was 24.8% as compared to the White denial rate of 11.3%, for a disparity ratio of 2.2. The disparity ratio for Latinos was 1.8. Banks report these data under the Home Mortgage Development Act (HMDA) (ACORN, 2003).

The ACORN study made several recommendations, including one that "lenders should be more active in making good loans in minority and low-income communities." They suggest that lenders remove discrimination from their lending and outreach practices, and expand their partnerships with community-based organizations to make home purchase credit more available (p. 51). This paper describes a case study of the efforts of a small rural bank to develop a marketing plan to target potential borrowers in underserved groups.

LITERATURE REVIEW

Small, rural banks have unique problems in managing their loan portfolios, when compared to large banks. According to Clark (1992), "small rural banks have limited access to sources of funding and limited opportunities to lend outside their immediate communities." Many large banks have branched within their home states and between states, but many small banks have stayed true to their geographic roots. According to Meyer & Yeager (2001), "thousands of small banks with geographically concentrated offices remain and are likely to exist for some time. Some argue that small banks have a comparative advantage over large banks in small-business lending for which little public information about the borrower's creditworthiness is available. This advantage arises because small banks can originate and monitor relationship loans at a lower cost than larger banks."

The close relationships between a bank and its local market borrowers are an advantage and a disadvantage. It is an advantage because a bank with a deep knowledge of its market can make higher-quality loans. It can be a disadvantage because a bank can become focused on a narrowly defined, limited and possibly homogeneous market.

Small-towns banks that are part of a large corporation are faced with meeting both large-bank requirements and the needs of its customers in the community. This can be difficult, because the local market may not have the potential to yield the loan criteria mandated by the corporation to meet its regulatory guidelines. Also, rural lending practices may not dovetail with the parent bank's the reliance on quantitative criteria. According to Meyer & Yeager (2001): "Management at small banks can more easily monitor loan offices; consequently small banks are better able to develop the community relationships necessary to underwrite small business loans." To contain costs, "larger banks often prefer to lend to customers for which credit information is more readily available. Consequently, community banks are likely to continue engaging in small-business lending where assessments of credit quality rely heavily on intangibles." In other words, a large parent bank's insistence on a quantitatively diverse borrower base may not consider the small bank lender's reliance on personal relationships and the makeup and condition of the local market.

The performance of rural banks may be tied with the condition of the local market. According to Meyer & Yeager (2001) the association between local economic activity and bank performance "is more likely to be evident in the data for small banks with offices in rural areas than for other banks." They argue that this correlation is possible because "rural banks tend to lend to a relatively high percentage of firms and residents in their own counties" as compared to urban banks. Meyer & Yeager analyzed the performance of small, independent rural banks in the Federal Reserve's Eighth District with county economic data in their respective markets. They concluded, "Geographical concentration is not a significant risk factor (and) that bank performance is not significantly correlated with county economic data," but cautioned that the lack of evidence of this relationship could be due to "noisy" (error-prone) county economic data. In summary, the impact of local economic conditions on the performance of rural banks is a cause for concern and continued research. One expects the health of a bank to reflect the economic health of its market. By the same token, on expects a bank's borrower base to be a mirror of its market. A small rural bank may not have the opportunities to change its loan portfolio or borrower base that are available to a bank in a larger urban or multi-branch environment. "A bank's location significantly influences its choice of borrowers because monitoring costs increase as the distance between lender and borrower increases. Hence, banks tend to make loans to the people and businesses that are geographically nearby" (Meyer & Yeager, 2001).

This paper describes the efforts of a small, rural bank to increase lending to underserved markets. First, market demographic data and publicly available competitor data are used to assess the situation. Next, initial outreach efforts are discussed and evaluated. Finally, future outreach efforts are suggested.

RURAL BANK MARKETING PLAN

What follows is a case study of the efforts of a small rural bank to develop a marketing plan to reach potential borrowers in underserved groups. The Rural Bank (a pseudonym) is an independently managed branch of the $ multi-billion Regional Bank (also a pseudonym) with over 200 locations in several states.

Banks that operate in metropolitan areas, such as Regional Bank, must report their lending activities to HMDA. Branch banks, such as the Rural Bank branch of Regional Bank do not report directly to HMDA. The Rural Bank branch lending activity is reported internally and is compared independently with other local banks. Regional Bank has a corporate policy to make its financial products available to everyone in its markets. The Rural Bank branch performance is measured by a corporate policy to serve customers in proportion to their representation in the market, within a range. Regional Bank examines the diversity of its markets by geography, income, race, and other factors.

There were several goals that Rural Bank management wanted to obtain in this study. First, management wanted to determine the current population size and race composition for the bank's market area. Second, management was interested in loan data of peer group banks in surrounding market areas. Third, management wanted to identify underserved socio-economic groups in the bank's market area and to develop target group prospect lists. A fourth goal was to develop outreach efforts to promote bank financial services to the identified individuals or families. The fifth goal was to plan and deliver educational programs for identified individuals and families. The sixth and seventh goals were to evaluate the outreach efforts, and to develop future plans for delivering information about banking education, products, and services to underserved residents in the market.

Goal 1: The Weakley County Chamber of Commerce provided data from a recent U. S. census (2000) on the population size and race composition for the bank's market area. The five largest communities in the county were: Martin, Dresden, Greenfield Gleason, and Sharon. Whites make up 90% of the total population in Weakley County with blacks about 7% and others less than 3%. The population of the 5 cities in the county ranges from less than 1,000 (Sharon) to more than 10,000 (Martin). The City of Martin is home to both the largest employer in the county, The University of Tennessee at Martin, and the second-largest employer, MTD Products.

Rural Bank also obtained U.S. Census data on Weakley County and the surrounding northwest Tennessee counties of Obion, Henry, and Carroll. The counties have roughly equal populations (from about 30,000 to over 34,000 people) and ethic compositions. Weakley County has the largest population (34,895) and the highest proportion of White (90.3%) and the lowest proportion of Black (6.0%) residents. The "Other" race category makes up a relatively small proportion of the population, with Weakley County reporting the largest percentage at 2.7%, which includes residents of Hispanic heritage.

Data from U. S. Census reports found at the Federal Financial Institutions Examination Council (FFIEC, 2005b) showed more detailed demographic information for the market area by census tract, including median family income, population, minority population and the number of owner-occupied housing units. These data show that the census tract that includes the western split of the City of Martin had the highest percentage of minority residents at over 19%, and also had the largest median family income at $47,318. The tract to the east included part of Martin and had the second largest minority percentage at over 14%. These two tracts contain the City of Martin and The University of Tennessee at Martin.

The census tracts that contained the cities had minority populations that ranged from 3.3% in Gleason to 7.2% in Greenfield. The number of minority residents for the four cities ranged from only 152 to 315 people, and Weakley County was home to 3,577 minorities. In summary, these data show that the bank had a relatively small pool of potential minority borrowers from which to draw.

Goal 2: The second goal was to examine data on peer banks in or near the market area of interest. Data from two banks, referred to as Bank 1 and Bank 2, are presented here (the bank names are not disclosed to maintain privacy). Peer Bank 1 and Peer Bank 2 are similar banks, and competitors with locations in nearby towns.

The bank obtained data on small business loans originated by the banks in Weakley County in 2003, by area income characteristics, loan amount at origination, and the number of loans to businesses with gross annual revenues of less than $1 million. These data are from Community Reinvestment Act (CRA) disclosure statements found at the Federal Financial Institutions Examination Council (FFIEC, 2005a) web site.

Peer Bank 1 originated all of its 37 loans in a middle-income market. A middle-income market has a Median Family Income is between 80% and 120% of the Market Area Median Family Income. The Market Area Median Family Income was $39,800 in 2003. A large majority, 32 loans, was in the smallest loan amount category of less than $100,000. The bank originated four mid-sized loans of between $100,000 and $250,000, and only one loan for greater than $250,000. Most Peer Bank 1 loans were made to small businesses (35 of 37).

Peer Bank 2 originated 48 loans, all in a middle-income market area. A large majority, 40 loans, was also in the smallest loan amount category of less than $100,000. The bank originated two mid-sized loans of between $100,000 and $250,000, and six loans for greater than $250,000. Most loans by Peer Bank 2 were also made to small businesses (41 of 48). These data show that the commercial loan business for the two banks consists of about 35-45 mostly small (less than $100,000) loans made per year to mostly small businesses (less than $1 million annual sales). The market is middle-income, defined by the Census as between 80% and 120% of the median family income. The race of the borrowers is not identified.

FFIEC (2205c) also provided data on the disposition of home loan applications, from bank reports as mandated by the Home Mortgage Disclosure Act, including loan application data for Weakley County in 2003 by type of loan (e.g. FHA, conventional, refinancing, etc.) and the outcome of the application (originated, denied, etc.).

These data show that Peer Bank 1 only originated 14 new home purchase mortgages in 2003, with the balance being loans for refinancing, home improvement, or rental properties. Peer Bank 2 only originated 11 new home loans. The race of the borrowers is not identified. A small loan volume does not provide much opportunity to change the makeup of the borrower base.

Goal 3: The third goal was to identify underserved socio-economic groups and develop prospect lists. This was accomplished by forming target group lists on which Rural Bank could focus its marketing efforts. Weakley County employers, including a manufacturing plant, a repackaging plant, and two nursing homes, reported wages for full time entry-level positions that ranged from $6.00 to $8.25 per hour. Rural Bank 's target group list would consist of individuals from our low to moderate-income group. These community members may not be aware of the financial products available to them.

Goal 4: The fourth goal was to develop outreach efforts to promote bank financial services to target groups. To complete this, a Housing Fair was developed to help families of Weakley County learn more about owning a home and the responsibilities it requires. This event showcased several products tailored to help those with less financial stability than others, such as people in the low-income peer group. These products included the Guaranteed Single Family Housing Loan Program from USDA Rural Development, and conventional fixed-rate and adjustable rate mortgages.

Flyers were developed and distributed to a total of 875 employees of local businesses, nursing homes, and municipalities via individual paycheck stuffers. Posters were distributed to local business and libraries for display. Announcements appeared in four local newspapers for two weeks. The local radio station publicized the event on the air for two and a half weeks leading up to and on the day of the event, including coverage on a popular morning program that reached

Weakley and adjacent counties. The event was promoted to Realtors, loan program specialists, local bankers, and appraisers to reach individuals currently looking for a home.

Goal 5: The fifth goal was to deliver educational programs for target individuals and families. The key event was the Housing Fair, which Rural Bank hosted at the activity center of a local church.

A USDA Rural Development Area Specialist presented the Guaranteed Single Family Housing Loan Program, which helps banks provide loans to individuals and families who might not otherwise qualify for conventional financing. She listed some benefits of the program from both the homeowner and lender's point of view. A bank employee introduced the Rural Bank 's services available through the Mortgage Department. A Rural Bank Loan Officer presented the basic loan services that are available at a community bank. A Marketing Intern presented basic housing cost information that new homeowners might want to consider before purchasing a home, such as city and county taxes, rural fire service, plumbing, winterizing, pest control and electricity costs. Two booklets provided by the Fannie Mae Foundation, "Opening the Door to a Home of Your Own" and "Choosing the Mortgage That's Right for You" were also provided. Additionally, budget worksheet materials were provided to help individuals determine their borrowing capabilities. Representatives from three realty offices were present to describe their services. Childcare was provided and refreshments were served.

Goal 6: The sixth goal was to evaluate the outreach efforts. The Housing Fair organizers were satisfied with the preparations for the event, and with the participation of the presenters. Yet despite the advertising, publicity, and personal contacts the attendance was disappointing. Why didn't more people in the target group attend the event? Possible explanations include: (1) People may have been uncomfortable attending an event sponsored by a bank or discussing a loan with a bank officer; (2) People may have had bad perception of their personal credit history; (3) People may have not had the job or income stability needed to buy a home; (4) People may not have seen the availability of affordable homes in their area; and (5) People may not have been in the market for a home at the time of the event.

Goal 7: The seventh goal was to develop additional plans for promoting bank services to underserved residents. An alternative to the Housing Fair would be visits to prospects' places of employment during working hours, rather than asking people to attend a special event during their time off. Rural Bank plans to offer a "financial literacy" training program to city employees, for example. This program teaches about financial institutions, the services they offer, and the benefits they provide to customers.

CONCLUSION

Banks want to serve all members of their market, to meet government regulations as well as to follow company policy. Small rural banks have some unique problems in meeting goals to broaden their customer base. First, they operate in markets with a small absolute number of potential customers. Reaching underserved customers, who also happen to be in the market for a home, and who are not current customers of another bank, is a challenging task. The Rural Bank case shows that a small bank can find data on its markets. Banks can conduct a good faith marketing effort relatively easily, one that can determine if there is an urgent need for financial products in its market. Beyond that, small banks may find that their business with underserved borrowers may have to be built like their business in general—one loan and one customer relationship at a time.

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DIFFERENTIATED PRICING STRATEGIES FOR SERVICE ORGANIZATIONS WITH HIGH FIXED COSTS

Khalid M. Dubas, Fayetteville State University
kdubas@uncfsu.edu

ABSTRACT

Many organizations incur high fixed costs and their profits fluctuate greatly with small fluctuations in production and sales. Manufacturing organizations can absorb demand fluctuations to some extent by fluctuations in inventory that could be sold at a later time. However, many service organizations cannot separate production from consumption and, therefore, have to manage demand and pricing very carefully for profitable operations. Companies like airlines, hotels, casinos, health clubs, cruse ships, and hospitals are especially vulnerable to fluctuations in their sales and its impact on their profits. Such firms can increase their total revenues and profits by market segmentation and price differentiation. This manuscript analyses market segmentation and price differentiation for service organizations with high fixed costs and makes recommendations to managers. Concepts like consumers' surplus, producers' surplus, price elasticity of demand, operating leverage, auctions, perfectly discriminating monopolist, and types of fences to segment markets are utilized in the analysis and managerial recommendations.

CULTURAL ORIENTATION, SKEPTICISM AND SUSCEPTIBILITY TO POTENTIALLY MISLEADING ADVERTISING CLAIMS

Fuan Li, William Paterson University
lif@wpunj.edu

ABSTRACT

Advertising may leave consumers with an impression and/or belief that is factually untrue or potentially misleading despite the lack of deliberate efforts of deceiving by the advertisers. Of particular interest is how cultural orientations may affect consumers' susceptibility to advertising claims. In an attempt to examine how consumers with different cultural orientations may respond to advertising, the present study suggests that consumers' susceptibility to the influence of potentially misleading advertising messages differ with cultures and the effectiveness of affirmative disclosure as a remedy vary accordingly. Skepticism, as an individual difference factor, and affirmative disclosure, as a remedy for undue advertising, are proposed to interact with cultural influence and, thus, jointly determine consumers' acceptance or rejection of a potentially misleading advertising message.

INTRODUCTION

Previous research reveals that advertising may leave consumers with an impression and/or belief that is factually untrue or potentially misleading despite the lack of deliberate efforts of deceiving by the advertisers (Gardner, 1975). However, such research was mainly conducted in North America and the universality of its findings need to be tested and established across cultures. In recent years, cross-cultural research has drawn considerable attention. We have learned that consumers in diverse cultures may respond to advertising in rather different patterns. For instance, Aaker and Williams (1998) demonstrate that ego-focused versus other-focused emotional appeals lead to more favorable attitudes for members of a collectivist culture, while other-focused versus ego-focused emotional appeals lead to more favorable attitudes for members of an individualist culture. Of particular interest is how cultural orientations may affect consumers' susceptibility to advertising claims that may lead to ad deception. Could previous findings be applied to different cultures? Would people's susceptibility to advertising deception differ across cultures? If cultural orientations affect the susceptibility to deceptive advertising claims, would the effect be moderated by individual factors? Little has been done in answering these questions. In an effort to fill the gap in the literature, the present study attempts to examine how consumers with different cultural orientations may respond differently to advertising claims, especially to those potentially misleading advertisements.

The fundamental premise of the present study is that consumers' susceptibility to the influence of potentially misleading advertising messages differs with cultures. The differences in propensity to trust between individuals in a collectivist culture and those in an individualist culture may influence consumers' susceptibility to advertising. In addition, we examine how skepticism, as an individual difference factor, and affirmative disclosure, as a remedy for undue advertising, may interact with cultural influence and jointly determine consumers' acceptance of a potentially misleading advertising message.

CULTURAL IMPACTS AND AFFIRMATIVE DISCLOSURE

Members of individualist cultures tend to hold an independent view of the self that emphasizes independence, internal attributes, and the uniqueness of individuals. In contrast, members of collectivist culture tend to hold an interdependent view of the self that emphasizes connectedness, social context, and relationship (Adker and Mahaeswaran, 1997). Given the significance of relationships in a collectivist culture, people should have a greater tendency to rely on others than do those who live in an individualist culture. However, current literature also reveals that unlike the individualists who have a relatively universal view of the relationships, collectivists are generally make sharp distinction between the relationship with in-group members and that with out-group members (Triandis, 1988). In-groups are groups of individuals with whom one shares common fate and/or interest, and is willing to cooperate without demanding equitable returns (e.g., family, close friends, political parties, etc.) Relative to individualistic universalism, collectivists tend to trust members of their in-groups more than those in out-groups. In fact, previous studies have revealed that collectivists' social behavior shift with the context and they have a lower propensity to trust outsiders than do people in an individualist culture (Huff & Kelley, 2003). Despite the importance attached to a personal trusting relationship in a collectivist society, people in such a culture tend not to trust others, especially those who are not in-group members. To the extent to which marketing relationship are impersonal and arm-length exchange relationships, and thus, lack of personal basis for trust, collectivist should be less likely to trust marketers. As a result, the tendency to place trust in advertising messages may be lower, thus, leading to a low probability to be influenced by a potentially misleading advertisement. Thus,

Proposition 1. Relative to those who are from an individualist culture, people from a collectivist culture have lower propensity to trust and, consequently, they are less susceptible to potentially misleading advertisement.

Proposition 2. With a high propensity to trust, people from an individualist culture are more susceptible to a potentially misleading advertisement.

FTC's mandate for affirmative disclosure intends to improve the kind and quality of information contained in advertisements so that it will help reduce misperception or undue impressions generated by advertising, and decrease deceptive consequences of potentially misleading advertising messages. If this is the case, people who receive affirmative disclosure should be better able to make informed judgment and less likely to be deceived by a potentially misleading message than those who do not. In addition, the presence of affirmative disclosure may moderate the effect of consumers' susceptibility to potentially misleading ad claims. Affirmative disclosure should have differential impact on people who have different tendency to trust. Specifically, affirmative disclosure may be more helpful to people who have high propensity to trust and are more susceptible to ad influence than to those who have lower propensity to trust. Therefore, Proposition 3. The presence of affirmative disclosure will decrease the probability of deception across cultures.

Proposition 4. Affirmative disclosure may be more effective to people with high propensity to trust than those with low propensity to trust.

SKEPTICISM TOWARD ADVERTISING

Previous research finds that many factors may affect whether a person accepts ad claims, including ad claim believability, ad structure and execution cues, and characteristics of consumers. As for consumer characteristics, it has been shown that one's attitude toward advertising, especially

his/her skepticism (the negatively valenced attitude toward the motives of and claims made by advertisers) has significant impact on persuasion outcomes (Obermiller and Spangenberg, 1998). Skepticism implies that consumers recognize that advertisers have specific motives, such as persuading consumers and that advertisers' communications may be biased and varied in their truthfulness.

There is no doubt that culture affect skepticism since people high in propensity to trust should be less skeptical in general. However, because of the differences in consumer experiences and other types of learning, skepticism is perhaps more of individual differences than a social factor. That is, skepticism should be primarily viewed as an individual difference factor as opposed to social factor such as culture. We argue that in addition to the effect of propensity to trust on consumers' susceptibility to ad claims, the individual differences in skepticism of advertising play an important role in consumers' decision on whether to accept a particular ad message.

Skepticism about advertising is quite common as evidenced in a recent study that about 70% of Americans surveyed (Calfee and Ringold, 1994) approach advertising with skepticism rather than credibility. People who are more skeptical of ad claims are less likely to accept the ad claims, thus, less likely to be deceived by potentially misleading advertisements. Given the moderating role of skepticism in ad message processing (Hardesty, Carlson and Bearden, 2002), we expect skepticism toward advertising to affect consumers' susceptibility and the effectiveness of affirmative disclosure. Therefore,

> Proposition 5. Consumers' skepticism moderates the effect of culture on susceptibility to ad claims. In a culture with high propensity to trust, consumers are more likely to be susceptible to potentially misleading advertising when their skepticism of advertising is low than when it is high.

> Proposition 6. Consumers' skepticism moderates the effect of affirmative disclosure on susceptibility to ad claims. The effect of affirmative disclosure will be greater when consumers' skepticism of advertising is low than when it is high.

CONCLUDING COMMENTS

As the number of the companies marketing across different cultures increases, there exist an increasing need for sensitivity to cultural impacts on various marketing efforts, especially in the area of marketing communications. The present study examines the relationship between cultural orientations, individual skepticism, and consumers' susceptibility to advertising claims. Propositions developed in the present study should help us to understand how consumers in different cultures may responds to advertising efforts in different manners and how they may vary in their susceptibility to potentially misleading advertisements. The proposed interaction between cultures and affirmative disclosure suggests when affirmative disclosure might be more helpful to consumers, which may provide guidance to practitioners for more effective use of information disclosure.

The present study is limited to delineating the relationship of cultural impacts with situational or individual factors conceptually. Future research should be directed to operationalizaiton of the constructs proposed here and provide confirmation or disconfirmation of the propositions via empirical testing. In addition, future research may explore the impact of other cultural dimensions such as power distance or propensity toward risk. These efforts will certainly further enhance our understanding of cultural impacts on consumers' susceptibility to advertising claims.

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FACTORS THAT INFLUENCE THE SELECTION OF A GROCERY STORE

Martin Meyers, University of Wisconsin at Stevens Point
mmeyers@uwsp.edu

ABSTRACT

This paper considers the level of importance of different factors that influence the selection of consumers' preferred grocery stores in the Chicago land area. The factors that are considered would include location, parking, prices, in-store promotions, quality of produce, quality of meat, quality of fish, friendly employees, knowledgeable employees, and acceptance of credit cards.

INTRODUCTION

A tremendous amount of money is spent in grocery stores. Approximately $36. billion was spent in the grocery store in February, 2004 (U.S. Government Report). A study in Canada used a mystery shopper format to obtain information on grocery store purchasing. Canadians beat Americans in washroom cleanliness and in bakery service. American stores were ahead when measuring whether the cashier initiated conversations with customers. A conclusion derived from the study by the author was grocery stores lose customers to their rivals mostly because of their deplorable service (Tutunjian, 2003).

Some studies identify factors that are hurting grocery store sales. For example, according to a study conducted by A.C. Nielsen, consumers are shopping less frequently at traditional grocery stores in favor of supercenters such as Wal-Mart (www.acnielsen.com). Another study discusses sales of the quick-casual segment of the restaurant industry. Chains like Panera, Garden Fresh Restaurant Group, Baja Mexican Grill, Rubio's Atlanta Bread, Applebee's, etc. had sales growth exceeding 17% in 2001 (Brumback, 2002). This would not be good news for the grocery stores.

Some studies discuss factors that are helping grocery stores. Candy continues to provide traditional supermarkets with strong margin performance (Ortiz, 2003). Smaller niche candle companies are being squeezed as grocery stores become a dominant source for candles (Danziger, 2003). There have been events that have helped increase sales in the coffee and tea aisle. Starbucks recently introduced a touchscreen marketing tool designed to give grocery customers insight into the best way to enjoy Starbucks at home. European style coffees are more widely represented on the store shelves. Redco has been focusing on the good-for-you teas (Turcsik). Sales of organic food and non-food items are growing by approximately 20 percent a year. About 44 percent of the organic food sales are derived from grocery stores and the number is projected to increase (www.the organicreport.com).

METHODOLOGY

A survey was written to measure the perceptions consumers have for their grocery store. The questions asked respondents to rate the factors they consider when selecting a grocery store on a scale of 1 to 5 (see appendix 1).

A nonprobability sample was used for selecting respondents because it is an economical means of obtaining large numbers of completed surveys (Zikmund, 2002). In using the convenience sample carefully, it is important to get a representative sample. Areas that were surveyed in the Chicago land area include:

1. Albany Park, a diverse neighborhood with a large Korean population
2. Lincoln Park, a neighborhood of young professionals

3. Gold Coast, a wealthy neighborhood in the city
4. South Shore, an African American neighborhood
5. Chinatown, obviously having a large Asian population
6. Budlawn Woods, a neighborhood where many city employees live
7. Winnetka, an upper-class suburb

SURVEY RESULTS

The most important factor in selecting a grocery store was price. Quality of produce was the second most important factor. Location and parking were tied for third place. The quality of the fish and knowledgeable employees were tied for fourth place. The quality of the meat and acceptance of credit cards were tied for the fifth most important factor. Friendly employees came in sixth place and in-store-promotions came in last place.

MARKETING IMPLICATIONS

Since price is the most important factor, the grocery stores should aggressively promote their specials in their advertising. Chain stores could benefit by prompting how there are many convenient locations throughout the city. Nonchain stores could also discuss their convenient location in their promotions. The grocery stores with large parking lots could stress this factor in their promotions. Stores with inadequate parking could examine ways for improving their parking.

FUTURE RESEARCH

This pilot study was limited to measuring perceptions of grocery stores in the Chicago area, which makes it impossible to make generalizations about the entire American population. The next survey will involve administering the survey to a representative sample of Americans throughout the country. The next paper will include questions on the purchasing of organic foods because of the growth rate in this area.

Appendix 1 Survey Administered to Grocery Shoppers in Chicago

How many times in a typical month do you go grocery shopping?
__ never (discontinue)
__ 1-2
__ 3-4
__ 5-6
__ 7 or more

In which store are you most likely to do your grocery shopping?
___ Jewel
___ Dominic's
___ Sunset Foods
___ Treasure Island
___ Whole Foods
___ Butera
___ Costco
___ Sam's Club
___ Other ______________________
(please specify)

Please indicate how important the following variables are to you for your grocery store purchasing on a scale of 1 to 5. A 1 indicates that it is very unimportant and a 5 indicates that it is very important.

	Very Unimportant				Very Important
Location	1	2	3	4	5
Parking	1	2	3	4	5
Prices	1	2	3	4	5
In-store promotions	1	2	3	4	5
Quality of produce	1	2	3	4	5
Quality of meat	1	2	3	4	5
Quality of fish	1	2	3	4	5
Friendly employees	1	2	3	4	5
Knowledgeable employees	1	2	3	4	5
Acceptance of credit cards	1	2	3	4	5

	Poor				Excellent
Location	1	2	3	4	5
Parking	1	2	3	4	5
Prices	1	2	3	4	5
In-store promotions	1	2	3	4	5
Quality of produce	1	2	3	4	5
Quality of meat	1	2	3	4	5
Quality of fish	1	2	3	4	5
Friendly employees	1	2	3	4	5
Knowledgeable employees	1	2	3	4	5
Acceptance of credit cards	1	2	3	4	5

Please answer the following demographic questions.

What is your gender?

___ male
___ female

What is your age?

____19 – 29
____ 30 – 39
____ 40 – 49
____ 50 – 59
____ 60 – 69
____ 70 and older

Appendix 2 Importance of Variables in Selecting a Grocery Store

Location	4.3
Parking	4.3
Prices	4.9
In-store promotions	3.3
Quality of produce	4.5
Quality of meat	3.6
Quality of fish	3.7
Friendly employees	3.4
Knowledgeable employees	3.7
Acceptance of credit cards	3.6

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CAN-SPAM ACT: COMPLIANCE OR AVOIDANCE?

Peggy Osborne, Morehead State University
p.osborne@morehead-st.edu
Michelle B. Kunz, Morehead State University
m.kunz@morehead-st.edu

ABSTRACT

This study examined the impact of the Can-Spam Act of 2003. A review of tactics used by "spammers" to avoid filtering software and circumvent the legal requirements was examined. Tactics in this study include the use of counterfeit characters, gibberish in the subject line, hidden agendas, invalid return addresses and misleading subject lines. A content analysis was also used to assess the most common types of messages received. The research was comprised of three studies. The first study was conducted four months prior to Can-Spam legislation. The second study was conducted four months after the Can-Spam Act became law, and the final study was conducted one year later, January 2005. Findings were significant for legitimacy of valid email sources, and between the first two studies. Final results of the third follow-up study, one year after the Can-Spam legislation went into effect shows that the law has not been effective in reducing the amount of spam, nor have avoidance tactics been significantly reduced.

A comparison of the three datasets showed the following trends:

1. *The number of spam messages increased substantially with each year, more than doubling from May of 2004 to January of 2005.*
2. *The use of counterfeit characters increased substantially in the spring of 2004, but had significantly decreased in the spring of 2005.*
3. *The use of gibberish has continued to increase at approximately 5% with each year's data collection.*

It appears that the Can-Spam law, in effect for a year, has not been successful in squelching unsolicited e-mail. It is estimated that about 75% of email is spam, and that on average only 3% of unsolicited e-mail complied with the legislations' requirements; the volume of spam is so high, that it dominated Internet message flow. Experts believe the legislation will not make much of a dent in the steady flow of illegal spam, since industry analysts report the phenomenon worsened in 2004, and most estimates indicate spam account for 70-80% of total email traffic. Results of this study support these findings. The Can-Spam Law has had little if any effect on the number or type of spam emails. There is clear evidence that "spammers" are becoming savvier in the types of avoidance tactics utilized. Companies must develop means to filter and control the amount of spam email messages received before the public becomes so distrustful that they will no longer open any commercial email message. The results of this study should be a great concern to legitimate email marketers, as the current state of the email marketing environment shows that spam is a serious two-fold threat: first to email marketers ability to get their messages through the clutter of spam, and to consumers' ability to trust the message senders.

THE ESSENCE OF MARKETING STRATEGY

Michael Hyung-Jin Park, The University of Tennessee at Martin
mpark@utm.edu
Timothy C. Johnston, The University of Tennessee at Martin
johnston@utm.edu

ABSTRACT

Is there any organization that does not need to formulate a marketing strategy? Even A nonprofit organization needs to formulate a marketing strategy. Can you formulate a marketing strategy? You cannot formulate a marketing strategy if you do not have the knowledge about marketing strategy. This article shows that formulating marketing strategy is easy: like drawing a human face. We introduce the concept of "marketing strategy face" which consists of 4Cs (Customers, Company, Competitors, and Circumstances), Needs, and 4Ps (Product, Price, Place, and Promotion).

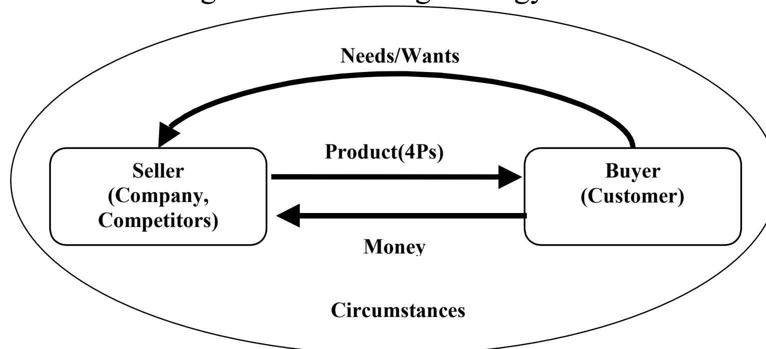
INTRODUCTION

Can you draw a human face? You can draw a human face because you know one. That means if you have knowledge, you can do something. However, if you do not have knowledge, you cannot do anything. For example, can you draw a tyrannosaurus? If you have knowledge about a tyrannosaurus, you can do it. However, if you do not have knowledge about it, you cannot draw a tyrannosaurus. Can you formulate a marketing strategy? If you do not have knowledge about marketing strategy, you cannot formulate a marketing strategy. These days, are there any organizations that do not need a marketing strategy? Even a nonprofit organization needs marketing strategy. This article shows an "easy way" to know about marketing strategy: like drawing a human face. To formulate a marketing strategy, you should know what decisions comprise a marketing strategy. We suggest a "Marketing Strategy Face."

COMPONENTS OF A MARKETING STRATEGY FACE

In order to draw a human face, you should have knowledge about the components of a human face. A human face consists of two eyes, one nose, one mouth, two ears, hair, and eyebrows. A Marketing Strategy Face consists of 4Cs, Needs, and 4Ps (4Cs-N-4Ps). Figure 1 shows the Marketing Strategy Face model.

Figure 1. Marketing Strategy Face



Let us explain the Marketing Strategy Face. The term "marketing" consists of two words – "market" and "ing." That means marketing is the discipline to manage something that is happening in a market. First, let us describe a market. When you go to a market, who is there? There are buyers and sellers. An environment surrounds buyers and sellers. The environment can be called the "circumstances" that influence buyers and sellers. Buyers are also known as "customers." Sellers consist of "your company" and "competitors." So in a market, there are 4Cs: customers, company, competitors, and circumstances.

Second, let us describe about the "ing." What is happen(ing) in a market? In a market, buyers buy something from sellers, and sellers sell something. It is called "exchange" in marketing terms. What is exchanged? Superficially, products (goods or services) are exchanged from sellers to buyers, and money is exchanged from buyers to sellers. Under the surface, sellers need to get information about customer needs and wants. So customer needs and wants are exchanged from buyers to sellers. Without knowing customers' needs, a product will fail. Customer oriented sellers consider customer "needs" to improve the chance of product success.

Sellers not only decide what product to provide, but also set the price, decide in what place they want to sell their products, and decide how to promote their products. These decisions are called the 4Ps: Product, Price, Place, and Promotion. In summary, a Marketing Strategy Face consists of "4Cs-N-4Ps."

ARRAY OF THE COMPONENTS

To draw a human face, you should know the array of components. The eyes are located higher than the nose. The nose should be above the mouth. Likewise, to draw a Marketing Strategy Face--that is, to formulate a marketing strategy--you need to know the array of 4Cs-N-4Ps.

First, we describe the 4Cs. The starting point in drawing the Marketing Strategy Face is the "customer." To formulate a marketing strategy, you should know "who your customers are." Without figuring out who your customers are, marketing strategy cannot succeed.

For example, Cue Cat was a scanner for a personal computer that allowed consumers to scan bar codes, which directed them to websites for more information about products. The technology worked well and the scanners could be manufactured at a low cost that allowed consumers to get them for free. Yet the company did not provide a value that was more than the "cost" (of hassle and risk to their computers) to the consumers. The Cue Cat was a "product in search of a market" and it failed.

How can you find out "who your customers are?" You use market segmentation and targeting. To choose "your" customers, you need to segment a market. And then, among several segments, you should target one or more segments. Segmentation and targeting is similar to "divide and pick." To divide a market, you have to use some criteria. For example, if you use "gender" for a criterion, you can divide market into a male market segment and a female market segment. If you use "age" for a criterion, you can divide it into a teenage segment, a twenties segment, and an over-thirties segment. You can use multiple criteria to find a niche market segment. For example, you can use age and gender for criteria, you can divide it into a male-teenage segment, a female-teenage segment, a male-twenties segment, a female-twenties segment, and so on.

And then you should target one or more market segments. For example, you may target only the female-teenage segment. Or you may target the female-teenage segment and female-twenties segment.

To choose a target market, you should consider your company's situation, competitor strategies, and circumstances. These three components should be considered simultaneously.

(1) Your company: You should analyze your company's mission and capabilities. That means where your company should go and what your company can do.

(2) Competitors: You should analyze your competitors. Who are your competitors? Who your competitors are differs depending on who your customers are. For example, around our university, there are two Chinese restaurants: Taste of China and Hunan. Taste of China is 5 minute away on foot from the campus, and Hunan is 5 minutes away by car. When students are asked, "Who are the Taste of China's competitors?" they say "Hunan." They think that since the two restaurants carry the same product (foods), they are the competitors. However, for the students who want to "eat out for lunch," they are not competitors. The competitor of Taste of China is Wendy's. Wendy's is next to the Taste of China. The students who want to eat out for lunch do not consider Hunan because they do not want to ride to the restaurant for lunch. They choose the Taste of China or Wendy's for lunch. This case shows that the definition of competitors depends on who the customers are. Marketing Myopia (Levitt, 1960) explained how marketing nearsightedness could cause one to overlook competitors.

(3) Circumstances: Circumstances are also known as the marketing environment. There are six categories of circumstances: demographic, natural, social, technological, economic, and political/law. It is easy to remember the mnemonic device "DowN STEP." D stands for demographic, N for natural, S for social, T for technological, E for economic, and P for political/law circumstances.

In summary, you should consider your Company's situation, Competitor strategies, and Circumstances as you choose your Customers (target markets). When you finish selecting your target markets, you know "who your customers are."

Second, you determine "N", your customers' needs and wants. As mentioned earlier, without knowing your customers' needs, you may fail. To focus on your customers' needs is called "customer orientation" or "market orientation." To understand your customers' needs, you need to do marketing research.

Third, you should provide an offering that meets your customers' needs. The set of decisions that you make in providing an offering includes the 4Ps: Product, price, place, and promotion.

Product. To make a product decision, you need to know the components that make a product strategy. Figure 2 shows a product strategy formulation sheet that includes comparisons with two competitors. The three components of a product are: (1) Core product, defined as the benefits that a customer receives, (2) Actual product, which includes the tangible properties of Quality, Features, Design, Brand, and Packaging, and (3) Augmented product, which includes Delivery, Installation, Warranty, and After-sale services.

Price. To set a price, you should consider three factors: Cost, Competitor prices, and Customers' willingness to pay. Usually most students consider cost and competitor prices, but often fail to consider the customers' willingness to pay. Figure 3 shows a price strategy formulation sheet that includes comparisons with two competitors.

Figure 2. Price strategy formulation sheet

	Comparison			What do they need? Customers' willingness to pay for your product	Suggestions (your action plan)
	Your product	Competitor A	Competitor B		
Price				X	
Cost				X	

Place. Place strategy is your decision of where you sell your products. Place strategy consists of two main decisions: choose a place where you sell (Store location) and decide how to

deliver your product to the place (Physical distribution). Regarding location, you should consider three factors: ideal exposure, desired customer service level, and cost of distribution. Ideal exposure means that your stores should be exposed to "your" customers at a level that you want. For example, if you want to exposure your products to university students, you may install vending machine in university campus. One example is when Timex began selling watches at supermarkets. Before that, watches had been sold at jewelry shops. But Timex customers are the people who shop at supermarkets. The ideal exposure for Timex is found at supermarkets (Perreault & McCarthy, 2003).

Service level means the level of service that consumer's desire with your product. For example, diamonds are independently graded and are essentially commodities. You can buy a diamond ring at a jewelry store and received a high degree of service, including custom fitting and setting, access to a wide assortment of products, financing, etc. You can buy a ring with the "same" quality diamond at a warehouse club or at an online retailer at a much lower price, and receive less personal attention. Different customers prefer different levels of service.

You also consider the cost of distribution. Wal-Mart is a low-cost retailer, and hence can offer low prices to customers and high sales volume to manufacturers. Physical distribution decisions are based on providing a desired customer service level at the lowest total system cost.

Promotion. Promotion strategy is to decide how to promote your products. Promotion strategy consists of two main decisions: setting promotion objectives, and choosing promotion methods. The three promotion objectives are informing, persuading, and reminding. You need to choose your objectives. For example, Coca-cola usually chooses reminding objectives. To remind, Coca-cola usually uses only images and music in the advertisement. They do not need to inform or persuade. However, Pepsi had persuading objectives when they did the "Pepsi challenge." They wanted to persuade Coca-Cola customers to switch to Pepsi. They used blind taste test results to change people's perception of colas. To persuade, you may use advertising that compares your product to competitors' products.

There are many promotion methods. Promotion methods should be consistent with promotion objectives. Promotion methods consist of advertising, publicity, personal selling, and sales promotion. Decisions on promotion methods should be based on what will achieve the company's objectives and what is affordable.

CONCLUSION

This article shows an easy way to formulate marketing strategy: like drawing a human face. We introduce the concept of "Marketing Strategy Face" which consists of 4Cs (Customers, Company, Competitors, and Circumstances), Needs, and 4Ps (Product, Price, Place, and Promotion).

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PAY FOR PERFORMANCE: CONTRARY EVIDENCE AND A PREDICTIVE MODEL

James H. Turner, Morehead State University
j.turner@morehead-st.edu

ABSTRACT

This paper presents research from various disciplines and various settings revealing counter-intuitive results deriving from the use of rewards. It is hypothesized that these results obtain by virtue of the salience of the reward – contrary to models such as expectancy theory which suggest that to be effective, rewards must be salient. A salient reward distracts the subject from fully engaging in the process required to obtain the reward: shortcutting. The reward also seems to interfere with a person's need for autonomy. A model is proposed for understanding the effects of incentives as major components of compensation systems. This model relates the negative effects of reward contingency on three organizational outcomes: in-role performance, extra-role performance, and turnover.

WORD-OF-AUTHOR ADVERTISING IN TEXTBOOKS: THE ROLE OF BRAND FAMILIARITY AND PLACEMENT REPETITION ON RECALL, RECOGNITION AND CHOICE

Ian Brennan, Colorado State University
Ian.brennan@colotstate-pueblo.edu
David McCalman, University of Central Arkansas
davidm@uca.edu

ABSTRACT

This study considers factors that may influence the recall, recognition and choice of word-of-author advertising —the practice of including branded references within a book. We examine the effects of WOA placement in textbooks, utilizing a quasi-experimental 2 X 2 design with forty subjects. Pre-existent brand familiarity was measured, and precautions were taken against demand bias. Within the domain of WOA advertising in textbooks, our results indicate that the WOA advertising of a familiar firm enjoys an advantage over that of an unfamiliar firm with respect to both recall and recognition. The effect of WOA repetition on recall is moderated by familiarity with the advertised brand. Exposure to WOA advertising did not influence brand choice. Tables are included. Theoretical and managerial implications are discussed.

Potential Impact/Interest: "Imbedded" brand names and logos have generated a great deal of attention in recent years, including especially the placement of brands in movies, novels and television programs. Businesses have sought greater familiarity or positive affect for their products using such media. Instances of this placement have become commonplace, although experimental research attempting to establish the impact of such placement has been thus far exceedingly rare. Our paper approaches this question with controlled experimentation in a lab setting.

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