Marketing & Sales

Chapter 8: Building customer value

- **Products:**
    - Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.
    - Key in the overall market offering.

- **Service:**
    - An activity, benefit or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything.
- The market offer might exist of only pure tangible goods, pure services, and everything in between.

- Product planners need to consider **three** levels when deciding on services and products.
    1. The core customer value level.
    2. The core benefit must be turned into an actual product.
    3. An augmented product must be built around the actual product by offering services.

Consumer and industrial products

Products and services fall into two broad classes: **consumer** products and **industrial** products.

- **Consumer** products are products bought by final consumers for personal consumption.

- **Convenience products**: a type of consumer product that consumers usually buy frequently, immediately and with minimal comparison and buyer effort.

- **Shopping products**: consumer products that the customer, in the process of selecting and purchasing, usually compares on such attributes as suitability, quality, price and style.

- **Specialty products:** a type of consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

- **Unsought products:** consumer products that the consumer either doesn't know about or knows about but does not normally consider buying.

- **Industrial products** are products bought by individuals and organizations for further processing or for use in conducting a business.
  - Materials and parts include raw materials (farm products, natural products) and manufactured parts (component materials and parts).

- **Corporate image advertising campaigns** can be used to improve the image of a firm.

- **Organization marketing** consists of activities to create, maintain, or change the attitudes and the behavior of target customers.

- **Person marketing** consists of activities to change attitudes of specific people.

- **Place marketing** involves activities to create, maintain or change attitudes towards particular places.

- **Social marketing** is the use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society.

Decisions regarding products and services are made at <u>three</u> levels:

- <u>Individual product and service decisions</u>
  - Developing a product or service involves defining the benefits.
  - **Product quality** are the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.
  - **Total quality management (TQM)** is an approach where the whole company is involved in constantly improving the overall quality.
  - Product quality is based on the **quality level and consistency**.
  - Other product and service attributes are product features and the product style (**appearance**) and the design (**heart of the product**).
  - A **brand** is a name, term, sign, symbol, design or a combination of these that identifies the products or services of one sell or group of sellers and differentiates them from those of competitors.
  - **Packaging** involves the activities of designing and producing the container or wrapper for a product. Innovative packaging can give a competitive advantage.

- **The final product and service decisions include** labels that help identifying a product or brand and supporting services of the product.

- <u>**Product line decisions**</u>
  - **A product line** is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.
  - **Major decisions** include the product line length, which can be adjusted by product line filling (adding more items within present range) and line stretching (lengthen beyond current range).
- <u>**Product mix decisions**</u>
  - **A product mix (product portfolio)** is the set of all product lines and items that a particular seller offers for sale.
  - **Product mix width** is the number of different product lines, while length refers to the total number of items within the product lines.
  - **The product mix depth** refers to the number of versions offered for each product in the line.

- **Services marketing**
  - **Firms** must decide upon four service characteristics when designing marketing programs.
  - **Service intangibility:** services cannot be seen, tasted, felt, heard or smelled before they are bought.
  - **Service inseparability:** service is produced and consumed at the same time and cannot be separated from their providers.

- **Service variability:** the quality of services may greatly vary depending on who provides them and when, where and how.
- **Service perishability:** services cannot be stored for later sale or use

The service profit chain is the chain that links service firm profits with employee and customer satisfaction. This chain consists of **five** links:

- Internal service quality
- satisfied and productive service employees
- greater service value
- satisfied and loyal customers
- ultimately healthy service profits and growth.

Service marketing is more than **traditional** external marketing, it also consists of **internal and interactive** marketing.

- **Internal marketing** involves orienting and motivating customer contact employees and supporting service people to work as a team to provide customer satisfaction.
- **Interactive marketing** involves training services employees in the fine art of interacting with customers to satisfy their needs.

Service marketers need to manage **service differentiation, making sure that they stand out amongst competitors.** They also need to manage **service quality**, which can be harder to define than product quality. Lastly, they need to manage **service productivity** by ensuring employees are skillful and implementing the powers of technology.

Branding

- **Brand equity** is the differential effect that knowing the brand name has on customer response to the product or its marketing. Brand equity can be a powerful asset.

- **Brand valuation** is the process of estimating the total financial value of a brand. In order to build a strong brand, there are some major brand strategy decisions to be made.
- **Brand positioning** involves positioning the brand in the mind of the consumer.
- **Brand name selection** is important in order to select a good name. The brand name should say something about the service benefits and should be easy to pronounce and remember. It needs to be distinctive and extendable, easily translated and should be capable of legal protection.
- **Brand sponsorship** can be done via four ways. A product can be launched as:
  - a national (manufacturer) brand
  - a private brand or store brand.
  - via licensed brands
  - a co-brand with another company.
- **A store brand** is a brand created and owned by a reseller of a product or service.
- **Licensing** involves lending the brand name to other manufacturers.
- **Co-branding** is the practice of using the established brand names of two different companies on the same product.
- When developing brands, companies have **four** choices.:
  - **Line extensions** occur when extending an existing brand name to new forms, colors, sizes, ingredients or flavors of an existing product category.
  - **A brand extension** extends a current brand name to new product categories.
  - **Multibrands** means offering more than one brand in the same category.

- New brands can be created when believed that the power of existing brands is fading.

Chapter 9: The product life cycle

- **New product development** is the development of original products, product improvements, product modifications and new brands through the firm's own product development efforts.
- **Acquisition** refers to the buying of a whole company, a patent, or a license to produce someone else's product.
- **New products** are essential for the continuation of the company, and they aren't easy to find.
- There are **eight** major steps in the product development process:
    - **Idea generation:** the systematic search for new-product ideas. Ideas can be found via internal sources, but also external idea sources. These can be **distributors, suppliers, but also competitors.**
        - **Internal sources** refer to the company's own formal research and development, management, and staff, and intrapreneurial programs.
        - **External sources** refer to sources outside the company such as customers, competitors, distributors, suppliers, and outside design firms.
    - **Idea screening:** screening new-product ideas to spot good ideas and drop poor ones as soon as possible. **Customer-centered new product development:** new product development that focuses on finding new ways to solve customer problems and create more customer satisfying experiences.

The product life cycle (PLC) is the course of product's sales and profits over its lifetime. It involves five distinct stages:

- **Product development:** development of the idea without any sales.
- **Introduction:** slow sales growth when the product is introduced.
- **Growth:** period of rapid acceptance.
- **Maturity:** period of sale slowdown because of acceptance by most potential buyers.
- **Decline:** the period when sales fall and the profit drops.

The **PLC** concept can also be applied to **styles, fashions and fads**

- **A style** is a basic and distinctive mode of expression.
- **Fashion** is a currently accepted or popular style in a given field.
- **Fad** is temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.

Companies must continually innovate to keep up with the cycle. There are different strategies for each stage:

- **The introduction stage** is the PLC stage in which a new product is first distributed and made available for purchase. Profits are generally low, and the initial strategy must be consistent with product positioning.
- **The growth stage** is the stage in which a product's sales start climbing quickly. Profits increase and the firm faces a trade-off between high market share and high current profit.
- **In the maturity stage**, products sales are growing slowly or level off. The company tries to increase consumption by finding new consumers, also known as modifying the market. The company might also try to modify the product by changing characteristics.

- **In the decline stage,** the product's sales are declining or dropping to zero. Management might decide to maintain the brand, reposition it or drop a product from the line.

When introducing product in **international markets**, it must be decided **which** products to offer in which countries and **how** these products should be **adapted**

Packaging issues can be subtle, from translating issues to different meanings of logos.

Chapter 10: Pricing strategies

Price:

- It is the amount of money charged for a product or a service, the sum of the values that customers exchange for the benefits of having or using the product or service.
- It is the only element in the marketing mix that produces revenue, all others are costs. Setting the right price is one of the most complex tasks.
- **Good pricing** starts with customers and their perception of the value of the product.

Customer value-based pricing: setting price based on buyer's perceptions of value rather than on the seller's cost. The value customers attach to a product might be difficult to measure, so the company must work hard to establish estimates.

There are two other types of **value-based pricing:**

- **Good-value pricing** means offering the right combination of quality and good service at a fair price.
- **Value-added pricing** means attaching value-added features and services to differentiate a company's offers and charging higher prices.

Cost-based pricing means setting prices based on the cost for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

There are two **forms of costs:**

- **Fixed costs (overhead)** are costs that do not vary with production or sales level.
- **Variable costs** are costs that vary directly with the level of production.

Total costs are the sum of the fixed and variable costs for any given level of production.

The experience curve (learning curve) is the drop in the average per-unit production costs that comes with accumulated production experience. Put more simply: as workers become more experienced, they become more efficient, and costs drop.

The simplest pricing method is **cost-plus pricing or mark-up pricing:** it means adding a standard mark-up to the cost of the product. However, this method ignores demand and competitors' prices and is therefore unlikely to lead to the best price.

Break-even pricing (target return pricing) means setting the price to break even on the costs of making and marketing a product or setting price to make a target return. **The break-even volume** is the number of units that need to be sold to break even.

Competition-based pricing means setting prices based on competitor's strategies, prices, costs, and market offerings.

Price is **only one element** of the marketing mix, and the overall marketing strategy must be determined first.

Target costing is pricing that starts with an ideal selling price and then targets costs that ensure the price is met.

Good pricing is based on an understanding of the relationship between price and demand for the product.

Chapter 11: Pricing considerations

There are two broad **Pricing strategies:**

- **Market-skimming pricing (price skimming)** means setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price, the company makes fewer but more profitable sales.
- **Market-penetration pricing** means setting a low price for a new product to attract many buyers and a large market share.

There are five **product mix pricing situations.**

- **Product line pricing:** setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features and competitor's prices.
- **Optional product pricing:** the pricing of optional or accessory products along with a main product.
- **Captive product pricing:** setting a price for products that must be used along with a main product.
- **By-product pricing:** setting a price for by-products to make the main product's price more competitive.
- **Product bundle pricing:** combining several products and offering the bundle at a reduced price.

Chapter 12: Marketing channels

- To produce a product, relationships with others in the **supply chain** are necessary ("make and sell")
- The term **demand chain** might be better because it suggests a sense-and-respond view of the market ("sense and respond")

- **A value delivery network** is composed of the company, suppliers, distributors and ultimately the customers, who partner with each other to improve the performance of the entire system in delivering customer value.
- **The marketing channel (distribution channel)** is a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.
- **Channel members** can add value by providing more efficiency and specialization in making goods.
- Some of the **key function** channel members do are information gathering, promotion, contacting buyers, matching products and needs and negotiating agreements. But also, physical distribution, financing and taking over risks of carrying out the work.
- **A channel level** is a layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer.
- Channel 1 is a **direct marketing channel:** a marketing channel that has no intermediary levels.
- **Indirect marketing channels** are channels containing one or more intermediary levels.
- Channels are **behavioral systems** composed of real companies and people, who interact to accomplish goals.
- Each channel member depends on others and they behave differently, which can lead to **channel conflict:** disagreement among marketing channel members on goals, roles and rewards, who should do what and for what rewards.
- **Horizontal conflict** occurs among firms at the same channel level.
- **Vertical conflict** is between different levels of the same channel.
- For channels to work well, the role of the channel members must be specified. **A conventional distribution channel** is a channel

consisting of one or more independent producers, wholesalers, and retailers, each is a separate business seeking to maximize its own profits, even at the expense of profits for the system.

- In contrast with this is the **vertical marketing system (VMS),** a distribution channel in which producers, wholesalers and retailers act as a unified system. One channel member owns the others, has contracts with them or wields so much power that they all cooperate. There are three major types of VMSs:
    - **Corporate VMS** combines successive stages of production and distribution under single ownership. Channel leadership is accomplished through common ownership.

    - **Contractual VMS** independent firms at different levels of production and distribution join together through contracts. The most common example of a contractual VMS is the **Franchise organization:** a channel member (franchisor) links several stages in the production-distribution process. There are also three types of **franchises**:
        - Manufacturer-sponsored retailer franchise systems
        - Manufacturer-sponsored wholesaler franchise systems
        - Service-firm-sponsored retailer franchise systems.
    - **Administered VMS:** a vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.

Horizontal marketing system: a channel arrangement in which two or more companies at one level join to follow a new marketing opportunity. This can be with competitors, but also with non-competitors

A multi-channel distribution system is a distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments. This occurs when a company sets up multiple marketing channels to reach multiple customer segments and is most beneficial in complex markets, but also brings additional risks.

Current changes in the channel organization include **disintermediation**, which is the cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries.

Chapter 14: Communications strategy

The promotion mix (marketing communication mix) is the specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships. It consists of five major promotion tools:

- **Advertising:** any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- **Sales promotion:** short-term incentives to encourage the purchase or sale of a product or a service.
- **Personal selling:** personal representation by the firm's sales force for the purpose of making sales and building customer relationships.
- **Public relations:** building good relations with the company's various public by obtaining **favorable publicity**: building up a good corporate image and handling or heading off unfavorable rumors, stories, and events.
- **Direct and Digital marketing:** direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

Several factors are changing today's **marketing communication:**

- First, consumers are changing they are better informed and more empowered.
- Also, marketing strategies are shifting away from traditional mass marketing.
- Finally, communications technology is changing the way companies and customers communicate with each other.

These changes come together in a need for **integrated marketing communications (IMC)**

- Involves carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent, and compelling message about an organization and its products.
- IMC recognizes all touchpoints where the company and customers meet and ties together all messages.

To develop marketing communications, an understanding of the communication process is required:

A **message** is sent from a **sender** to a **receiver** via **media** but can be interrupted by **noise or encoding/decoding** differences.

There are different steps necessary in **developing effective marketing communication.**

- Identifying the target audience.
- Determining the communication objectives.
- Designing the message.
- Choosing the channels of communication.
- Selecting the message source.
- Collecting feedback.

When setting the **total promotion budget,** there are four common methods that can be used.

- **Affordable method:** setting the promotion budget at the level management thinks the company can afford.
- **Percentage-of-sales method:** setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales prices.
- **Competitive-parity method:** setting the promotion budget to match competitor's outlays.
- **Objective-and-task method:** developing the promotion budget by
    - defining specific promotion objectives
    - determining the tasks needed to achieve these objectives
    - estimating the cost of performing these tasks.

  The sum of these costs is the **proposed promotion budget.**

The promotion mixes

The promotion mix consists of five tools

- **Advertising** can reach masses of geographically dispersed buyers at a low cost, but it cannot be as persuasive as people
- **Personal selling** is the most effective in certain stages of the buying process but is quite costly.
- **Sales promotion** attracts the customer's attention, but the effect is often short lived.
- **Public relations (PR)** are believable but is often underused.
- **Direct marketing** is less public and delivered to a certain person.