Marketing 101

VIVEK SUNDAR MAGESH

What’s Common?

Let’s Start with Coffee

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Let’s Start with Coffee

Tata Starbucks launches seasonal whole-bean coffee Starbucks Diwali Blend

PTI | Oct 2, 2020, 20:20 IST

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TOI

NEW DELHI: Tata Starbucks on Friday said it has introduced a new seasonal whole-bean coffee, Starbucks Diwali Blend, to customers across India and select global markets ahead of the festival season.

The new exquisite blend is hand-selected and sourced from Tata estates in Karnataka and Tamil Nadu, and

Starbucks struggles to beat Vietnamese coffee chains

By **Minh Son** September 29, 2020 | 07:55 am GMT+7

A Starbucks outlet in District 7, Ho Chi Minh City. Photo courtesy of Starbucks Vietnam.

One More Example

So, what’s Marketing?

American Marketing Association

Definition of Marketing

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (Approved 2017)

So, what’s Marketing?

1. Needs: States of felt deprivation
2. Wants: Needs that are shaped by society, culture and personality
3. Demands: Wants that are backed by buying power
4. Marketing: Delivering Value to Customers, and in turn Capturing Value from Customers
5. Marketing Myopia: Focusing on the current Wants instead of the underlying Needs

Evolution of Marketing

1. Industrial Revolution (19th Century): Production
   a. Move from home/farm manufacturing to factories
   b. Profits through scale
2. Early 20th Century: Product & Finance
   a. Product development, performance, features and large industrial empires
   b. Profits through superior product performance
3. 1930s: Sales
   a. Move from scarcity of products to scarcity of markets
   b. Profits through demand generation
4. 1960s: Marketing
   a. Move from organizational focus to customer focus
   b. Profits through offerings to match the needs and wants of customers using 4Ps
5. Early 21st Century: Digital & Social (Platforms)
   a. Build and strengthen relationships with partners and customers (not just transactions)
   b. Profits through creating platforms for managing offerings through sharing, collaborating and outsourcing

Production Concept

- Focus on production & distribution efficiency
- Assumes consumers prefer products that are available & highly affordable
- Appropriate when:
    - Demand > Supply
    - Costs are high & improved productivity will lower them
- Impersonal, insensitive, “assembly-line” orientation

Product Concept

- Focus on making continued product innovations
- Assumes consumers prefer products with the highest quality, best features & performance
- Leads to Marketing Myopia (Overly-narrow definition of business)

Selling Concept

- Concentrate on selling & promotion
- Assumes consumers will not buy enough unless stimulated aggressively
- Normally used for unsought goods
- “Hard Sell,” unscrupulous image

Marketing Concept

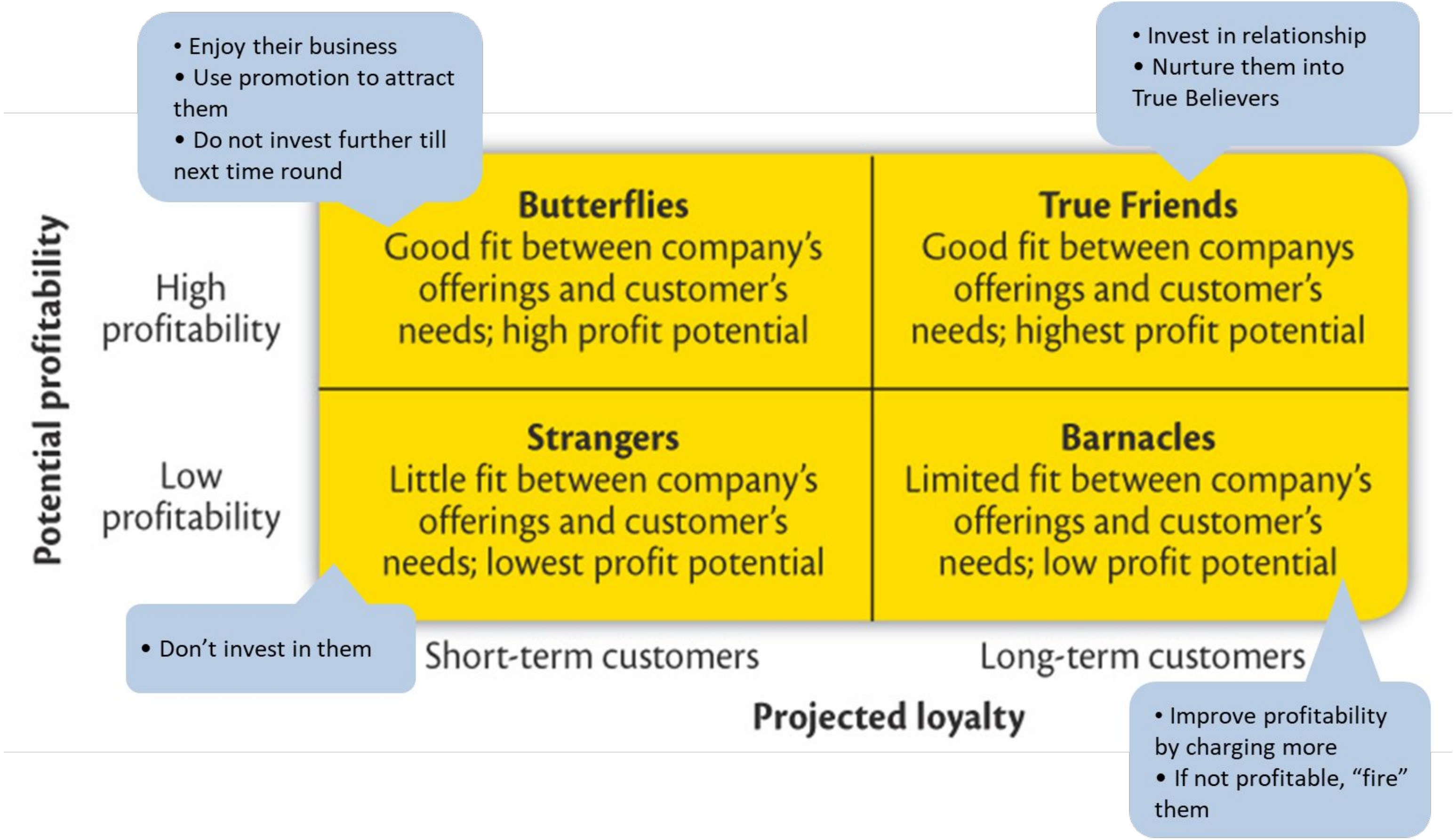
- Determine needs & wants of target markets & delivering them more effectively & efficiently than competitors
- Create, build, & maintain beneficial exchanges with target buyers to achieve organizational objectives
- Focus on Buyer's Needs vs Seller's Needs
  - Adapt & anticipate changes in consumer needs & characteristics
- Recognize needs not just product-based
- Stress regular consumer research & analysis
- Resources allocated to make goods & services desired by consumers

Customer Driven vs Customer Driving

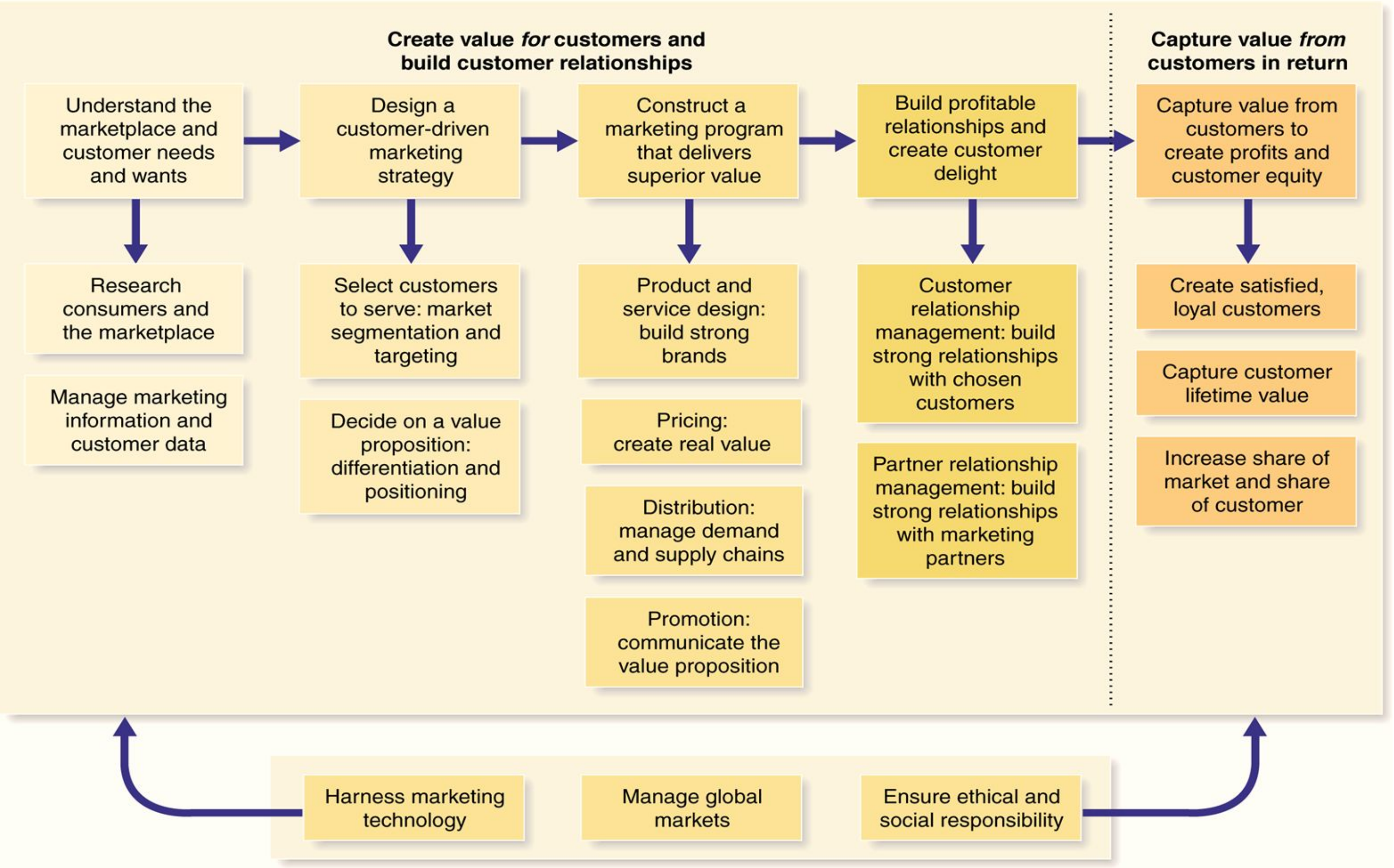
Customer Relationship Management (CRM)

- The process of building & maintaining profitable customer relationships by delivering superior customer value and satisfaction
- Not everyone is a desirable customer
- Attract, keep, and grow profitable customers

Customer Relationship Groups



The Marketing Process



Source: Principles of Marketing An Asian Perspective, Pearson, 4th Edition (Kotler, Armstrong, Ang, Tan, Yau, Leong)

Marketing Management Process

1. **Analyze & Identify Market Opportunities**
    a. Marketing Research & Information Systems
    b. Marketing Environmental Scanning
    c. Consumer & Business Markets
2. **Research & Select Target Markets**
    a. Measuring & forecasting demand
    b. Market segmentation, targeting, & positioning

Let’s take a slight detour…

Example: The Long Tail

- For example, Rhapsody had a demand for the top 400000 of tracks at least once a month
- Lots of niche products
- Problems earlier:
  - Finding a local audience
  - Physical limitations
- However, now:
  - The online world allows for aggregation
  - Physical limitations no longer exist

Read further:

1. https://www.wired.com/2004/10/tail/
2. https://hbr.org/2008/07/should-you-invest-in-the-long-tail

Example: Bottom of the Pyramid

Is there a business case to serve people at the base of the pyramid?

1. "…these markets are in the earliest stages of economic development, growth can be extremely rapid."
2. "The competitive necessity of maintaining a low cost structure in these areas can push companies to discover creative ways to configure their products, finances, and supply chains to enhance productivity."
3. "BOP markets are hot-beds of commercial and technological experimentation."

Read further: https://hbr.org/2002/09/serving-the-worlds-poor-profitably

Segmentation, Targeting and Positioning (STP)

1. **Segmentation:** Dividing a market into smaller groups with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes. A market segment consists of consumers who respond in a similar way to a given set of marketing efforts.
2. **Targeting:** The process of evaluating each market segment’s attractiveness and selecting one or more segments to enter.
3. **Positioning:**
    a. Differentiation: Actually differentiating the market offering to create superior customer value.
    b. Positioning: Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

Positioning is Perception Based

A mining and drilling company came up with a breakthrough technology

- Faster
- Cheaper

Yet, it did not sell, until...

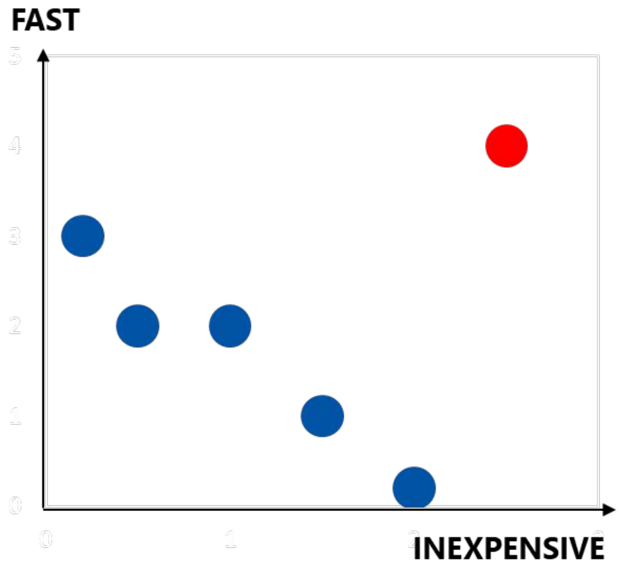
Positioning is Perception Based

This is how the company saw its market...

They were faster and cheaper then competition

They were "dominating"

Yet, sales were not impressive...

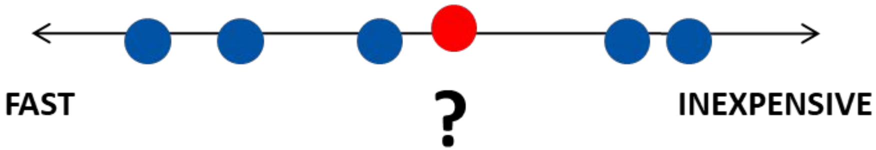


Positioning is Perception Based

This is how their customers saw the market...

Their positioning was not credible

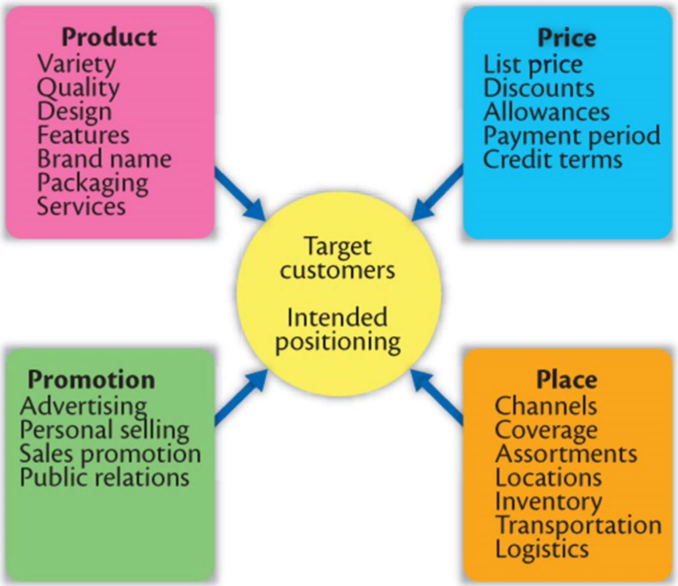
Their product became very successful once they increased price



Marketing Management Process

Back…

3. **Develop Marketing Mix (4P’s):** Marketing mix is the set of controllable tactical marketing tools-4P’s-that the firm blends to produce the response it wants in the target market.

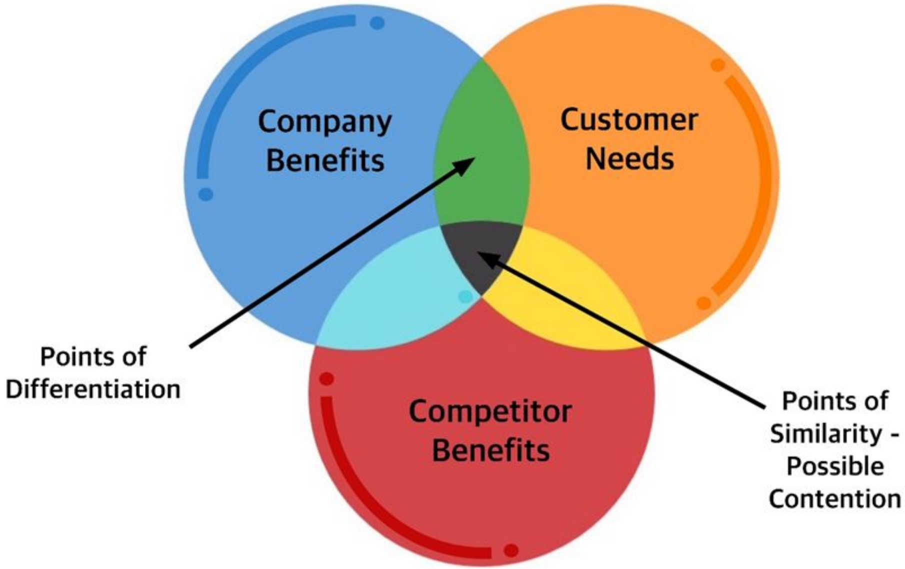


Marketing Management Process

4. **Managing the Marketing Effort**
    a. Analysis (SWOT)
    b. Planning (Setting Objectives and Strategy)
    c. Implementation (Process of Turning Marketing Strategies into Marketing Actions)
    d. Control (Evaluating Results and Taking Corrective Action)

Takeaways

- Understand your **Customer**
  - Needs and Trends
- Know your **Company**
  - Strengths and Weaknesses
- Analyze your **Competition**/Environment
  - Opportunities and Threats

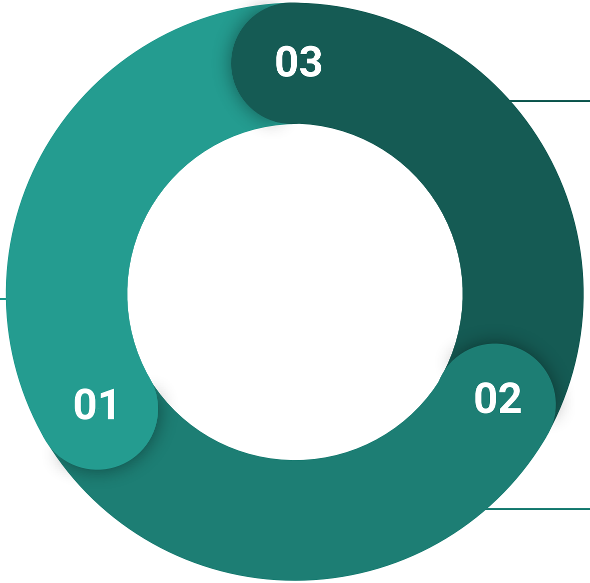


Thought Experiment: What does the above image mean for the Airline Industry in Singapore?

Customer Lifetime Value

VIVEK SUNDAR MAGESH

Delivering Customer Value



Operational Excellence

“providing customers with reliable products or services at competitive prices and delivered with minimal difficulty or inconvenience”

Customer Intimacy

“segmenting and targeting markets precisely and then tailoring offerings to match exactly the demands of those niches”

Product Leadership

“offering customers leading-edge products and services that consistently enhance the customer’s use or application of the product, thereby making rivals’ goods obsolete”

Aim to be the best at one, while maintaining industry standards in the other two.

Source: https://hbr.org/1993/01/customer-intimacy-and-other-value-disciplines

Product Centric Business Models

- Great product, and producing the same at scale!
- KPIs include market share, number of new products etc.
- Growth engines: new products and new markets
- However
  - Product life cycles have reduced
  - Competition has increased because of the internet and globalization
  - Move from selling products to solutions

Customer Centric Business Models

- Who are our most valuable customers?
- Maximize their long term value, not necessarily the additional margin of their current purchase
- Build relationships and look at the future
- Customer Acquisition: Who are the ideal customers to acquire and how much to spend?
- Customer Retention: Do we make attempts to retain every customer?
- Customer Development: Who are the best customers to be developed further

Customer Lifetime Value (CLV): Basics`

- What is CLV: The Dollar value of a customer relationship, i.e. it is the net present value of all future cash flows from a customer relationship
- How is it computed: Use past data about a customer to predict the future
- Why is it useful: How much to spend on Customer Acquisition and Retention

CLV: Example

Suppose, the monthly cost of a subscription service is \$10. Historically, a new customer is expected to stay with the service for one year. The variable costs for each customer is negligible. What's the expected CLV for a new customer?

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The margin for the company from a customer is $10-0 (variable costs)= $10

Expected duration is 12 months. Thus, expected CLV is $10 x 12=$120

Present Value (PV)

Current Value of Future Cash Flows

$$PV = \frac{Cash\ Flow}{(1+i)^t}$$

where i refers to the discount rate

As an example, if I invest $100 at an interest rate of 8%, it would grow to $108 in a year. In other words, $108 a year from now, is worth $100 now.

108/(1+.08)=100

We would apply the same principle in our CLV calculations.

CLV Model

- $M is the margin from every customer (where margin is the revenue minus the variable costs)
- $R is the retention spending
- r refers to the retention rate
- d refers to the discount rate
- Survival Rate: Probability that customer has a relation in a given period $t = r^{t-1}$

$$CLV = (M - R)(1 + \left(\frac{r}{1+d}\right) + \left(\frac{r}{1+d}\right)^2 + \left(\frac{r}{1+d}\right)^3 + \cdots)$$

$$CLV = (M - R)(\frac{1+d}{1+d-r})$$

CLV Model: Implications

• Case 1: Margin is \$10, Retention spend is \$5, r is .995 and discount rate is 1%	• Case 2: Margin is \$10, Retention spend is \$1, r is .98 and discount rate is 1%

CLV Model: Implications

• Case 1: Margin is \$10, Retention spend is \$5, r is .995 and discount rate is 1%	• Case 2: Margin is \$10, Retention spend is \$1, r is .98 and discount rate is 1%
• CLV = (10-5)*(1+.01)/(1+.01-.995) • CLV = \$336.7	• CLV = (10-1)*(1+.01)/(1+.01-.98) • CLV = \$303

CLV: Extensions

1. Duration: Infinity or only few periods? Depends on discount rate and retention rate.
   a. A low retention rate and high discount rate: much of CLV is achieved in first few periods
   b. A high retention rate and low discount rate: very less of CLV is achieved in first few periods
2. In case of businesses where revenue is obtained after service is delivered, then,

$$CLV = (M - R)(\frac{r}{1 + d - r})$$

3. Retention rates increase over time. Thus, important to calculate CLV among customers of same cohort.
4. For businesses without formal subscriptions, other methods need to be used to evaluate the retention rate, and then calculate the CLV

CLV: Customer Acquisition

An airline company is looking to acquire new customers. The retention rate historically has been 70%. An average customer spends about $450 twice a year. The variable costs are about $220. What's the maximum customer acquisition cost that the airline can afford? You may assume a discount rate of 5% per year.

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Margin per spending=\$230

Yearly value=2x\$230=\$460

Total Lifetime Value=460(1+.05)/(1+.05-.7)=\$1380

CLV: Customer Acquisition

Suppose additionally, the airline observes two groups of customers. For group A, the retention rates are 45% and the average spending is about $120. The variable costs are at $50. For group B, the retention rates are 90%, with the average spending at $600. The variable costs are at $290.

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CLV for group A=70*(1.05)/(.6)=$122.5

CLV for group B=310*(1.05)/(.15)=$2170

CLV and Managerial Decisions

1. Targeting of market segment
    a. CLV (Segment)=CLV(Avg Customer) * Number of customers in segment
    b. Decide marketing spend based on this
2. Marketing expenditures for a particular customer: How much is one worth?
3. Fire customers with negative CLV
4. Customer acquisition: spend should be less than CLV of particular customer
5. Customer retention: spend should be less than difference in CLV
6. Margin expansion: up-selling, cross-selling and cost cutting resulting in high enough CLV to cover costs of investments

References

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8) HBS, Marketing Analysis Toolkit: Customer Lifetime Value Analysis