



RSM5501: Marketing

Unit 1: The Fundamentals

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What we'll cover today

1. Introduction, assumptions, GenAI
2. The basics: Value, Differentiation, Segmentation, Positioning Statements
3. What can we learn from Chicken, Coke, and Flowers
4. A brief introduction to the 4P's of Marketing (more tomorrow)
5. *Uber-India, Samoa Airlines, Coke Vending Machine*

Details in Unit 0 (syllabus etc.)



Introduction

- **Class format:** In-person
 - Missed classes: There will be pre-recorded materials as well as case debrief slides – I suggest reviewing these rather than the class recordings.
- **Assessments:** Final paper [45; 29 Sept], group case report [40, 19 Sept., 8 AM], class contribution [15]. Assessments have already been posted, *there will be no surprises!*
- **Discussion boards:** Additional avenue for class contributions. Multi-media posts welcome!
- **Slides:** Will usually be posted after class (by end of the day), some slides in advance

GenAI

Feel free to use it
(*encouraged* –
but not required
to use it)

University
recommends
Microsoft CoPilot



BUT

But it is
important so
showcase your
“value add”

Beware of its
limitations

See Unit 0.1.4

What do you think of when you hear “marketing”? [n=104,
ME-MEMBA, EMBA this summer]



What's Changed in Marketing? [1988 – Now]

1

Key Driver of Change

Technological innovation has put a (interconnected) computer in every customers' hand. The resulting avalanche of data and accompanying low costs of analyzing it has **converted marketing from a cost centre to a revenue centre**

Key resulting capabilities

3

- 1) **Digitizing of offerings** resulting in a) ability to mass customize, b) increased distribution speed and quicker transactions, c) many-to-many communication
- 2) **Data** collection, storage, analysis and sharing is **cheap** – faster conversion of data to insight, better predictions
- 3) **Innovations in supply chains** – better and faster distribution, more sources of value creation

Consequences

5

- 1) Move from **“Customer as target”** to **“customer as relationship”** – customer respect in addition to simply thinking of them as source of revenue, loyalty
- 2) **Value orientation** – the ability define, measure, manage and grow value and growth
- 3) **Empiricism and experimentation** – A/B testing, RCT's, other econometric methods. Data, and not theories, can drive decisions, test-learn-adapt approaches
- 4) **Customization and Personalization**
- 5) **Application** of the model to not-for-profits, global south and other forms of enterprise. Centre of gravity of marketing has shifted.

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Technological innovation has accompanied the growth of the company

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per transactions, c)

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Marketing Department vs. Marketing Function (MCV)



“Everyone is in a Marketing function, it’s just that not all of us have that word in our designations”

Value

Value to Customer (VTC) + Value of Customer (VOC)

- Value to Customer VTC
 - Economic: Can be quantified *a priori* (**Example:** *The Medicines Company*)
 - Experiential: Can be assessed after the fact with experimentation
- Value of Customer VOC
 - The segment / group of customers that is most valuable to the firm
 - Their value could arise from any of the ideal behaviours we identified earlier

VTC: Example 1



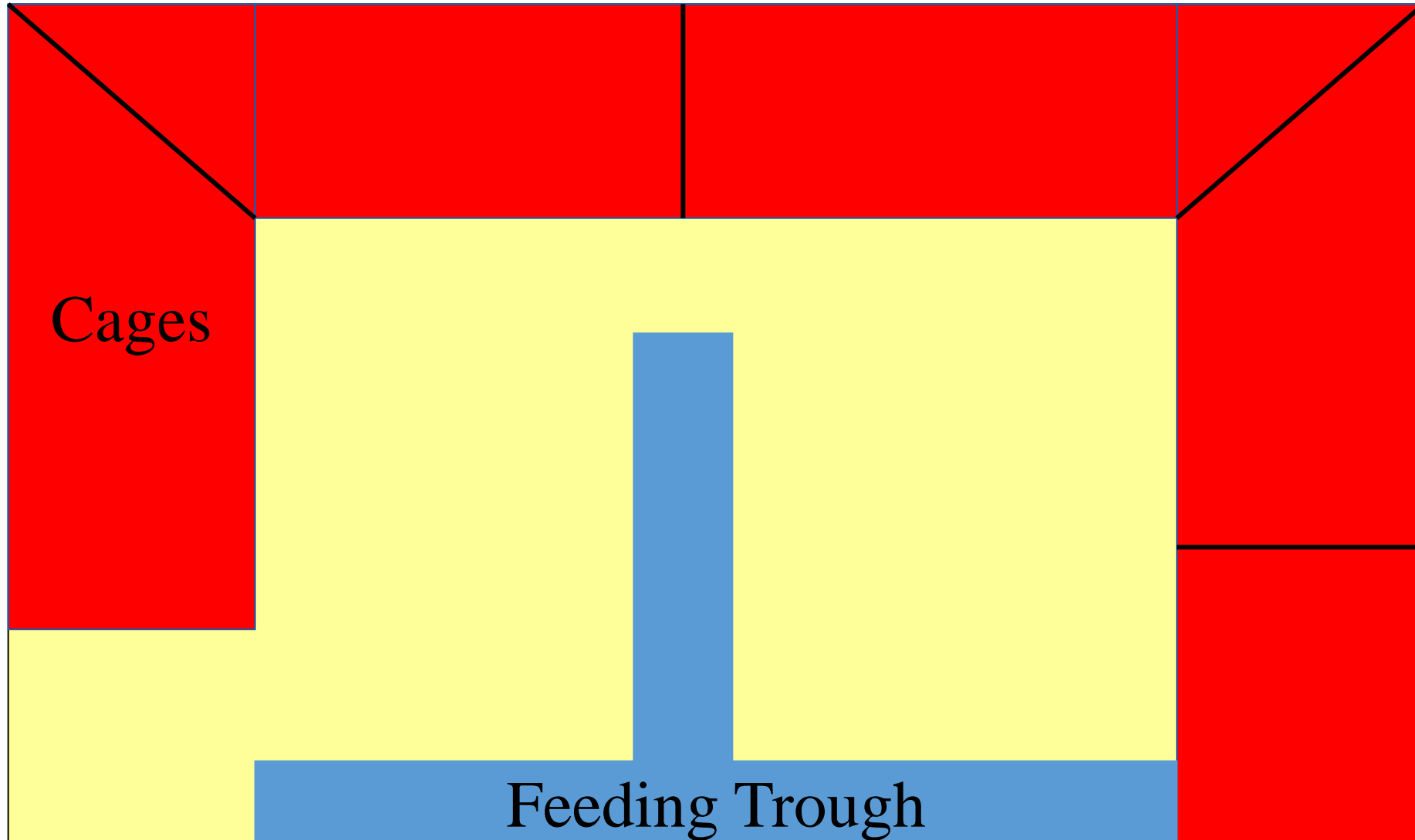
- Service: Coal distribution
- Customers: Iron Manufacturers (used in a blast furnace)
- Delivered to yard, stays there for 5-6 days, then used in furnace

VTC: Example 2

- An airline
- Overnight flight
- Flying time about 7 hours
- Caters mostly to business travelers

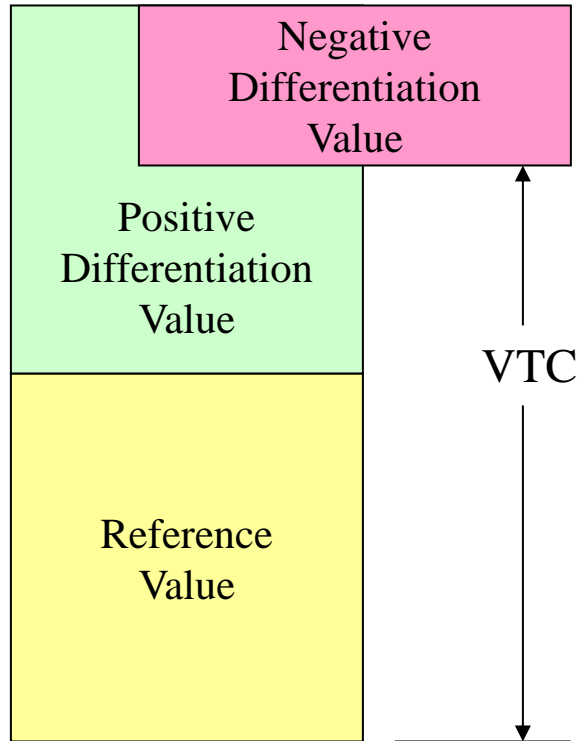


- Economic versus Experiential value
 - Economic: Dollar value can be estimated a priori
 - Experiential: Enhances overall experience
 - In most cases, the impact of economic value are felt elsewhere – not in the product consumption experience
- ***How could you estimate the economic value of an experiential benefit?***



$$\begin{aligned} \text{Value} = & \text{Debeaking Labour Saved} \\ & + \text{Trauma costs averted} \\ & + \text{Feed costs reduced} \\ & + \text{Revenue from reduced cannibalization} \\ & - \text{Labor costs of installing lenses} \end{aligned}$$

VTC of Product B vs. Incumbent A.



Differentiation Value is the value to the customer (both positive and negative) of any differences between the firm's offering and the reference offering.

Reference Value is the cost to the customer of the competing offering that the customer views as the best alternative to the firm's offering [they are already incurring this cost]

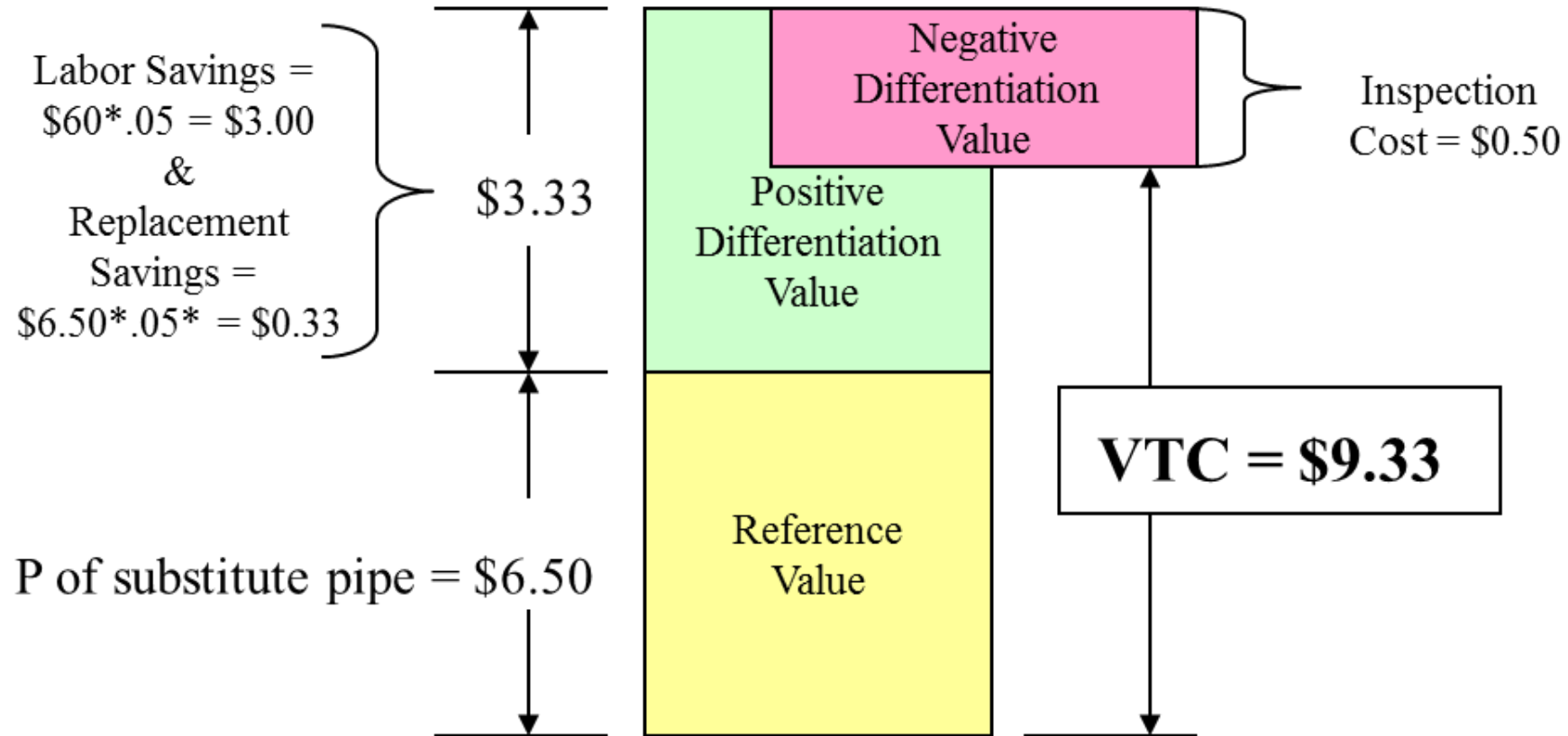
$$\text{VTC} = \text{Reference Value} + \text{Pos. Differentiation Value} - \text{Neg. Differentiation Value}$$



VTC Example 1

- Several years ago DuPont introduced Alathon 25[®], a resin designed for use in pipes
 - Most common substitute pipe sold for \$6.50 per unit
 - Alathon 25[®] failure rate was 3%/period, compared to 8%/period
 - Labor cost of replacing a failed pipe is \$60.00 per unit
 - Alathon 25[®] properties required inspection of pipe once per period at cost of \$0.50 per unit, compared to no inspection
- What is VTC per unit of Alathon 25[®] pipe to a customer choosing between the two options?

VTC for Alathon



Note that the VTC might be different across segments and customers, e.g.: Labor costs might be different, Inspection costs may be different, usage conditions and hence failure rates might be different.

VTC Example 2

- Atlantic Computing introduces a new type of server (TRONN) with performance enhancing software,
- Given better capacities, customers who needed 2 traditional (TRAD) servers only need 1 TRONN. TRAD costs \$10,000 per unit. Server maintenance (for **any** server) is \$200 per year per server, hardware engineer to oversee costs \$200 per year per server, TRONN installation costs \$300 (0 for TRAD) and life of all servers is one year. What is the VTC of TRONN to
 - Alpha Corporation that has just bought 10 TRADs but might contemplate upgrading (5 TRONNs)?
 - Beta corporation that is looking to buy 10 TRADS (5 new TRONNs) now?



Life of servers is just one year

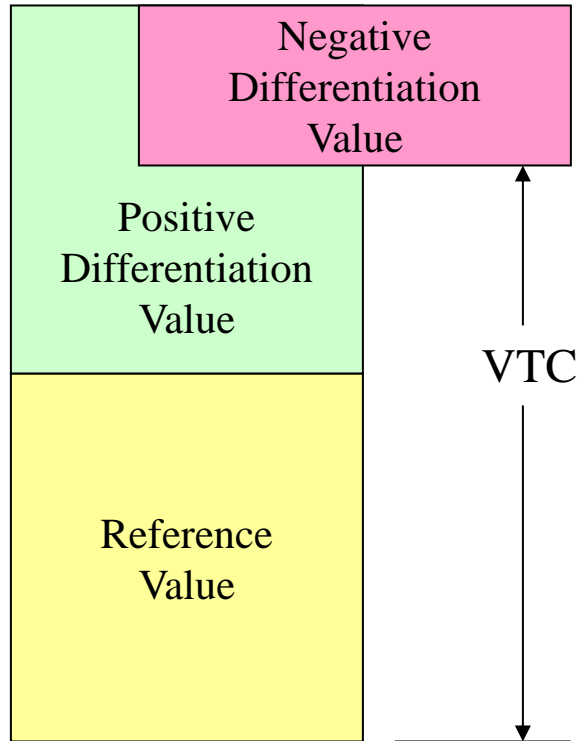
If benefits extend into perpetuity [fixed life], then we simply use the perpetuity [Net Present Value] formula to compute the net present value

$$NPV_{\text{Perpetuity}} = A / i$$

Where A = the annual dollar amount

i = annual discount rate

VTC Calculation



Alpha [needs 5 TRONNs]	Beta [needs 5 TRONNs]
$N = 5 \times 300 = 1500$	$N = 10 \times 300 = 1500$
$P = (5 \text{ fewer servers}) \times (200+200) = 2000$	$P = (5 \text{ fewer servers}) \times (200+200) = 2000$
$R = 0$ (no reference value)	$R = 10 \times 10,000 = 100,000$
$VTC = 1000 / \text{year}$	$VTC = 100,500 / \text{year}$

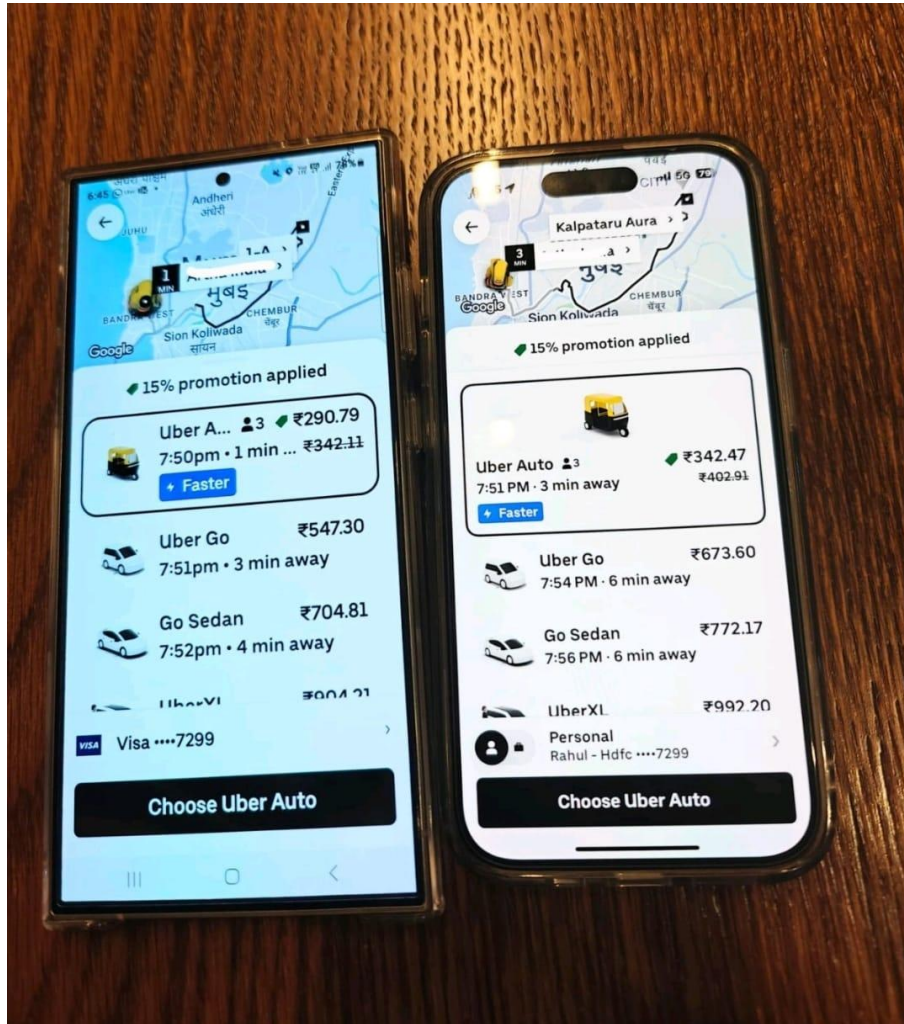
Marketing Plans & 4P's

	Section	Description
1.	The Product	What is it and what does it do? What is the brand name? What value does it create? What is your positioning statement ?
2.	The Market	How is it defined ? How big is it? Which market is the most attractive and why? Who are / will be your competitors ?
3.	The Plan	Promotion : Key goals and tactics? How will you create awareness and “buzz”? Pricing: Revenue model (how will you make money)? What is your pricing recommendation and why? Place / Distribution: How will you drive traffic ? Increase conversions ? Behaviour Change: Whose behaviour needs to change and in what way?

The 4P's:

- Product** – Functionality, Benefits & Differentiation, Brand, Positioning
- Price** – Revenue Model, Goals of Pricing, Approaches
- Place** (Distribution) – Channels, Retail, “Last Mile” design
- Promotion** – Promotion Goals (C-A-B), Appeals

Fair or unfair?



Pay-as-you-weigh airfares the 'next step'

Marnie Hunter, CNN

4 minute read · Updated 5:44 AM EDT, Wed April 3, 2013



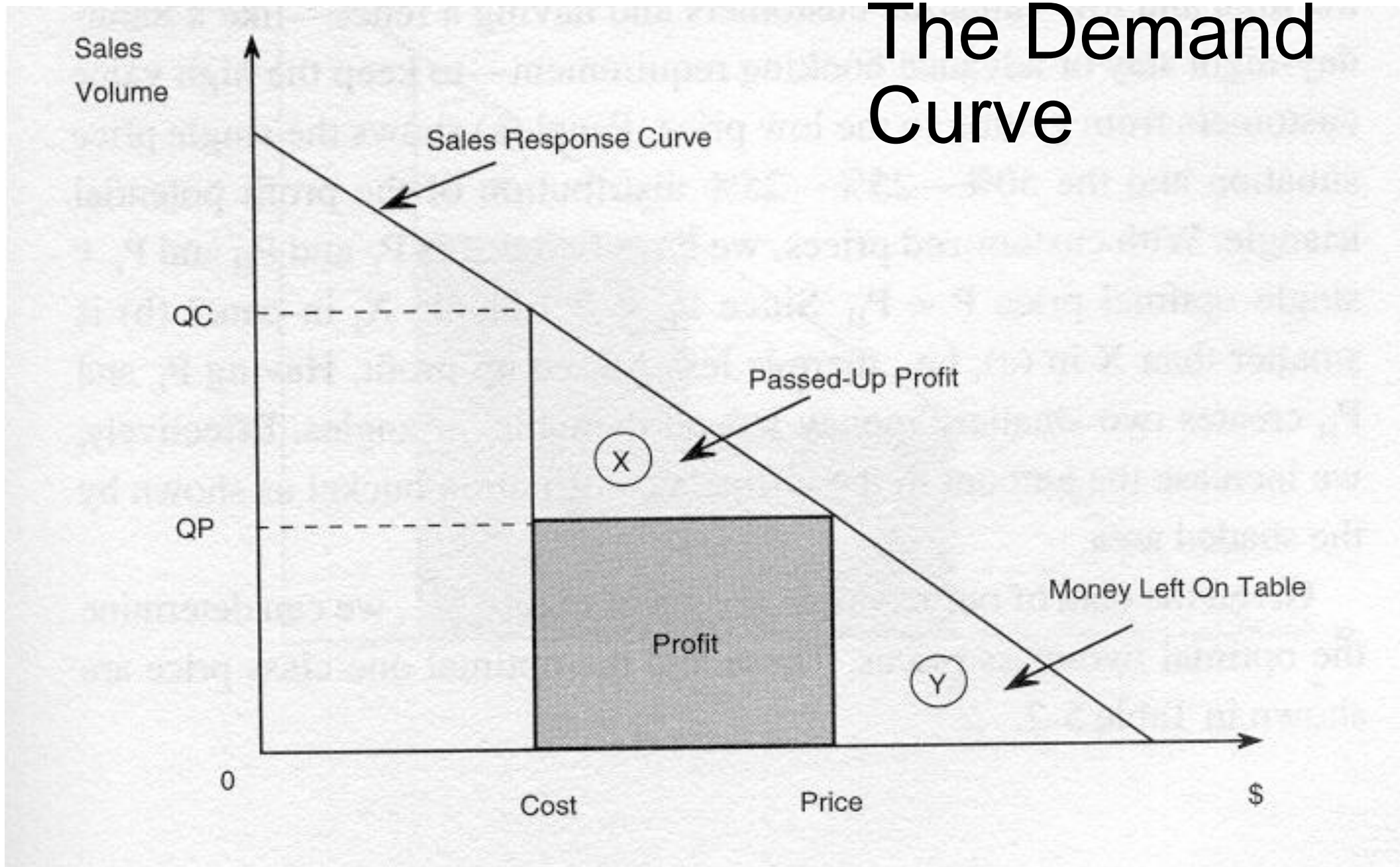
Video Ad Feedback



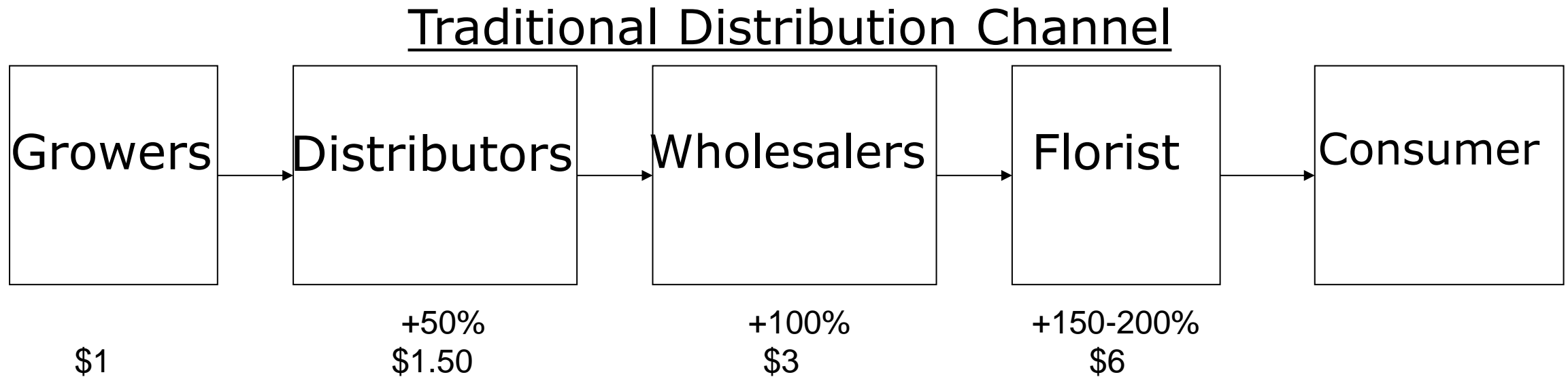
Perception of unfairness can be mitigated by:

- 1) Different framing
- 2) Cost-based explanation
- 3) Customer choice
- 4) Differentiated product

The Demand Curve



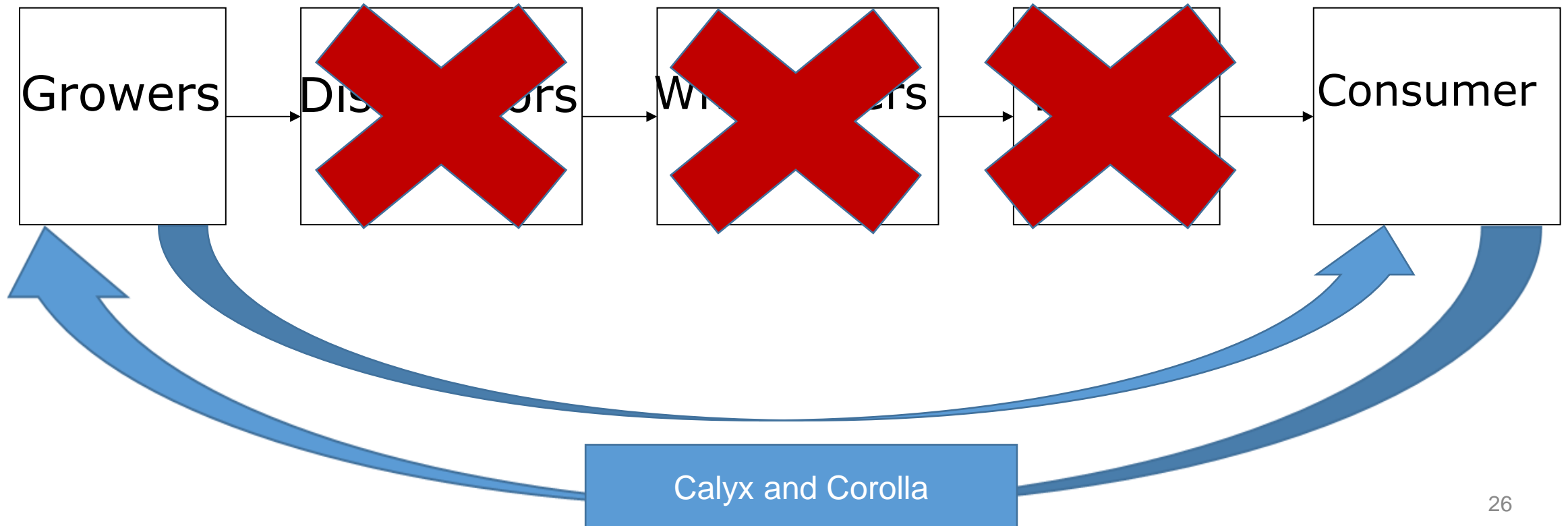
The Flower Supply Chain



- Price to end user is high
- Physical distribution takes time

The Calyx and Corolla Model

Traditional Distribution Channel



A person wearing a hat and a vest is walking through a vast field of colorful flowers, holding a bouquet. The field is filled with a mix of pink, orange, and yellow flowers, stretching out to the horizon under a clear sky.

How do we convert this into a sellable product? How do we create a market?

****Product includes services, programs, initiatives***

That's what MCV / marketing does!



This could include market for tangible **products**, market for **services**, market for **ideas**, the **job** market, markets for **solutions**, market for **consultants**, **business to business** markets, markets for social assistance, markets for **charitable donations**....***anything!***

What does MCV / Marketing help with?

Go
to market

Grow
sales and share

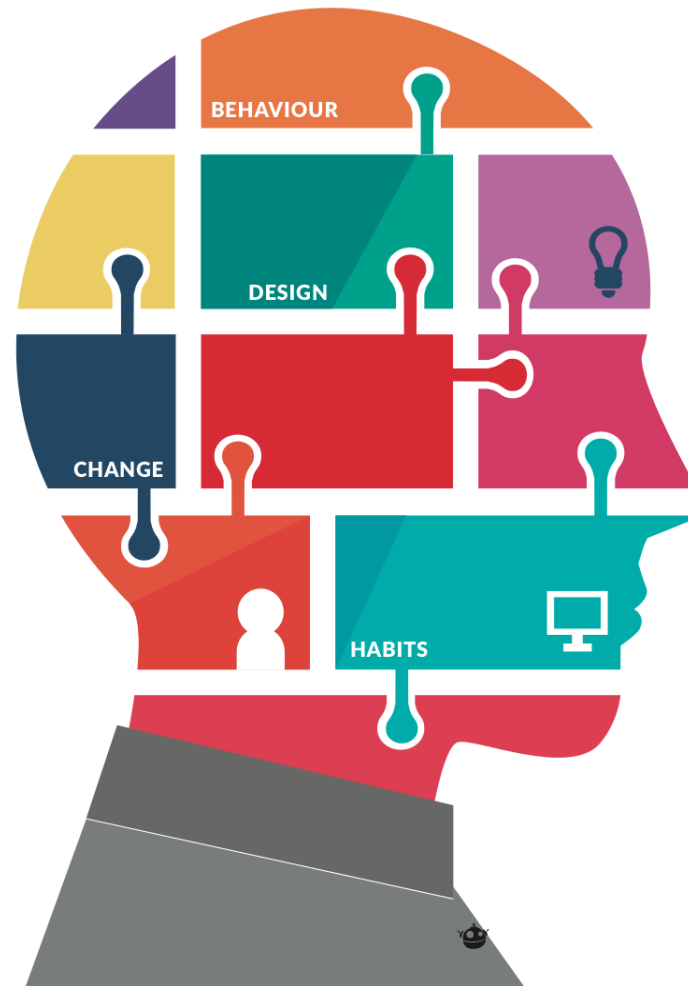
Defend share & position

Iterate, Improve, Innovate

It's all about behaviour change.....

There are a **number of behaviours** we look to influence.

- Purchase
- Increased frequency, volume
- Consumption / usage
- Loyalty
- Influencing and word-of-mouth
- Advocacy



There are **two types of frictions** to desired behaviours.

Friction 1: Product and firm related ["Marketing" solutions]

Friction 2: Individual and social ["Behavioural Economics / Science" related]



Discussion

- Why do people buy flowers?
- How is the Calyx & Corolla offering differentiated?
- Based on usage, identify a few distinct segments based on their needs.
- Of these segments, which one should Calyx and Corolla be targeting? Why?

Differentiation

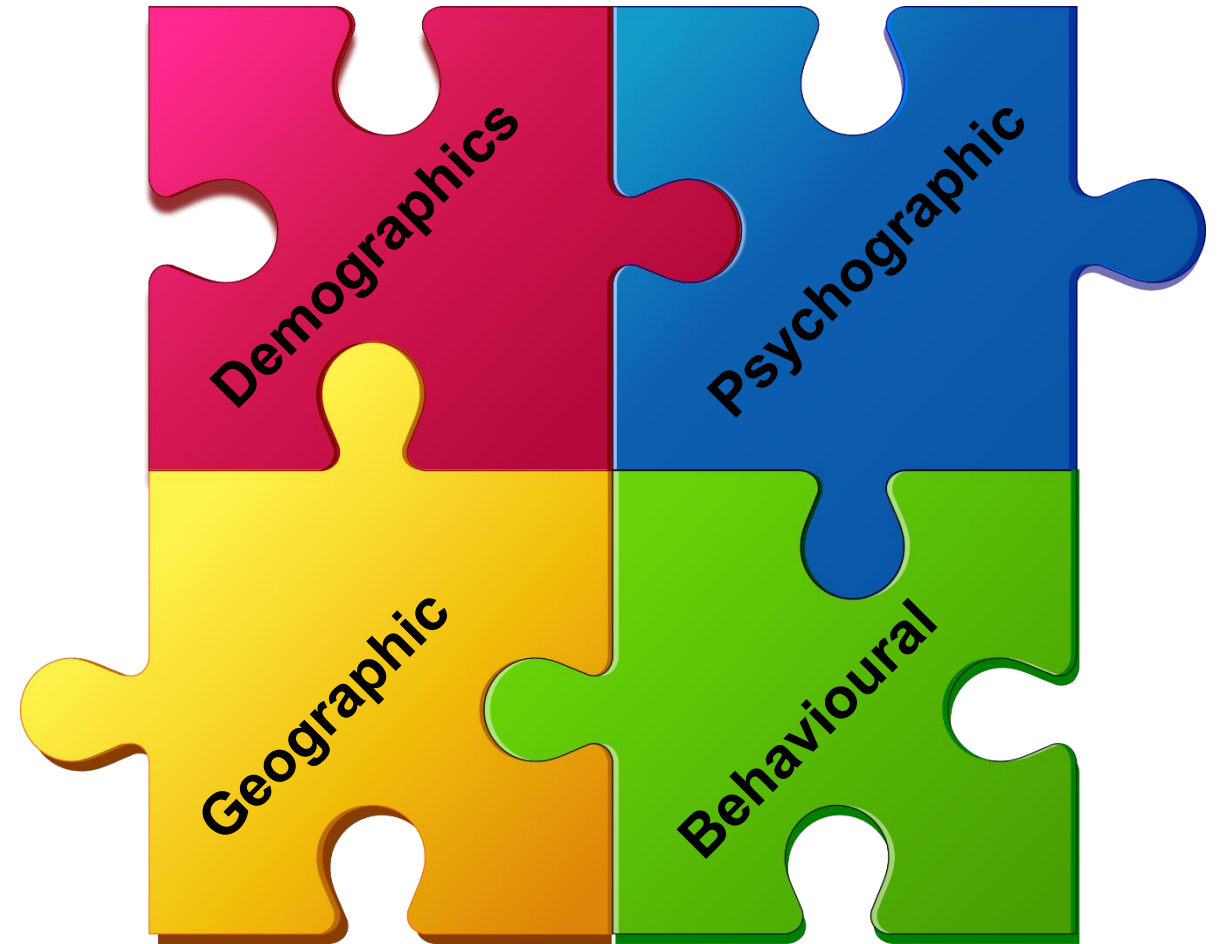


- **What is uniquely different (in particular, difficult to replicate) about your product and business model relative to competition**
- **Differentiation is a property of the product – no perception involved at this stage**
- **Differentiation can be positive (VTC creating) or negative (VTC destroying)**

But, do your customers care?

It depends – on the customer!

Segmentation: The act of creating distinct groups, such that behaviour (towards your product category) **within each group is similar**, **across groups is different**.





For Calyx

- Positive Differentiation:
Longer (almost double)
life of flower
- Negative Differentiation:
Packaged in a FedEx box

Segmentation for Calyx: Usage Based

	Gifts	Commercial	Personal	Weddings and Funerals
Quantity	Small	Large	Medium	Large
Value of Life	Moderate	Very high	High	Low
Aesthetics at Delivery	Very High	Low	Medium	Low
Additional Needs	Some	None	Some	Large



Targeting Using a Product-Market Fit Analysis

- To which segment will my positive differentiator add value? Which segment will not care about my negative differentiator?

	<i>Gifts</i>	<i>Commercial</i>	<i>Personal</i>	<i>Wedding/Funeral</i>
Positive				
Negative				

	Gift	Wedding / Funeral	Commercial Use	Personal Use
<u>Product Strengths</u>				
Fresh Looking	Important	Important	Important	Important
Full Bloom	Important	VERY Important	Low Importance	Low Importance
<i>Long Life</i>	In Theory, perhaps. ???	Unimportant	Very Important	Very Important
Good Information	Important	Unimportant	Very Important	Very Important
Variety	Very Important	Important	Important	Very Important
Ability to Personalize		Unimportant	Unimportant	
<u>Product Weakness</u>				
<i>Unarranged / Packaging</i>	Very Important	Very Important	Unimportant	Unimportant
No Consultation	Low Importance	Very Important	Important	Unimportant
No Sunday & Holiday Delivery	Very Important	Important	Unimportant	Unimportant
Affected by Weather	Very Important	Very Important	Low Importance	Low Importance

You could use the product-market fit analysis to:

- 1) **Choose** a target segment (here, choose Commercial segments) and identify which ones to **avoid** (here, Gift)
- 2) Identify **product enhancements** to target other segments (here, can target wedding / funerals by collaborating with service providers; or gifts by collaborating with local florists)
- 3) **Customize** product for different segments

Bringing it all together: The Positioning Statement

Target Market

Primary Benefit

Secondary Benefit

Support

Competitive Advantage

See also Unit 1.1.1

Bringing it all together: The Positioning Statement

Target Market [Who is the desired customer]

Primary Benefit [The biggest positive differentiator]

Secondary Benefit [Another potential benefit]

Support [Firm action specific to this product / service]

Competitive Advantage [Firm advantages more generally]

Note: For single product companies, there might be some overlap between support and competitive advantage

Bringing it all together: Sample Positioning Statement for Calyx and Corolla

Target Market: Hotels and Restaurants (size, location)

Primary Benefit: Halve flower budget by doubling life

Secondary Benefit: Customization and choice

Support: Contract with FedEx

Competitive Advantage: Relationships with growers

Two additional ideas: Idea 1

- Market attractiveness is driven by
 - Market **size** (Supply side and demand side approaches)
 - Market **growth**
 - **Willingness to pay**

The best markets are usually **Large, Growing and Affluent**

- TAM (total addressable market)
- SAM (Serviceable addressable market)
- SOM (Serviceable obtainable market)

Two additional ideas: Idea 2

- The retail metaphor
- Value of the customer is a function of
 - Traffic
 - Conversion Rate
 - Basket Size
 - Number of Visits = Loyalty (in the long term)

Competition: Who do you compete with?

- What about Disneyland?
- Or a Railroad?
- Or Fedex?

Superficial Competition

Products that “look and feel” the same

Conceptual Competition

Products that help accomplish the same goal

Extensional Competition

Products that you compete for share of wallet

Wrapping Up



- Marketing = Go, Grow, Defend, Iterate
- Value has two components – Value to Customer and Value of Customer (to firm)
- Economic VTC = Reference Value + $V(\text{Positive Differentiation}) - V(\text{Negative Differentiation})$
- Segmentation: One size doesn't fit all
- Product-Market Fit: Selecting target customers
- Positioning Statements: Encapsulate your strategy