Principles of Marketing Notes

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Chapter 1

Introduction to Marketing

Definition 1.1. *Marketing*
Marketing is a process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The role of marketing is to understand the organization's customers and markets in an effort to develop strategies to sell products or services that produce profit.

The role of marketers is to focus on the needs and wants of the company's customers. They are also responsible for scanning the environmental factors within and outside the firm to identify strengths, weaknesses, opportunities, and threats. They develop strategies that address the price, place and promotional mix of the firm's products to maximize sales revenues.

1.1 The Marketing Strategy

Definition 1.2. *Marketing Strategy*
A marketing strategy is the set of actions taken to accomplish organizational objectives.

Definition 1.3. *Strategic Planning*
Strategic Planning is the process of thoughtfully defining a firm's objectives and developing a method for achieving those objectives.

Definition 1.4. *Marketing Mix*
The marketing mix is a combination of activities related to product, price, place and promotion (commonly referred to as the 4 Ps) that represent areas a firm can adjust to influence demand for its good, service, or idea

Definition 1.5. *Customer value*
The perceived benefits , both monetary and non-monetary, that customers receive from a product compared to the cost associated with obtaining it.

Quality marketing strategies have three fundamental characteristics:

1. They are specific
2. They are measurable
3. They are realistic

1.2 Needs and Wants

Needs are states of felt deprivation. Examples of needs include food, clothing, shelter, transportation, and safety. Marketers do not create needs; they are a basic part of our human makeup.

Want is something you would like to have. Most marketers create products and services to appeal to those wants. Wants are typically shaped by a customer's personality, family, job, background, and previous experience.

Demands are just wants backed by buying power.

Example: If you're hungry, food becomes a necessity (i.e., a need). But eating a pizza is a want. You might want to own a private jet but you may not have the money to. So, that is a want but not a demand. However, if Jeff Bezos wanted to buy a(nother) private jet, it would be a demand since he has the buying power to purchase it.

1.3 4 Ps of the Marketing Mix

1. Product (Creating Value)
   (a) A product is a specific combination of goods, services or ideas that a firm offers to customers. Services are products, but they are intangible products. Note that a product can also be an idea.
   (b) When marketers successfully match products to consumers' needs and wants, consumers are more likely to purchase and use those products, and that is where value is created.
2. Pricing (Capturing Value)
   (a) Price is the amount of something - money, time or effort - that a buyer exchanges with a seller to obtain a product.
   (b) Pricing is typically the easiest and most common marketing mix element to change.
   (c) For firms to capture value, they must identify ways in which they can gain in some way through the exchange. Price is the primary way that firms can capture value from customers. Marketers must determine the appropriate price that customers are willing to pay in order to best capture value for that product or service.
3. Place or Distribution Channels (Delivering Value)

(a) Place includes the activities that a firm undertakes to make its product available to potential customers. It includes location, distribution, inventory management, and even where to put an item in a store.

(b) Place is important because even if you have the right product and the right pricing, if customers can't easily purchase the product, they'll probably find an alternative.

(c) The product or service must be physically available or easily accessible to customers.

4. Promotions (Communicating Value)

   (a) Promotion refers to all the activities that communicate the value of a product and persuade customers to buy it.

   (b) Successful promotion involves the firm's ability to integrate its promotional activities in a way that maximizes the value of each.

   (c) The elements of "The Promotional Mix" are Advertising, Sales Promotion, Personal Selling, Public Relations and Direct Marketing.

   (d) A company must communicate the product's potential value to customers.

Chapter 2

Marketing Strategy and Environmental Scanning

2.1 Marketing Environment

Definition 2.1. *Marketing Environment*
The marketing environment comprises of internal and external factors that affect firms and may help or hurt a product in the marketplace.

Definition 2.2. *Environmental Scanning*
It is the act of monitoring developments outside of the firm's control with a goal of detecting and responding to threats and opportunities.

The firm's immediate environment is made up of both internal and external factors. Internal factors are elements that a company has direct control over. Example: employees, products, manufacturing process.
A firm's immediate environment comprises the internal structure of the firm as well the firm's customers and corporate partners.

Definition 2.3. *Micro-environment (Internal Factors)*
Actors in firm's immediate environment affecting its abilities to serve its customers. They include the suppliers, marketing intermediaries, competitors and publics.

We normally use a SWOT Analysis for micro-environmental factors. SWOT is an abbreviation for Strengths, Weaknesses, Opportunities, and Threats.

Definition 2.4. *Macro-environment (External factors)*
Larger societal forces affecting all actors in a firm's micro-environment. These are outside the direct control of marketers.

We normally use PESTLE analysis, which stands for: Political, Economical, Socio-Cultural, Technological, Logistical, and Environmental Factors.
External Environmental Factors are:

1. Demographic
   (a) Age
   (b) Gender
   (c) Education
   (d) Ethnicity
2. Economic
   (a) Gross Domestic Product (GDP)
   (b) Income Distribution
   (c) Consumer Confidence
   (d) Inflation
3. Socio-cultural - trends, culture shift, etc.
4. Political/Legal
   (a) To ensure businesses compete fairly with each other - Sherman Antitrust Act (1890) to eliminate monopolies and guarantee competition. Robinson-Patman Act (1936) - refined prohibitions on selling the same product at different prices
   (b) To ensure businesses don't take advantage of consumers - Fair Packaging and Labelling Act (1966) guarantees that products are labelled correctly. Credit Card Accountability, Responsibility and Disclosure Act (2009) banned unfair credit card rate increases
5. Competitive - both direct and indirect competitors.
6. Technological chanes.

2.2 Sustainable Competitive Advantage

All firms have competitors that broadly fall under two categories - direct competitors and indirect competitors.

Definition 2.5. *Direct Competitors*
Firms that compete with products designed around the same or similar characteristics.

Example: Pepsi and Coco-Cola are direct competitors

Definition 2.6. *Indirect Competitors*
Firms that compete with products that have different characteristics but serve a similar function.

Example: LEGO competes indirectly with Sony Playstation since both target the same demographic and are different types of games.

Definition 2.7. *Competitive Advantage*
A competitive advantage is the superior position a product enjoys over competing products if consumers believe it has more value than other products in its category.

Products that exhibit characteristics that are rare, valuable, and difficult to imitate are likely to have a **sustainable competitive advantage.**

There are four elements of excellence required to create a sustainable competitive advantage. They are:

1. Customer Excellence
   (a) The most fundamental way by which marketers create customer excellence is by producing products that provide value, satisfaction and quality to customers.
   (b) This results in customer loyalty.
2. Operational Excellence
   (a) It is a strategy of focusing operational principles, systems, and tools on improving customer satisfaction with the firm's products and services.
   (b) The key factors for creating an environment for maximum performance are:
      i. Leadership
      ii. Adequate Resources
      iii. Clear Company Objectives
      iv. Non-conflicting relationships
      v. Specific, Measurable, and Realistic Objectives
3. Product Excellence
   (a) It is a strategy that focuses on the importance of high-quality and value adding products.
4. Locational Excellence
   (a) The key to business success is ”location, location, location”

2.3 Marketing Growth Strategies

	Existing Products	**New Products**
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Market Penetration strategies emphasise increased sale of existing goods and services to existing customers.

Product Development involves creating new goods and services, which are generally related to the existing products, for existing markets.

Market Development strategies focus on selling existing goods and services to new markets.

Diversification strategies seek to attract new customers by offering new products that are unrelated to the existing products being produced.

2.4 Global Marketing

Why do companies engage in global marketing?

1. Because they can
2. Larger markets
3. Increases profits
4. Necessity
5. Demand
6. Innovation

2.4.1 Global Marketing Research

1. Analyze the global market
2. Obtain specific information about competitors.

2.4.2 Challenges

1. Challenges of a new demographic market
2. Impact of economic factors
   (a) Currency fluctuation
   (b) Income distribution
   (c) Exchange rates
3. Socio-cultural factors - cultural fit. Consumer ethnocentrism refers to a belief by residents of a country that it is unethical and immoral to purchase foreing-made goods.
4. Political-legal factors - currency manipulation occurs when the government of one country artificially controls the value of its currency reltive to the currencies of other countries
5. Competitive factors - competing with local companies
6. Technological factors

2.4.3 Market Entry Strategies

The following are in order from low risk, low potential return to high risk, high potential return

1. Exporting - low risk, low potential return
2. Licensing - legal process in whiich one firm (the licensee) pays to sell or distribute the resources of other firm (the licensor)
3. Franchising - the franchisor provides the franchisee the right to use the name and marketing and operational support in exchange for a fee and a share of the profit
4. Joint venture - a domestic firm partners with a foreign entity to create a new entity and thus allows the domestic firm to enter the foreign firm's market. JV works best when the strategic goals align but their competitive goals diverge
5. Direct Ownership - requires a domestic firm to actively manage an overseas facility - requires far more commitment and resources

Chapter 3

Market Research

3.1 The Marketing Research Process

There are 5 main steps for conducting a market research. They are:

1. Problem Definition
2. Plan Development/ Research Design
3. Data Collection
4. Data Analysis
5. Taking action

3.1.1 Problem Definition

The research objectives should be clear, specific and measurable.

3.1.2 Plan Development

This involves deciding what specific type of research should be used and what sampling methods should be employed.

Types of Research

There are 3 main types of research. They are:

1. Exploratory research - used by researchers to explore an area regarding which they don't have much information. It aims to uncover insights regarding the consumer's needs and wants, typically through observations and interviews.
2. Descriptive research - used by researchers when they have some information regarding the problem but need to describe it in greater detail in order to enable decision making. It aims to understand consumer behaviour, i.e, it answers the "who", "when", "where", "what" and "how". But note that it cannot answer the "why".
3. Causal/Experimental research - used to understand the cause-and-effect relationship between variables.

Sampling Methods

Definition 3.1. *Sampling*
Sampling is the process of selecting a subset of the population that is representative of the whole target population. Feedback gathered from this sample can be generalised back to the entire target population.

It is important to note that how the sampling is conducted is critical to the validity of the research findings.
There are 2 broad kinds of sampling. They are:

1. Probability sampling - ensures that every person in the target population has a specific chance of begin selected. An example of probability sampling is simple random sampling, in which case everyone in the target population has an equal probability of being chosen.

2. Non-probability sampling - it contains an element of judgement in which the researcher narrows the target population by some criteria before selecting participants. Quote sampling, in which the firm chooses a certain number of participants based on selection criteria such as demographics, is one example. Snowball sampling, in which a firm selects participants based on the referral of other participants who know they have some knowledge in the subject in question, is another example.

Probability sampling enables researchers to generalize findings from a sample to the target population while non-probability sampling does not. However non-probability sampling can generate findings that may be more appropriate to the research question.

3.1.3 Data Collection

Primary Data Collection

Primary data collection is when researchers collect data specifically for the research problem at hand. This can either be qualitative or quantitative.

Qualitative research is characterized by in-depth, open-ended examination of a small sample size. It is often used for exploratory and descriptive research. Examples include interviews and focus groups. Interviews are conducted one participant at a time, with the researcher asking open-ended questions. However, they are quite time-consuming. Focus groups, on the other hand, interview a small group of people (around 10) at a time, where the participants interact with each other in a spontaneous way, which provides insights for the researchers.

Quantitative research is characterized by asking few specific and measurable questions to a larger sample size and is often useful for causal research. Examples include surveys, experiments and mathematical modelling.

Secondary Data Collection

Secondary data refers to data that is collected by someone other than the primary user. Common sources of secondary data for social science include censuses, information collected by government departments, organizational records and data that was originally collected for other research purposes.

3.1.4 Data Analysis

Data analysis converts the data collected into information that can be used to tackle the problem defined in step 1.

Analysing Qualitative Data

Since there are limitations on the responses by the participants, researchers can uncover new insights that they had not expected. Usually, data is summarized using a process called coding.

Definition 3.2. *Coding*
Coding is the process of assigning a word, phrase, or number to a selected portion of data so that it can later be easily sorted, summarized and analysed. The words, phrases, or numbers assigned to the data are called codes.

Qualitative Data analysis can be difficult to measure objectively and without bias. It requires the interpretation of subtleties and nuances.

Analysing Quantitative Data

This can be done faster and at a lower cost than qualitative data analysis. It is useful to understand the cause-and-effect patterns in consumer behaviours.
It involves using statistical analysis. The 2 main types of statistics are:

1. Descriptive statistics - used to describe characteristics of the research data and study sample. It cannot be used to generalise claims about the target population from which the sample was drawn.

2. Inferential statistics - used to make inferences about a large group of people from a smaller sample. They include multiple variables. Some inferential statistics are used to explore differences between groups of people while others examine relationships among variables.

3.1.5 Taking Action

The end result of the market research process is a formal report to the decision makers, which includes a summary of the findings and recommended actions to address the problem. It is important for research findings to be presented clearly and using visual aids. Most importantly, the report should communicate any limitations of the research so that the firm understands the validity of the research. An oral presentation is often given along with the written report.

3.2 Marketing Research Data

Definition 3.3. *Data*
Data are facts or measurements of things and events. They are the foundation of research.

But, data cannot itself tell the whole story. It needs to be analyzed and converted to information in order for it to be meaningful.

Definition 3.4. *Information*
Information is the result of formatting or structuring data to explain a given problem.

It is information, and not data, that enables marketing decision making

	Primary Data	**Secondary Data**
Collection Methods	Surveys, interviews, focus groups, experiments, case studies	Company records, online searches, literature reviews, government reports, academic journals
Advantages	Pertain to the firm's research and provide insight to why consumers make certain choices	Cheaper and easily accessible information
Disadvantages	Costly, time-consuming and difficult to get participants to respond	Data may not be relevant or accurate or it may be biased
Uses	Understand consumer motivation, Determine the effect of variables on product choice, Gain feedback of company's existing and proposed products	To gather socioeconomic data, To gather macroeconomic data, To gain insight into international cultures and markets, To obtain information about competitors

Table 3.1: Differences between Primary and Secondary Data

3.3 Validity of Experiments

Definition 3.5. *Internal Validity*
It is the extent to which the changes in the outcome variable were actually caused by manipulations of the independent variable conditions. The higher the internal validity, the more faith we can have in the cause-and-effect relationship demonstrated

Definition 3.6. *External validity*
It is the extent to which the results of the experiment can be generalized beyond the sample size of the objects. The higher the external validity, the more likely it is that the cause-and-effect relationship demonstrated by the experiment will be found across similar real-world settings.

Field experiments tend to be lower in internal validity but higher in external validity, whereas laboratory experiments tend to be higher in internal validity but lower in external validity.

3.4 Ethics of Market Research

The key ideas behind the ICC (International Chambers of Commerce)/ESOMAR International Code on Market, Opinion and Social Research and Data Analytics are summarized below:

1. Market researchers shall conform to all relevant national and international laws.
2. Market researchers shall behave ethically and shall not do anything which might damage the reputation of market research
3. Market researchers shall take special care when carrying out research among children and young people
4. Participant cooperation is voluntary and must be based on adequate, and not misleading, information about the general purpose and nature of the project when their agreement to participate is being obtained, and all such statements shall be honoured
5. Market researchers shall never allow personal data they collect in a market research project be used for any other purpose.
6. Market researchers shall ensure that projects and activities are designed, carried out, report and documented accurately, transparently, and objectively.
7. Market researchers shall conform to the accepted principles of fair competition.

Chapter 4

Consumer Behaviour

4.1 Consumer Purchase Decision Process

Definition 4.1. *Consumer Behaviour*
Consumer behaviour is the way that individuals and organizations make decisions to spend their available resources, such as time or money.

Generally, consumers go through a common decision-making process involving the following 5 stages:

1. Problem Recognition
2. Information Search
3. Evaluation of Alternatives
4. Purchase
5. Post-Purchase Evaluation

4.1.1 Problem Recognition

The buying process begins when consumers recognize they have a need to satisfy. This is the problem recognition stage.
Marketers must understand all aspects of the consumer's problems, even those that are less obvious, to create products that improve or enhance consumers' lives.
Marketers must keep in mind that if consumers are not aware of a problem or do not recognize a need, they are unlikely to engage in any of the subsequent steps of the buying process.

4.1.2 Information Search

Consumers keep information to help them make the best possible decision about whether to purchase a product to address their problem. They search for external as well as internal information.

External Information Search

When consumers seek information beyond their personal knowledge and experience to support them in their buying decision, they are engaging in an external information search. Example: a consumer can ask his friends and family for their opinion on a particular product.

Internal Information Search

For frequently purchased items like toothpaste or soap, internal information often provides a sufficient basis for making a decision, i.e., consumer can use their past experiences with items from the same brand or product class as sources of information.

4.1.3 Evaluation of Alternatives

Consumers use the information gathered to evaluate different alternatives, by identifying the benefits associated with each product. Consumers' evaluative criteria consists of attributes that they consider important about a certain product.

4.1.4 Purchase

After evaluating the alternatives, consumers are likely to purchase a product. Since consumers have a lot of decisions to make while purchasing a product (including price, financing terms, lower interest rates, etc.), marketers do everything they can to help you make a decision to purchase their product. Hence, an effective marketing strategy seeks to minimize any small decisions that could delay or derail the actual decisions to purchase. Some companies offer services to remove any roadblocks from a consumer making a purchase and to not let the customer get bogged down by the details.

4.1.5 Post-Purchase Evaluation

This occurs after the purchase is complete. Consumers will evaluate their feelings and perceptions of the buying process and the product, which can result in either positive or negative assessments. These assessments are important because they impact consumers' future buying decisions.
Three main things considered after purchase include:

1. Customer Satisfaction - it is the state achieved when companies meet the needs and expectations customers have for their goods and services.

2. Cognitive Dissonance - it is the mental conflict that occurs when consumers acquire new information that contradicts their beliefs or assumptions about the purchase. It is also called buyer's regret since consumers begin to wonder whether they made the right purchase decision.

3. Loyalty - it is an accrued satisfaction over time that results in repeat purchases.

4.2 Influences on Consumer Behaviour

4.2.1 Psychological Influences

Through the course of the consumer decision-making process, consumers engage in certain psychological processes: they develop **attitudes** about a product's meaning to their lives, they **learn** about the product, and they must be **motivated** to purchase the product.

Attitude

An attitude is a consumer's overall evaluation of a product, which involves general feelings of like or dislike

Learning

Learning refers to the modification of behaviour that occurs over time due to experiences and other external stimuli.
Learning normally begins with a stimulus that encourages consumers to act to reduce a need or want, followed by a response, which attempts to satisfy that need or want. Marketers can capitalize on consumer learning by designing marketing strategies that promote reinforcement. Learning is important because when a consumer learns that a product or service satisfies a need and solves a problem, that product or service moves up to the top of the information search the next time the consumer recognizes the problem.

Motivation

Motivation is the inward drive people have to get what they want or need.
Maslow's hierarchy of needs illustrates the belief that people are motivated to meet their basic needs before fulfilling higher-level needs. The order (from highest to lowest) of Maslow's hierarchy is as follows:

- Self-Actualization - Creativity, spontaneity, problem-solving, lack of prejudice
- Esteem - Confidence, achievement, respect of others, respect by others
- Love/Belonging - Friendship, family, sexual intimacy
- Safety - Security of body, employment, resources, family, health, property
- Physiological - Breathing, food, water, sleep

4.2.2 Situational and Personal Influences

Time

Consumers value their time greatly and time consideration often affect their purchasing decisions. Reducing the time a consumer spends interacting with a firm is vital. Consumers are often willing to pay more for products if the placement of those products saves them time. Immediacy of the need plays a role in how fast the buying process occurs. Often consumers are forced to skip steps in the buying process in response to an emergency or an immediate need.

Personality

Personality is the set of distinctive characteristics that lead an individual to respond in a consistent way to certain situations.

Lifestyle

Lifestyle is a person's typical way of life as expressed by his or her activities, interests and opinions. Marketers can potentially reach their targeted consumers by sponsoring events related to interests or activities those consumers are passionate about, or through social media advertising.

Values

Values reflect a consumer's belief that a specific behaviour is socially or personally preferable to another behaviour.

Surroundings

The actual location of the product impacts your purchase decision and behaviour. Example: smell of the store, crowd size, etc.

4.2.3 Sociocultural Influences

Family Influence

Children often greatly influence a household's purchase decisions, particularly when it comes to grocery shopping and dining out. Some suggest that marketing to children is unethical because children are impressionable and can be easily manipulated by marketing messages. So, marketers must practice caution when marketing to children so as to not take advantage of them.
There are 6 stages of the family life cycle:

1. Single
2. Married
3. Young Family
4. Family with Teens
5. Empty Nest
6. Survivor

Reference Groups

References groups can provide consumers with new perspective on how to live their lives. A reference group is made up of people to whom a consumer compares himself or herself. Marketers should understand that the more public the purchase decision, the more impact reference groups are likely to have.
There are 3 customer reference groups:

1. Membership Reference Group - the group to which the consumer actually belongs. They include school clubs, fraternities, workplace.
2. Aspirational Reference Group - the individuals a consumer would like to emulate. Examples are celebrities, actors, athletes, etc.
3. Dissociative Reference Group - the people that a consumer would not like to emulate. Examples include ”uncool” groups.

Opinion Leaders

Individuals who exert an unequal amount of influence on the decisions of others because they are considered knowledgeable about particular products are called opinion leaders. They include social media influencers, celebrities, etc.

	Low involvement Purchase	**High-involvement Purchase**
Price	Inexpensive	Expensive
Preparation	Requires little forethought	Requires Research
Frequency	Frequently purchased	Rarely purchased
Risk	Limited Risk	High Risk

Table 4.1: Low-involvement vs High-involvement

4.3 Involvement Influences

4.4 Variations of the Consumer Purchase Decision Process

4.5 Micro-moments

Definition 4.2. *Micro-moments*
Micro-moments occur when people reflexively turn to a device - increasingly a smartphone - to act on a need to learn something, do something, discover something, watch something, or buy something. They are intent rich moments when decisions are made and preferences shaped.

There are 4 kinds of micro-moments:

- I-want-to-know moments - When someone is exploring or researching topics or products, but is not necessarily looking to purchase.
- I-want-to-go moments - When someone is looking for a local business or is considering buying a product at a nearby store.
- I-want-to-do moments - When someone wants help or needs instructions for completing a task or trying something new.
- I-want-to-buy moments - When someone is ready to purchase something and may need help deciding what to purchase or how to purchase it.

	Routine Problem Solving	**Limited Problem Solving**	**Extended Problem Solving**
Example	Toothpaste	New Smartphone	New car
Frequency of Purchase	Regularly	Occasionally	Infrequently or never
Experience in Purchasing	Experienced	Some experience	None or little experience
Level of Involvement	Usually low level	Mid-level	High level
Coverage of Decision-making Stages			
Problem Recognition	Yes	Yes	Yes
Information Search	No	Limited amount	Yes
Evaluation of Alternatives	No	Limited amount	Yes
Purchase	Yes	Yes	Yes
Post-Purchase Evaluation	Limited amount	Yes	Yes

Table 4.2: Variations of the Consumer Purchase Decision Process

Chapter 5

Segmentation, Targeting and Positioning

5.1 Segmentation

Definition 5.1. *Market Segmentation*
Market Segmentation is the process of dividing a larger market into smaller groups, based on meaningfully shared characteristics. It helps firms understand the needs and wants of customers

Market Segments are the similar groups of consumers resulting from the segmentation process. Marketers consider various different methods (called bases) to segment markets. The four main segmentation bases are demographic, geographic, psychographic, and behavioural.

5.1.1 Bases of Market Segmentation

Demographic Segmentation

It uses age, gender, income, marital status and family type to segment the market.

Geographic Segmentation

It divides the market based on market size, customer convenience, etc.

Psychographic Segmentation

It segments the market based on customers' lifestyle. It divides the market into groups based on the reasons for purchasing the product. One example is the VALS framework which segments the market of adults over 18 years into the following segments - Innovators, Thinkers, Believers, Achievers, Strivers, Experiencers, Makers and Survivors - according to how to they respond to set of attitudinal and demographic questions. VALS measures 2 dimensions - primary motivation and resources. It identifies 3 main primary motivations: ideals, achievement, and self-expression. The availability of emotional and psychological resources, such as self-confidence, as well as key demographics such as income and education, affect each group's ability to act on its primary motivation.

Behavioural Segmentation

This involves categorizing customers based on what they actually do or how they act towards products. It helps marketers clearly understand the benefits sought by different consumer segments. However, it is also the most difficult base to use because it is expensive and time-consuming to track how customers react and respond to products. The 80/20 rule says that 20 percent of the customers use the product about 80 percent of the time - it has got to do with usage rate.

The main difference between behavioral and psychographic segmentation is that behavioral segmentation focuses on how consumers interact and engage with products and brands, while psychographic segmentation focuses on customer personalities, activities and interests.

5.1.2 Criteria for Effective Market Segmentation

- Substantial - The market segments must be large enough for firms to make a profit by serving them.
- Measurable - The size and purchasing power of each segment should be measurable
- Differentiable - There is no point in segmenting the market if all segments respond the same way to different marketing strategies.
- Accessible - Marketers must be able to reach and serve the market segment.
- Actionable - Marketers should be able to develop strategies that can attract certain market segments towards their firms' goods and services

5.2 Targeting

Definition 5.2. *Targeting*
It is the evaluation of market segments to determine segments that present the most opportunity to maximize sales. The segments selected are called target markets.

Targeting markets helps firms design specific marketing strategies.
Firms need to make sure that they are targeting the correct market segments. To do this, they use three main criteria in the target selection process:

1. Growth Potential - Higher the growth potential, more attractive is the segment
2. Level of Competition - More intense the competition within a segment, the less attractive is the segment.
3. Strategic Fit - The selected market segments should fit with what the organization is and wants to be as defined in its mission statement.

The SWOT analysis provides an excellent framework for a firm to determine whether it will be successful at targeting a particular segment.

5.2.1 Target Marketing Strategies

There are three main strategies for targeting markets. They are:

1. Undifferentiated targeting
2. Differentiated targeting

3. Niche marketing

Once they have chosen one or more target markets, they can start positioning their product and brand. This is called market positioning.

Undifferentiated Targeting

Such a strategy approaches the entire market as one target segment. It approaches all customers with the same product offering and marketing mix.
Such a strategy works best for uniform products. Example: salt, bananas, etc.

Differentiated Targeting

Differentiated targeting occurs when a firm simultaneously pursues several different market segments with a different marketing mix for each.
Firms that market the same product to multiple regions with different preferences often use differentiated targeting. In such cases, the product is modified slightly to meet the unique needs of each segment. Example: Subway sells all kinds of different types depending on the region

Niche Marketing

Consumers of niche marketing typically have very specialized needs and will pay higher prices to meet those needs. Niche marketing involves targeting a large share of a small market segment. New small firms often turn to niche marketing. The benefit of niche marketing is that a smaller firm can often identify a target market that is big enough to sustain the firm, yet small enough to be ignored by large competitors.

5.3 Positioning

Definition 5.3. *Positioning*
Positioning relates to how consumers see a company's product or service in relation to competitors in the marketplace. It is a company's efforts to influence the customer's perception about its products, services, and ideas.

To signal to customers the benefits of a company's product versus the competitors', firms may focus their positioning strategies on certain product attribute, features, price points, value perceptions, or other brand dimensions.
Positioning assumes that consumers compare benefits of competing products and brands against each other. The features that lead to benefits desired by target markets are used to develop products and brands. Market positioning helps firms decide how to allocate their marketing resources based on their positioning goals.

5.3.1 Key Steps to Effective Marketing Positioning

1. Analyze competitor's advantage
2. Highlight competitive advantage
3. Evaluate consumer feedback and understand its importance

Analyze competitor's advantage

To start, firms need to understand the position of other competitors in the marketplace. Positioning does not occur in isolation, and it is important for marketers to have a realistic view of how customers perceive competitive advantage.
A **perceptual map** provides a valuable tool for understanding competitors' position in the marketplace. It creates a visual picture of where products are located in the consumers' mind. It provides guidance on potential market positions that might be unserved or undeserved.

Highlight competitive advantage

Marketers need to understand why consumers buy their firms' goods and services. Then, they use the following strategies to highlight their competitive advantage

- Price/Quality Relationship
- Attributes
- Application

Evaluate consumer feedback and understand its importance

The third step is to continually evaluate consumer feedback. Consumer tastes change and firms need to be aware of the current consumer preferences in order to stay relevant in the market.

5.3.2 Repositioning

Repositioning involves reestablishing a product's position to respond to changes in the marketplace. Customers are always changing. Needs and wants shift over time and consumers' perceptions of market offerings will also shift, especially as new products and competitors come in the picture and lifestyles change. In extreme cases, firms may decide to abandon an existing product to develop a new one. But in most cases, firms will reposition themselves after considering their own marketing mix and their competitors' positions.

Changing the marketing mix

Repositioning can involve changing one or more marketing mix elements, the most common being product and promotion.

Repositioning the competition

Sometimes, marketers choose to reposition the competition rather than change their own position. One of the best example is Apple - it had great success repositioning its PC competitors using the popular "I'm a Mac, I'm a PC" advertisements that compared the capabilities and attributes of Macs and PCs. It characterized PC as formal and stuffy while portraying Mac as relaxed and user friendly.
This is also commonly used in political marketing as strategists look to define their opponent negatively without changing their own candidate's positions.

"To stay in business, keep an eye on your segments, targets, and positions"

Chapter 6

Product Strategy and Services Marketing

Definition 6.1. *Halo Effect*
The halo effect is a term for a consumer's favoritism toward a line of products due to positive experiences with other products by this maker. The halo effect is correlated to brand strength, brand loyalty, and contributes to brand equity.

Definition 6.2. *Product*
A product is the specific combination of goods, services, or ideas that a firm offers to its target market

- **Goods** - tangible products (like iPhone, food, etc.)
- **Service** - intangible products that cannot be touched, weighed or measured. (like banking, healthcare, etc.)
- **Ideas** - also intangible and represent formulated thoughts or opinions. (like Nike's "Just Do It")

6.1 Components of a Product

Every product has three components:

1. **Core Product** - relates to the basic benefit obtained by consumers of this product
2. **Actual Product** - involves the the form of the product itself such as the brand, features, quality, style, size, color and packaging
3. **Augmented Product** - contains the service, experiences, warranties, and financing that enhance the product value.

6.2 Classification of Products

1. Convenience Products
2. Shopping Products

3. Specialty Products
4. Unsought Products

6.2.1 Convenience Products

They are often purchased frequently and are rather inexpensive to buy. Consumer involvement is very low in the purchase process.
Examples include buying milk, bread, etc.

6.2.2 Shopping Products

Requires moderate consumer involvement in the purchase process. Consumers typically allocate considerable time to compare brands and product features before making a purchase decision.
Examples include buying a smartphone, cars, insurance, furniture, etc.

6.2.3 Specialty Products

Require high consumer involvement in the purchase process. These purchases tend to be expensive, purchased infrequently, and specific. They are usually one of a kind or rare. Because of the unique nature of such products, consumers are less likely to settle for a similar product, even if one exists.
Examples include buying a Rolls Royce, Rolex watch, Artwork

6.2.4 Unsought Products

Require substantial marketing and sales effort because consumers are unlikely to purchase these products independently. Unsought products are often thought of as products you don't need, until you need them. Often, they become important after some unexpected change or accident.
Examples include the service of a tow truck, plumber, or even a defense attorney. They also include goods like a prosthetic leg.

6.3 Product Line and Product Mix Decisions

Definition 6.3. *Product Item*
A single specific product such as an iPhone 13 Pro Max

Definition 6.4. *Product Line*
Consists of different versions of a product within a product category

In other words, product lines are composed of multiple product items in a product category.
The **product mix** includes all of a company's products.
The **product mix breadth** refers to the number of different product lines that a company offers whereas the **product line depth** refers to the number of products within each product line.

6.4 Branding

Definition 6.5. *Brand*
Brand is the name, term, symbol, design or any combination of these that identifies and differentiates a firm's products.

Successful branding entails the following 4 items:

1. **Deliver a Quality Product** - A strong brand provides continued value and quality to customers over time.
2. **Create a Consistent Brand Image** - All of the firm's marketing decisions, promotions, employees should reinforce the brand by providing a consistent experience for consumers.
3. **Create Consistent Brand Messaging** - Brand messaging should be consistent and concise. It should be easy to remember. Too many messages will confuse customers as to why they should purchase a brand.
4. **Capture Feedback** - Because the power of a brand exists in the minds of a consumer, marketers must capture and analyze consumer feedback. The firm can then use this data to identify problems and improve the customer experience.

The outcome of successful branding is the creation of brand equity.

Definition 6.6. *Brand equity*
Brand equity is the value the firm derives from customers' positive perception of its products

6.4.1 Components of Brand Equity

- **Brand Recognition** - It is the degree to which customers can identify the brand under a variety of circumstances. Examples include the Nike or Apple or McDonald's brand marks. A benefit of recognition is that it increases the likelihood of more consumers purchasing a brand's product
- **Brand Associations** - These are consumer thoughts connected to the consumer's memory about the brand. consumers form associations based on several factors, including engagement with the firm and its employees, advertising messages, price, product usage, product displays, publicity, consumer reviews, celebrity endorsement. Strong associations induce brand purchases and generate positive reviews.
- **Perceived Quality** - It is the consumer's perception of the overall quality of a brand. In assessing quality, the consumer takes into account brand performance as it relates to personal parameters and expectations. Quality is one of the main reasons for consumer preference for a brand in any product category.
- **Brand Loyalty** - It is the customer's steadfast allegiance to a brand by repeatedly purchasing it. Brand loyalty develops over time because of a customer's satisfaction with a firm's products. A benefit of brand loyalty is that brand-loyal customers are typically less price-sensitive, making them an important contributor to a firm's long-term success and profitability. Example: Apple customers are generally fiercely loyal and will not easily consider purchasing any competitor's products.

6.4.2 Brand Ownership

Private label brands (store brands) are products developed by a retailer and sold only by that specific retailer. Private label goods and services are available in a wide range of industries, from food to cosmetics to web hosting. They are often positioned as lower cost alternatives to well-known **manufacturer brands (national brands)**. An example would be FairPrice developing its own brand of chips selling only at FairPrice stores while Calbee chips sell everywhere.
Private label brands offer 2 advantages over manufacturer labels:

- Potential for higher profits on private label brands can be more desirable than the profit returns on manufacturer brands
- Successful private label brands provide consumers with a reason to shop exclusively at their stores (since their products are not sold at other stores). Otherwise, the repertoire of products available in one retail store as compared to another may be nearly indistinguishable. Consequently, private label brands can help retailers differentiate themselves from competitors and create a sustainable competitive advantage.

6.4.3 Branding Strategy

Brand Extension

Companies that already possess a strong brand and high brand equity can pursue a brand extension strategy. Brand extension involves broadening the use of an organization's current brand to include new products. Unlike product extensions, in which a firm expands within the same product category, brand extensions involve taking a brand name into a different product category. A brand extension enables new products to profit from the recognition and acceptance the brand already enjoys.
However, marketers should be cautious regarding the following:

- The firm must ensure that the extension lives up to the quality that customers expect from the brand. If the quality is low, the firm not only jeopardizes sales but also customer trust and brand loyalty
- Brand extensions must be implemented while avoiding cannibalization. Cannibalization occurs when new products take sales away from the firm's existing products rather than generating additional revenues or profits through new sales.

Brand Revitalization

Brands can be ruined via mismanagement. Brand revitalization, or rebranding, is a decision made by the firm to recapture lost sources of brand equity and identify and establish new sources of brand equity. Revitalization should begin with an investment in rebuilding trust with customers.

Co-Branding

Co-branding occurs when 2 or more companies issue a single product in an effort to capitalize on the equity of each company's brand. It is an alternative to extending a firm's brand through new product development since a firm can choose to increase its own brand equity by leveraging the equity of another brand using co-branding.
If one of the brands involved in co-branding receives negative publicity, it could impact the co-branding partner too.

6.5 Packaging Function and Design

Most physical products require some form of packaging. Marketers have started to use packaging not only to protect their product for shipping and display, but also to set it apart from its competitors.
Packaging designs serve four main functionalities as follows:

- Contain and Protect Products
- Advertise and Promote Products
- Increase the convenience of the Product
- Be sustainable

6.5.1 Contain and Protect Products

The packaging must be durable and able to protect the product within from physical damage as it travels through ships, trains and trucks. It must also protect a product from any change in temperature or weather. Finally, a package must be secure enough that theft of the product is deterred throughout the logistics process.

6.5.2 Advertise and Promote Products

A package also promotes the product's features and benefits to consumers. Consumers often compare packaging as a substitute for comparing the products within. The package also contains the list of ingredients, specifications, features, etc. It can also be used to promote new configurations such as changes in product's size, and other upgrades.
The shape of the packaging also promotes the product it contains. Creative shapes are used to attract new customers.

6.5.3 Increase the convenience of the Product

Earlier, packaging was viewed as disposable but now it is viewed as an extension of a product's benefit. Some reusable packaging serve multiple functions - to contain and protect the product, add convenience to the product and also remind customers of the product for an extended period after the product itself is used up.

6.5.4 Be sustainable

In recent times, heavy emphasis has been placed on the sustainability of packaging. This extends beyond just its ability to be recycled or its biodegradable properties. Reduction and redesign of packaging can also increase sustainability in other areas. By reducing size and increasing the amount of product that can be delivered by trucks and ships, companies are able to use less diesel fuel to deliver their products to stores.

6.6 Packaging and Marketing Strategy

There are 2 main strategic considerations for packaging - promoting brand image and reinforcing brand image.

6.6.1 Promoting Brand image

Packaging provides marketers with an opportunity to promote the image they want others to associate with the brand. For example, Apple's stylish yet clean packaging exudes an aura of luxury and elegance.

6.6.2 Reinforcing Brand image

Marketers can also use packaging to reinforce their brand image with consumers. Packaging is an important indicator of brand quality. Effective packaging results in an engaging and persuasive marketing tool in which the product and its packaging form a coherent whole, and the consumer forms his or her image of the brand based on this consistency.

6.7 Marketing Analytics

Firms wishing to measure the value of their brands must collect data on the value of the tangible brand assets and also on their intangible brand assets such as brand loyalty, brand recognition, and brand preference. There are a few metrics that companies can use to calculate brand equity: knowledge metrics, preference metrics, and financial metrics. Knowledge metrics include measures of brand awareness and brand associations. Preference metrics include measures of brand relevance, accessibility, emotional connection, and value. Finally, financial metrics include measures of market share, pricing data, price premium, revenue, potential revenue, growth rate, and sustainability.

Chapter 7

New Product Development

Consumer needs and preferences change over time. Hence, marketers need to regularly innovate their products to fulfil new consumer demands. For product marketers, innovation is the creation of new or significantly improved product offering. There are 5 main drivers of innovation:

- Consumer expectations
- Competition
- Globalization
- Technology
- Changing Society

7.1 Types of New Products

A new product is one that is new to the company in any way. If a product is functionally different from existing products in the market or is not marketed in its current form by the company, it can be considered a new product. Firms that have a strong R & D department will focus on developing new products to beat the competition, whereas firms that have a strong brand can extend or revamp their current product lines with similar but somehow differentiating attributes.

7.1.1 New-to-the-market Products

Products that have never been seen before and create a new market are considered new-to-the-market. Although they make up the smallest proportion of new products, they disrupt the market because they provide innovative benefits that often leave existing products obsolete.

7.1.2 New Category Entries

These are products that are not new to the marketplace, but are new to the company. They help companies compete better in an already established market or enter a new market. Entering new markets is important to businesses because it opens up a new set of customers and potentially more profits. New category entries are generally less risky than new-to-the-market products because they don't represent something that has never been sold before (and so, companies can access information on sales trends, competitor products, prices, etc.)

7.1.3 Product Line Extension

A product line is a group of related products marketed by the same firm. Product line extensions are the products that extend and supplement a company's established product line. They may add new features, functionalities, flavors, etc. These are advantageous since the company and brand may be easily recognized, customers already feel a sense of loyalty to the brand's product line. The risk involved in such products is far lower than new-to-the-market or new category products.

7.1.4 Revamped Products

A new product can take the form of a revamped product if it has new packaging, different features, and updated designs, and functions. Products with labels that indicate that it is new and improved, fall under this category. Legally, according to the Federal Trade Commission (FTC), a company can label a product new only if the product has been changed in a "functionally significant or substantial respect". Moreover, the firm can only advertise a product for being new and improved for at most 6 months after it hits the store shelves.

7.2 The Consumer Adoption Process

When a consumer purchases and uses a product, the product is said to have been adopted. The process by which the product is adopted by **diffusion** - how likely the new products are to be adopted, the rate at which they will be adopted, and the process through which their products will spread into markets. The consumer adoption process consists of 5 stages:

1. Awareness
2. Interest
3. Evaluation
4. Trial
5. Adoption

7.3 Types of Adopters

All consumers follow a similar product adoption process, but they don't all follow it at the same time. There are 5 categories of adopters:

- **Innovators** - approx 2.5% of those who adopt a product almost immediately after its launch. They are often obsessed with the idea of newness and unafraid to take risks when it comes to trying new products. In addition, they tend to be very knowledgeable, have higher-than-average income, possess self-confidence, and choose not to follow conventional norms.
- **Early Adopters** - approx 13.5%. They wait for product reviews and further information concerning new products before purchasing them. They are well-respected by their peers.
- **Early Majority** - approx 34%. They are careful in their approach, gathering information and thinking slowly regarding the purchase decision.
- **Late Majority** - approx 34%. They tend to be cautious and may not act on a new product without peer pressure. They often rely on others for information, buying a good or service because their friends have already done so.

- **Laggards** - approx 16% They tend to dislike change. They remain loyal to a product until it is no longer available for sale. They are typically older and less educated. They tend to be tied to tradition and are not easily motivated by promotional strategies.

7.4 Characteristics of New Product

7.4.1 Competitive Advantage

A product obtains a competitive advantage over competing products if consumers genuinely believe that it has more value than other products in its category.

7.4.2 Compatibility

Compatibility refers to how well a new product fits a consumer's needs, values, product knowledge, expectations, and past behaviours. For example, a new brand of beer will not be compatible in countries that abstain from alcohol due to religious reasons.

7.4.3 Observability

When people can see others using a product and perceive value in its use, the product will diffuse quickly. Some products are naturally more visible than others. For example, consumers can observe others using Airpods in many public places.

7.4.4 Complexity

The easier it is to understand and use a product, the faster it will diffuse. If the market finds a new product too difficult to use (for example, the first personal computers), adoption rates will remain low until the product is simplified. The effect of complexity may differ between regions of the world. For instance, in industrialized societies, consumers use more technologically complex products and therefore may accept and even desire intricate products that offer additional features.

7.4.5 Trialability

Generally, products that consumers can try without significant expense will diffuse more quickly than others. Customers may adopt a product they are first exposed to through trial sizes, free-sampling programs, in-store trials, etc.

7.5 New Product Development (NPD) Process

7.5.1 Stage 1: New Product Strategy Development

The firm establishes a new product strategy to align the development of products with the company's overall marketing strategy. It involves determining the direction a company will take when it develops a new product. A new product strategy should ideally also include an estimate of the profit the company hopes to make and when the firm can expect the product to be profitable.

7.5.2 Stage 2: Idea Generation

It involves coming up with a set of product concepts from which to identify potentially viable new products. Few of these ideas ever become marketed products. Idea generation can either

be internal or external.
Internal idea generation is when the new product ideas come from company employees. External idea generation involves ideas that originate from outside the company - these can be firm customers, competitors' products. etc. Firms can also outsource their product development to independent labs that provide new product ideas. **Outsourcing** occurs when a firm procures goods, services, or ideas from a third-party supplier rather than from an internal source.

7.5.3 Stage 3: Idea Screening

The firm evaluates the idea to determine whether it fits into the new product strategy during the idea screening stage. Firms may also want to ensure that the potential product meets their return-on-investment (ROI) requirements.

7.5.4 Stage 4: Business Analysis

Firms use complex business analysis to test whether the potential product will provide sufficient profit.

7.5.5 Stage 5: Product Development

The firm determines the product can be produced in a way that meets customer needs and generates profits. A **concept test** is a procedure in which marketing professionals ask consumers for their reactions to verbal descriptions and rough visual models of a potential product. A **prototype** is a mockup of the good, often created individually with the materials the firm expects to use in the final product. Prototype test ensures that the product will not be a hazard to users, that it can be produced in the company's or supplier's facilities, and that it can be manufactured at a cost low enough to generate profits.

7.5.6 Stage 6: Test Marketing

Test marketing involves introducing a new product to a geographically limited market to see how well the product sells and the reaction to it from potential users. The company normally selects test markets based on how well they mirror the overall target market in terms of demographics, lifestyles, income levels, and other factors. The selection of test markets is critical to ensuring that the results of the test will be representative of the sales the company can expect. Although the process is valuable, it is expensive and time-consuming. Further, the firm opens itself to innovation from competitors, which can diminish the advantages of being firs to market.

7.5.7 Product Launch

It involves completing all the final preparations for making the fully tested product available to the market. History is littered with examples of product launches that have been delayed due to supplier delivery issues, or quality problems. Delayed product launches often cost companies a great deal of money in overtime labour and shipping charges.

7.6 The Product Life Cycle

There are 4 main stages of the Product Life Cycle (PLC) as follows:

1. Introduction

2. Growth

3. Maturity
4. Decline

7.6.1 Introduction Stage

This is when the firm launches the product and innovators begin to buy it. There are few or not competitors in the market but sales are typically slow because customers are not yet accustomed to the product. If the product is good, the company may be able to monopolize the capacity of available suppliers, making it more difficult for other companies to get supplies of components from which they can make the product.

7.6.2 Growth Stage

Early adopters and the early majority start to buy the product during this stage. Sales and profits rise. Competitors enter the market which forces prices down. During this stage, the firm promotes the differences between its brand and the competition may refine aspects of the product by improving quality or adding new features.

7.6.3 Maturity Stage

Late majority and repeat customers buy the product during this stage. The firm earns profit and the main objective is to maintain its market share for as long as possible. Sales level off as the market becomes saturated and competition becomes fierce. Companies not doing great might drop out of the market. Marketing costs rise as competition rises.

7.6.4 Decline Stage

This stage is preceded by declining sales and profits. Little or no effort is put into changing a good's appearance or functionality at this stage because consumers have moved on to other products.

7.7 Variations of the PLC

Marketers can tailor the marketing mix for their new products appropriately at each stage of the PLC. PLCs can be of varying lengths, depending on the type of product. There are 4 common product types, each having a different PLC:

- High-learning products - takes longer for consumers to see the benefits of and often do not have a good infrastructure in place to support them.
- Low-learning products - products whose benefits can easily be understood by consumers.
- Fad products - very popular for a relatively short amount of time. Example - fidget spinner
- Fashion products - they come in and out of favor with consumers.

Chapter 8

Services

8.1 Unique characteristics of a Service

8.1.1 Intangibility

- Not physical
- Cannot be touched
- Cannot be stored
- Cannot be possessed

8.1.2 Heterogeneity

- Experience changes each time (Services can be different every time you experience them). There are 2 reasons why services cannot be perfectly standardized:
  - Services usually depend on some sort of interaction between a customer and a service provider. Since humans are involved in the production or consumption of a market offering, there's always the chance for variability.
  - Services are difficult to measure. Because there is no standardized production of services, it is difficult to know whether the service that was delivered exactly matches the service that was supposed to be delivered.
- Cannot be mass-produced

8.1.3 Inseparability

Production and Consumption must occur at the same time.

8.1.4 Perishability

- Cannot be stored indefinitely
- Cannot be reused

8.2 Service Quality

Service quality is important because there is a direct causal relationship between service quality and customer satisfaction.
Note that customer service is not necessarily the same thing as service quality. Customer service is a type of business activity - a type of service offering that companies provide to their customers. Service quality is a measurement activity of how good or bad a service experience was.
There are 3 ways to think about service quality:

- Based on objective measure of goodness or excellence of service
- Based on technical and functional qualities of the service
- Based on the evaluative perspective.

8.2.1 Objective measure of goodness or excellence of service

How good something or someone is when compared against some type of universally agreed-upon standard. Example, Google Maps is useful for navigation.

8.2.2 Technical and functional qualities of the service

First we can assess the quality of the output of the service. Because a service is an activity of doing something to someone or to something, we can always evaluate the result of a service, called technical quality. We evaluate the technical quality of the service after the service has been completed. Example, is your hairstyle better than it was before?
We can also consider the process of how that service result came to be, where we assess the quality of the service process called functional quality. Functional quality is an evaluation of the manner in which the service was provided. We assess the functional quality of the service during the service encounter. Example, was your hair stylist friendly?

8.2.3 Evaluative Perspective

A final way to think about service quality is the perspective from which we evaluate it. What a company considers quality and what the customer considers quality may not necessarily be the same.

8.3 5 Dimensions of Service Quality

From the customer's perspective, there are 5 main critical dimensions of consideration which can be described by the acronym RATER, as follows:

1. Reliability - the ability to perform the promised service dependably and accurately at the promised time
2. Assurance - the knowledge and courtesy of employees and their ability to convey trust and confidence
3. Tangibles - the appearance of physical facilities, equipment, personnel, communication materials, etc.
4. Empathy - the provision of caring, personalized attention to customers
5. Responsiveness - the willingness to help customers and provide prompt service

8.4 The Service Gaps Model

There exist 4 main gaps that firms need to consider when trying to evaluate service quality. They are:

1. Knowledge Gap
2. Design and Standards Gap
3. Delivery Gap
4. Communication Gap

8.4.1 Knowledge Gap

This is also known as listening gap. It is the difference between the actual consumer expectations and the company's perceptions of customer expectations. The only real way for companies to know what their customers want is to ask them - and then the firm must listen. When companies fail to listen to customers in order to really understand what they want from their businesses, this creates a knowledge gap.

8.4.2 Design and Standards Gap

This is the gap between the service design and standards and the service delivery. In other words, it is the difference between the company's plan and the company's execution of that plan.

8.4.3 Delivery Gap

This is the difference between what the company thinks the customer expects and how it actually delivers that service.

8.4.4 Communication Gap

This is the gap between the service delivery and the company's external communications. It is important that what the company says it does and what it actually does are very closely aligned. This is the promise part of the ”underpromise and overdeliver” saying.

8.5 Causes of Service Failure

8.5.1 Company Fault

This occurs due to poor planning, undertraining employees, overpromising in communications, or any other ways the firm can influence expectations and perceptions.

8.5.2 External Circumstances

Sometimes a service failure can be the result of unanticipated and unavoidable circumstances that are not within the company's control. For example, a flight delays due to bad weather.

8.5.3 Other Customers

Sometimes, a service failure can be the result of other customers in the immediate vicinity of the service delivery. For example, if a baby is wailing on a flight, it disturbs everyone else.
The wider the gap between service expectations and perceptions, the more likely customers will spread their experiences with others. If companies are lucky, dissatisfied customers will complain directly to them. So, a customer complaint is a gift for 2 main reasons:

- It tells the company exactly how to address the listening gap and subsequently its service design and standards to avoid future failures
- It gives the company an opportunity to recover from the failure by compensating the customer.

8.6 Meeting Customer Expectations through Service Recovery

Definition 8.1. *Service Recovery*
It refers to the actions taken by a firm in response to a service failure in order to improve the customer's level of satisfaction.

The overarching goal is to convert customer dissatisfaction into satisfaction. In fact, great companies know that dissatisfied customers create an opportunity to overdeliver. A company that ignores dissatisfied customers will eventually die out.
Companies can follow 2 rules of service recovery to improve customer satisfaction:

- Fix the Customer's Problem
- Fix the Company's Problem

8.6.1 Fix the Customer's Problem

The saying "the customer is always right" can be used as a general rule to guide service recovery. In other words, a company should do whatever it realistically can to give customers the service they expected. Obviously, the customer is not always right but the customer is always the customer - being right or wrong is less important than being satisfied or dissatisfied.
There are 3 ways in which a company can fix the customer's problem

- Act quickly and take ownership
- Treat customers nicely, fairly, and with respect
- Compensate the customer appropriately

8.6.2 Fix the Company's Problem

Whether or not the company performed the service wrong does not matter here. What matters is that the customer's expectations and perceptions were misaligned and this led to a service failure. The company can use the service gaps model to fix this problem.