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Cutting the Cord — A Marketing Case: An Examination of Changing TV Viewership

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Abstract – Consumers have more choices for TV programming and how that content is acquired than at any other time in the history of television. Through an action referred to as cord-cutting, many consumers are choosing to drop their cable or satellite programming providers in favor of lower-priced and more consumer-friendly programming providers such as Netflix, Hulu, and others. Consumer choices are being driven by many factors, including economics, lifestyle, technological developments, and social trends. This case discusses the cord-cutting trend and how it is impacting consumer choices and the business of providing television content to consumers. The case can be used to assist instructors in tying together the standard topics in a consumer behavior course by having students read the case early in the course and to continue referring to it as a series of learning exercises are assigned during the course.

Keywords – Marketing Case, market entry, consumer behavior, protecting market share, consumer decision making, consumer needs.

Relevance to Marketing Educators and Students - The case enables instructors and students to consider the entrance of competitors in markets where consumers have had few choices and little market power. Product differentiation, pricing, and changing consumer desires in an evolving technological environment are subjects that can be explored along with the typical subject matter taught in a consumer behavior course. At the end of the case students should better understand how firms can invade existing markets dominated by large firms and carve out niches for themselves and how firms losing market share to new competitors can adapt and protect their markets. The case should be useful in various marketing classes, but particularly in classes where consumer needs, product utility, consumer decision making are major topics.

Introduction—The Changing Landscape of TV Programming

On October 2, 1925, John Baird successfully transmitted the first television image. Since the early days of the new medium, television technology has constantly changed. Similarly, as the decades have passed the means for receiving television programming has also changed. Today, programs are delivered to millions of customers via cable connections and by satellite transmissions as those technologies were chosen by consumers to replace antennas as a means for receiving signals. The newer delivery mechanisms also provided many more channels to consumers compared to the handful of channels they could access in the antenna-only days.

The television programming delivery industry is still changing. More recently created services for receiving television programming include Netflix, YouTube, Hulu, and a variety of other online streaming services. Thus, consumers now have many ways to watch programming without having to purchase channels they do not wish to receive and pay for. In fact, the day of paying a monthly cable bill may be coming to a close as the phenomenon referred to as “cord-cutting” becomes a greater trend in the American society.

Cord-cutting, in regard to television viewing, is the dropping of a cable or satellite television subscription service in favor of one or more alternatives. Even an old-fashioned means of capturing content is making a comeback—the free, antenna-captured broadcasts from local TV channels. Whatever form of cord-cutting a consumer chooses, they all revolve around a consumer belief that competition between providers and the compartmentalization of services offered is good.

For example, one cord-cutting motivation is to be able to view programming on devices other than home televisions, including devices such as smartphones, tablets, and computers. Additionally, there is the ability to watch programming more specifically tailored to one’s tastes and lifestyles. However, there are drawbacks to cord-cutting, including the loss of some convenience as well as the unavailability of some content.

Factors Driving the Cord-Cutting Phenomenon

According to research done by the NPD Group (2014), the average American pays roughly \$90 a month for a cable television package that typically includes several hundred channels. Many consumers pose the question, “Why pay \$90 a month when only four or five channels get any degree of use?” Consumers may even conclude there is no reason to pay \$50 a month (for a basic cable plan) when they can essentially get the same content in full quality on their computers or mobile devices, including high definition content. In other words, the decision to cut-the-cord frequently results from a consumer performing a cost-benefit

analysis and concluding that a cable or satellite package costs more than it is worth. A chairman of the FCC has been quoted as saying “. . . the average cable subscriber is paying for more than 85 channels that she doesn’t watch in order to obtain the approximately 16 channels that she does” (Unbundling Cable Television: An Empirical Investigation, 2015).

As noted earlier, cord-cutting doesn’t revolve solely around dissatisfaction and price, but also capabilities and technological lifestyles. According to research by Nielsen (2014), “Americans now own four digital devices on average, and the average U.S. consumer spends 60 hours a week consuming content across devices.” Current social trends have created a culture with a desire for immediate gratification. The increase in internet and wireless speeds, coupled with the multiple online programming services being offered, easily accommodates the demands of “I want” or “I need” consumers for online services that work together to deliver the total package of desired utility (Rizzo, 2014).

It should be noted that the consumer must have a suitable internet connection for the devices and streaming services to work and that connection rates vary depending on what an internet service firm provides in a geographic region or location. Thus, some locations are not as suited for cord-cutting as others—a rural area compared to a developed metropolitan area, for example.

Regarding age, many young consumers appreciate the fact that high-quality technology is getting smaller and cheaper. Purchasing a television and cable/satellite box is not an attractive option when laptops are much more portable and one can purchase streaming services online for less money and reduced complexity. Many young people do not have a steady income and cable or satellite television, with their high prices, are not considered a necessity. In addition, they often choose not to pay premium prices for a service that gives them unnecessary content when online streaming is cheaper and they are able to select the content that they want.

However, it is not just the younger consumer that is making radically new purchase decisions. According to Edwards (2013), the number of households with television sets reached a peak between 2010 and 2011 with about 116 million households owning at least one television. By 2013, this number had decreased by approximately three million even though the total number of households increased during this time. One reason is that consumer leisure time is being spent doing things other than watching television. The Edwards study indicates that time that was dedicated to television viewing is now being redirected to mobile devices and other activities one can engage in on those devices. Along with the increased ownership and use of mobile devices, the availability of free WiFi has also risen in recent years, reducing or eliminating the dual expenses of cable and WiFi when WiFi is provided by a third party (such as a university).

Some Cord-Cutting Alternatives

Among the cord-cutting alternatives that consumers are choosing are services provided by Netflix, Amazon Prime, and Hulu. These alternatives are fairly low-cost in nature, some costing only \$8 a month with an option to cancel at any time. These services differ dramatically. For example, Netflix offers consumers the options of getting discs through the mail, streaming, and a combination of these. Netflix began as an online movie rental service. From 2002 to 2005, the Netflix subscription base rose from 600,000 to 4.2 million (Netflix, 2015).

Netflix built on its early success by personalizing movie recommendations and adding online streaming service. Netflix then began partnering with other companies to make their service available on multiple technology platforms. By 2010, Netflix became available through most internet connected devices—from televisions to tablets to smartphones. Demand for low cost, subscription based internet streaming television is not limited to the United States. As demand increased, Netflix began to offer its services to consumers in other countries in Latin America and Europe while maintaining a nearly identical business model in each of its new countries of operation (Boluk, 2015). With its great success, Netflix began producing its own online program series and has been nominated for over 31 daytime Emmys. Today, its membership base has grown to over 50 million subscribers globally.

What makes Netflix such an attractive alternative to traditional cable television? Netflix is not a single network. Netflix differentiates itself from specific channels on cable because Netflix can be “all things to all people.” Netflix and competing online distribution platforms can host programming aimed at consumers at any age whereas specific television channels have little choice but to cater to a specific demographic. Netflix has realized this and is continuously expanding its programming portfolio to reach the most consumers possible while maintaining its relatively cheap subscription fees and a high convenience factor to create a multimedia platform that is sure to meet nearly any family’s needs for a much lower cost than conventional cable.

The business models of other programming providers vary from the Netflix model and from each other. For example, Hulu plus makes major television network shows available to their customers the day after they originally air. This programming is accompanied by commercials whereas Netflix streams with no commercials. Amazon Prime differs from both of them in that there is an annual fee. An Amazon Prime account comes with free two-day shipping on thousands of items, ad-free Amazon music, a wide variety of movies and television shows, and one free Kindle book loan per month. Roku, a strong competitor in the entertainment device category, was founded in 2002. A consumer only needs to decide which version they want to obtain the desired level of functionality. The path to use is the same, the consumer merely needs to

purchase the device, plug it into their home network and hook it up to their television. The device itself can cost from \$50 to \$100. The service comes with many free channels and others can be added. Some channels, such as Hulu Plus and Netflix, require a subscription outside of the Roku device.

Higher cost programming alternative are HBO Go, Sony Vue, and Dish Network's Sling TV. These three alternatives are most closely related to cable subscriptions. HBO has recently added a stand-alone online service that allows users to watch everything on this network at any time of the day, including live streaming of new shows. Sony Vue entertainment and electronics company offers 75 different stations, is similar to traditional cable, and includes networks such as CBS, NBC, and Fox. The difference with Sony is that their service is only available on PlayStation game consoles, but will eventually be available on iPads and other non-Sony devices. A major attraction of this alternative is that it offers ESPN to the subscriber.

Technology Issues

With the growing adoption rates of smartphones, tablets, internet connected televisions, and even dedicated streaming boxes, online streaming has grown dramatically. Netflix, as well as other content distributors like Hulu and HBO, ensure that their services can be accessed on as many devices as possible in order to reach as many consumers as possible by creating applications to run on each of these different devices.

However, as consumption increases, so does data usage. Many consumers rely on a metered internet connection from their internet service provider. This can present a problem for consumers wishing to cut the cord and rely strictly on online streaming for their entertainment. If a consumer desires high definition content, a single hour of Netflix content can rack up between less than half of a gigabyte of data to almost five gigabytes. This might not be an issue for one or two consumers sharing the same internet connection. However, families with multiple members who like to enjoy their own shows can quickly eat into the monthly data allowance.

Virtually any internet connected device that is able to play video can access Netflix and comparable programming distributors. Thus, access is not as large an issue for some consumers as internet speed. For a consumer with a base level of internet speed, the ability to enjoy high definition content without disruption due to buffering is next to impossible. Netflix states that to enjoy full HD content a consistent 5 megabytes per second speed is required. As content quality continues to improve and 4k television screen resolutions become the norm, more bandwidth will be required to stream video. Streaming 4k content can require roughly five times more bandwidth than for current full HD content. Content providers are constantly working towards better encoding practices to lessen the data strain for subscribers and bandwidth demands are almost

certain to go down. As fiber optic cable continues to be deployed across the country, bandwidth (and data caps) will become less important.

Business Implications of Cord-Cutting

Cord-cutting is a trend that is having a negative impact on Comcast, AT&T, and satellite services such as DirectTV. The cable and satellite industries are beginning to feel the effects of cord-cutting. For the first time in the history of pay-TV subscriptions, 2014 marked an entire year of decline as consumers increasingly reject the higher costs of cable and satellite services and embrace internet streaming as an alternative.

Implications for Cable and Satellite Companies

A writer for Forbes called cord-cutting “a disruption,” an activity bringing new offerings to the market and that offers cheaper, simpler, or more convenient offerings in relation to an existing product. In essence cable and satellite companies, over their history, can be viewed as product oriented businesses as opposed to firms seeking to serve consumer needs. Cable and satellite providers must take heed and adjust their practices to ensure they are as beneficial and competitive as possible. These firms must recognize that the cord-cutting trend will cause their product focused approach to be suboptimal. Market share will continue to be lost unless changes are adopted by established cable and satellite companies to mitigate the consumer shift.

For example, offering additional online programming could convince some consumers to not cut-the-cord. A potentially viable option would be to partner with services such as Apple TV or Hulu to offer more of an à la carte style for channel purchasing. Rather than buying a bundle of channels determined by the providers, customers could pick and choose which channels they want. In fact, Apple is already working on a service that would operate in this manner. Through direct partnerships with many of the major cable networks Apple is nearing completion of a “web-only TV package” that would have about 25 channels and cost only \$30 or \$40 a month. With this service, customers could have the best of both worlds. They could drop their cable television service and still be able to watch all of the primary channels through the internet. Apple’s service is only the tip of the iceberg and foreshadows a future of networks bypassing cable providers and taking a direct approach to reach viewers.

Comcast, a major cable firm, is fighting back by focusing on the one service consumers cannot do without if they want to stream content—internet access. Comcast’s cheapest internet plan is priced at \$40 a month for the first year and price a Comcast customer will have to pay if they want to stream content. For \$10 more a month Comcast offers a bundle of internet and basic cable. Along with the addition of the basic cable channels is the option to access to HBO and

HBO Go. Comcast hopes these extra incentives, for just \$10 extra a month, can lure customers into keeping a cable plan.

Learning Exercises and Application of Course Concepts

Part 1—Consumer Needs

1. The consuming of television programming involves several products--television program content, the means for acquiring programming (cable vs. satellite vs. others), and the devices on which programming is consumed (home TV, vs. computers vs. . . .).

List and discuss the various consumer needs these products satisfy.

Concerning programming, start with the broad, generic needs, such as the need for entertainment, the need for news/information, and so on. List at least four of these broad categories.

Now break the broad categories down into specific consumer need satisfying products within the category. For example under the generic heading of entertainment, create subcategories of entertainment--game shows is an example of an entertainment category. Under the news/information heading, create categories of news/information—news channels, “how to” channels, etc.). It is not necessary to go further than this and list specific shows.

After you finishing the discussion for programming types, create similar discussions for the ways of acquiring programming (cable vs. satellite vs. . . .). What needs do these satisfy? Convenience? Reliability? Variety? Other needs?

Then consider devices. People watch programming on a variety of devices? Why? What needs do the different devices satisfy? Convenience? Lifestyle? Others?

2. Segment the TV viewing audience. Using age *and other segmentation factors*, develop several profiles for four major viewing groups.

For example—For the retiree, stay-at-home market, the primary TV programming categories watched are _____, _____, and _____. Examples of specific shows favored by the retiree market are _____, _____, and _____. This group prefers to watch TV on (*what kind of devices? Home TV or computers or . . .*) and acquire this programming through (*cable companies and/or satellite companies or Netflix or . . .*). This market is probably a loyal and (*or not loyal and safe*) market for (*cable companies or whatever is identified*).

Add other details to the profile as needed to create the best profile that can be created.

Part 2—Consumer Decision Making

1. List and discuss the factors that cause television watchers to recognize they have a problem regarding the acquisition of television programming?

In other words, what causes consumers to come to a point where they feel there is a difference between the state of being they are in regarding how they get programming (cable or satellite or . . .) vs. a better state of being they could be in if they were getting their programming in a different way?

2. If a consumer is considering the creation of a package of programming services to replace cable or satellite service, in what ways can consumers research these alternatives? List various sources of information, personal and impersonal, that can be accessed and how people can access them.

How will different consumers conduct their information search processes? In other words, how could two consumers conduct their research activities in rather different ways? Write two “short-stories” comparing and contrasting two consumers who are seeking information in rather different ways.

3. How will most consumers evaluate the cord-cutting alternatives available to them? Routine Decision Making, Limited Decision Making, or Extended Decision Making? A compensatory process or a non-compensatory process? Explain your reasoning and describe how a typical consumer would go through the decision making process identified as the major process that would be used.

Part 3—the Psychology of the Consumer

1. Will people with different personalities—inner directed consumers vs. other directed consumers, for example—approach the cord-cutting decision differently and one type be more likely to cut-the-cord than the other? Explain your reasoning.

Would other personality issues be important for marketers of TV programming to consider?

2. If you were advising a firm selling a cord-cutting product—such as Netflix—which form of consumer learning would be most characteristic of consumers who are learning about these kinds of products—one of the behavioral forms of learning (classical, operant, or modeling) or cognitive learning? Why?

If your task was to help a firm design an advertisement or to create some form of promotion to influence consumers and bring about the kind of learning you identified as the most characteristic form of learning, what would you do? Why?

3. If a firm offers consumers a cord-cutting alternative product, such as Hulu, how would you advise the firm to influence consumer’s attitudes toward the product as an object?

How would you advise the firm to influence attitudes about the cord-cutting product in terms of the consequences of choosing to cut-the-cord by buying the cord-cutting product and canceling their cable or satellite service?

If the firm was a traditional cable company or satellite company, how could the firm influence consumer attitudes in an effort to keep consumers from cutting-the-cord?

Part 4—the Social Life of Consumers

1. In what manner do reference groups and opinion leaders play a part in consumer decision making regarding cord-cutting alternatives? How might a firm use these influencers to promote their cord-cutting alternatives?
2. How would the decision to cut-the-cord be different when the decision is being made for a family rather than for an individual? Why?
3. Would any subculture(s) have a greater tendency to cut-the-cord than others? Why? Should firms market to different subcultures in different ways?

Report Summery—final thoughts, conclusions, recommendations for the firms offering cord-cutting products and for firms offering the traditional products (such as cable)?

Note—a previous version of this case was presented/published in the proceedings of the 2015 Atlantic Marketing Association Conference.

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Instructors Teaching Notes

Case Synopsis

The case describes a current phenomenon—the search by consumers to acquire television programming in ways that better suit their needs and at a price they are willing to pay, a phenomenon known as cord-cutting. Consumers today have more ways to acquire television programming than at any other time in the history of the television medium. As consumers take advantage of the newer acquisition options provided by firms such as Netflix and Hulu, the older firms, such as cable and satellite programming delivery firms, are having to adjust their strategies to avoid the loss of too many consumers.

The case reviews the changing landscape of the programming delivery industry, from the days of consumers using antennas to get their programs to the cable and satellite delivery days to the current time in which much content is delivered by online providers and where content is watched on many devices, including, but not limited to, the traditional television in a fixed location in homes.

The factors driving the cord-cutting phenomenon are reviewed. Included are the factors of the cost of the various alternatives, the dissatisfaction of consumers with the older acquisition options, the age factor, and the desire for greater flexibility regarding when and where programs can be viewed and on which devices they are being viewed. A representative group of providers of cord-cutting alternatives are presented, including Netflix, Amazon Prime, and Hulu. A variety of characteristics of these providers are presented to illustrate the wide variety of choices available to consumers today. Finally, some business implications are discussed, particularly regarding the cable and satellite firms that are being impacted by the availability of the cord-cutting alternatives. Included are some strategies that the firms losing business to the cord-cutting

alternatives might employ to protect their business from excessive loss to the cord-cutting alternatives.

Educational Objectives

The purpose of the case is to provide instructors with a way to challenge students to comprehensively consider many of the topics that are typically covered in a consumer behavior course for a product and in a decision making situation that is familiar to most students. Following is a suggested way to have students consider the case material and then apply what they are learning in a consumer behavior class in a series of papers that, collectively, create the complete case analysis. The case is adaptable for other courses, such as a marketing strategy course, by appropriately modifying the following suggested assignment.

Suggested Case Assignment

This case can be assigned to individuals or to teams of students as the instructor prefers or according to other goals an instructor is seeking to achieve, such as the development of teamwork. The individual or the members of a team should assume the role of a business consultant who has been given the task of preparing and submitting a report to enlighten and advise a manager, or group of managers, who are in the business of delivering television programming content to consumers. The approach students take should be a generic one so that a manager of any kind of programming delivery business could benefit from the report.

The goal is to help manager(s) to better understand consumers in terms of what drives their consuming behaviors, the forms of behavior that might be expected among different consumers, and the business activities that managers might employ to either gain business or to defend their business against encroachment by other, and often newer, providers of a programming product.

The case should be used to help get students started on the tasks just described. However, it is appropriate, and useful, to have students seek other information beyond the information contained in the case.

Since students often believe the purpose of a case is to repeat and comment on what is contained in a class, it is useful to instruct the students to assume the managers know most, if not all, of the case facts and that the problem is that the managers do not fully understand the implications of what the case describes. Their task is to assist the managers in sorting out the implications. How are consumers different? What are the different things they do? How can a manager make decisions that will produce the best outcomes for their firm?

Stress the following. It is not necessary to repeat the case facts and information. Efforts should be concentrated on producing a series of reports that

help the manager make sense of the situation and what should be done in light of the situation. While case information or facts can appear in a report or managerial memo, it should only be when the repetition of the facts helps to make a point or to support a conclusion or recommendation. The report should consist almost entirely of analysis, conclusions, and recommendations.

Comments on Case Segments

The case segments are based on a common organization of topics in a Consumer Behavior text. Adjustments may be required in assigning the segments in situations where an instructor is using a text that employs a different order and/or where course topics are assigned in a different order than the one seen at the conclusion of the case.

Instructors may object to the degree of detail contained in the assignments. Thus, instructors should feel free to adjust the assignment to fit the course objectives the assigning of the case is intended to aid in achieving. It has been the author's experience that many students need more detail rather than less detail in classes where they are learning concepts and how they should be applied. If the goal is to get students to think more comprehensively, though with assistance, the detailed nature of the assignments will assist in reaching this goal.

Author Information

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