

Review Session

UGBA 106: Marketing

Tianyu Han

December 7, 2022

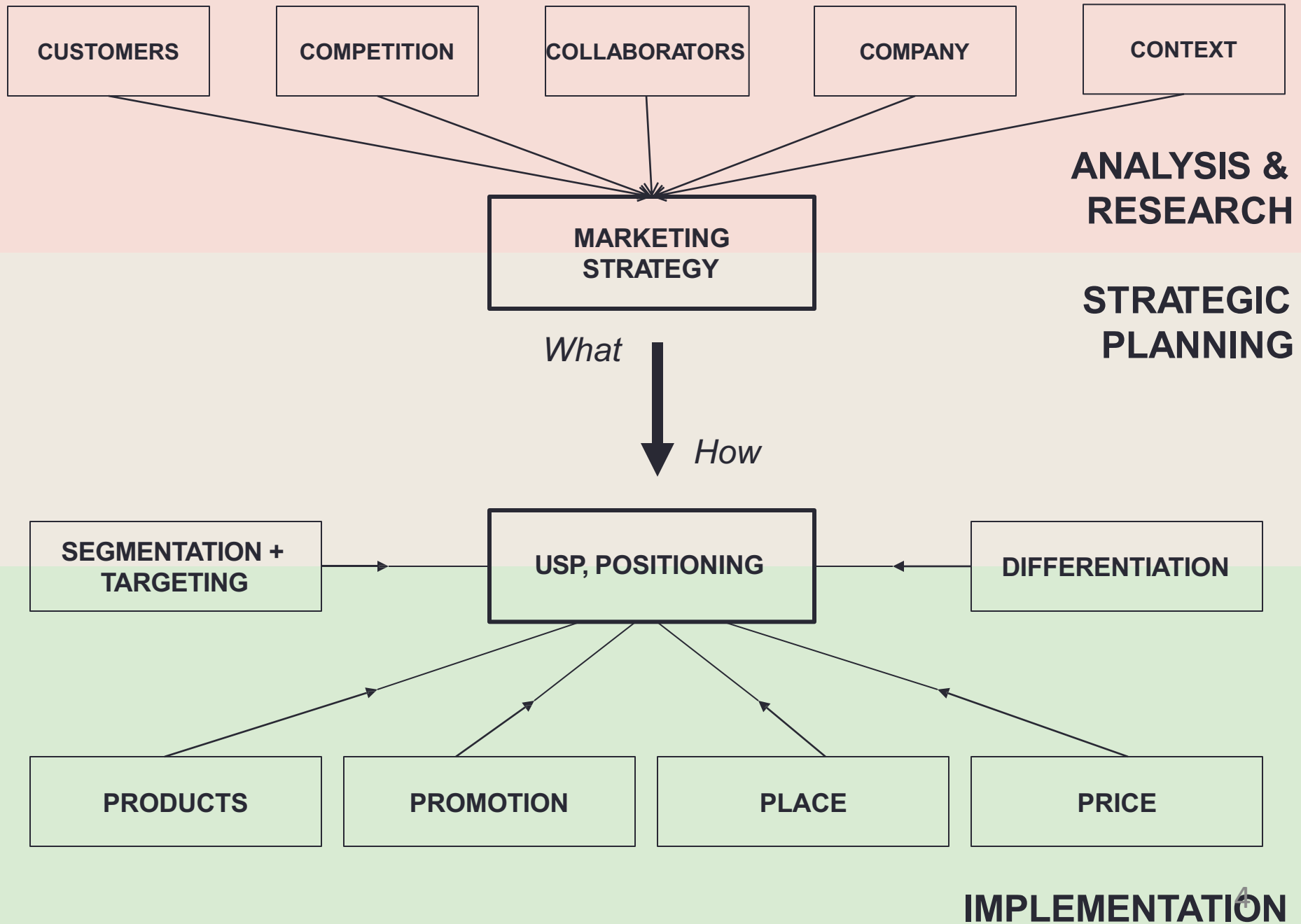
Plan

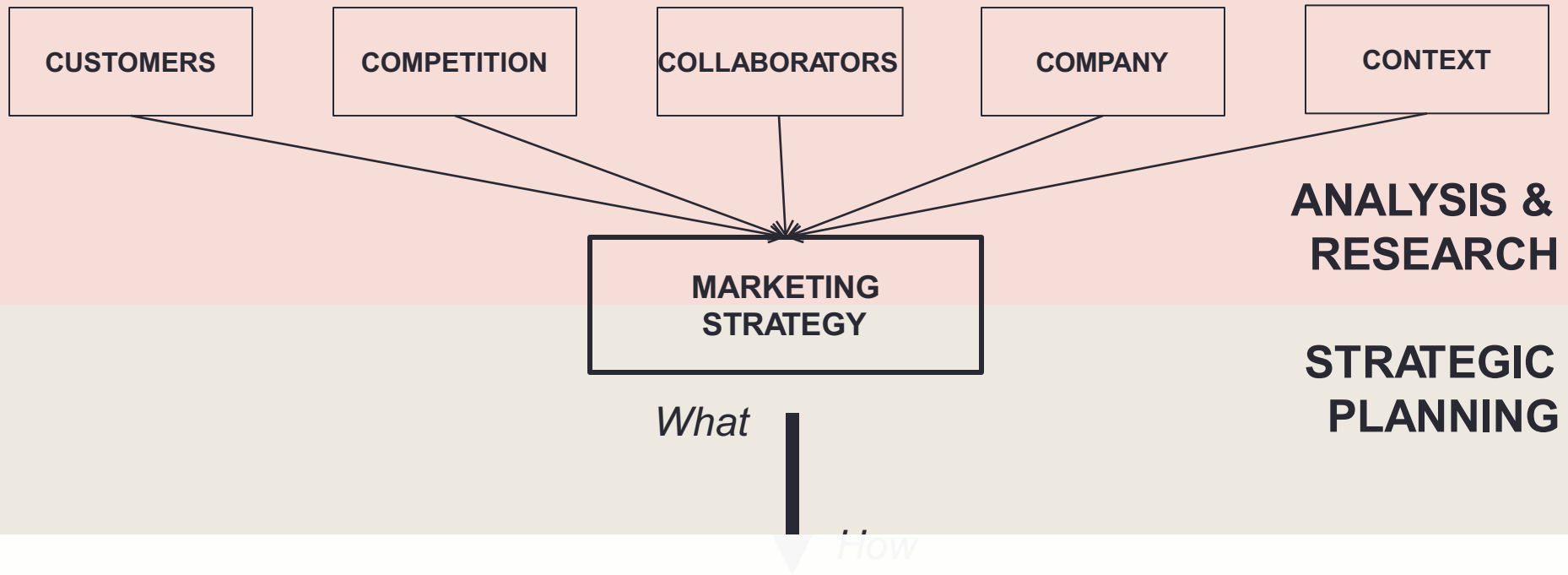
- Overview
- Structure
- 5C
- STP
- Marketing mix (4P)
- Strategic considerations

Overview

- UGBA 106: Teach and practice the basic concepts and tools to **assess**...
 - ...the **state** and **capabilities** of your business and how to leverage that profitably
 - (i.e., ...**what** you have and **how** to use it)
- Definition:¹ *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*

¹ American Marketing Association, ama.org





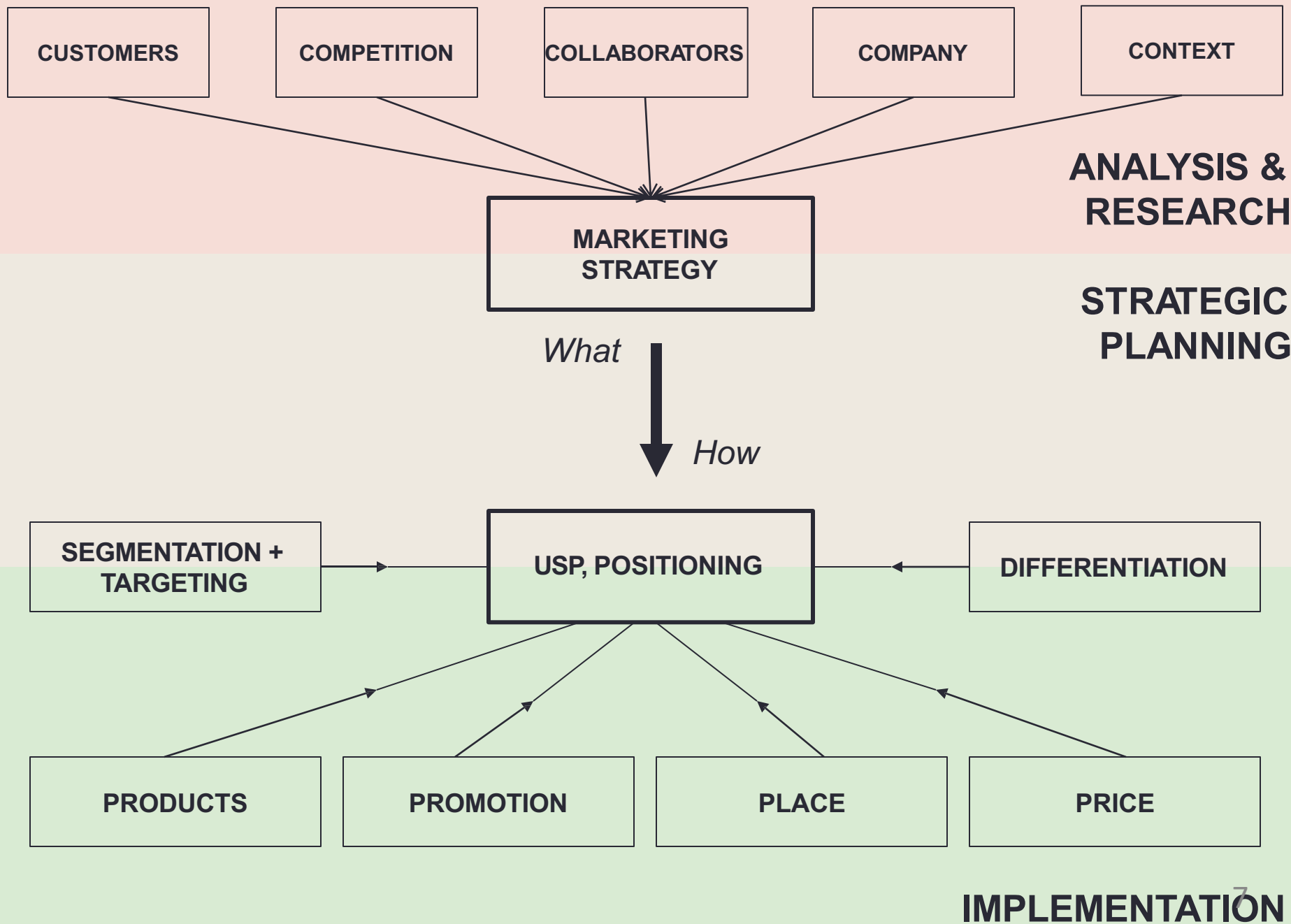
Marketing Analysis

- Assess through the 5 C's



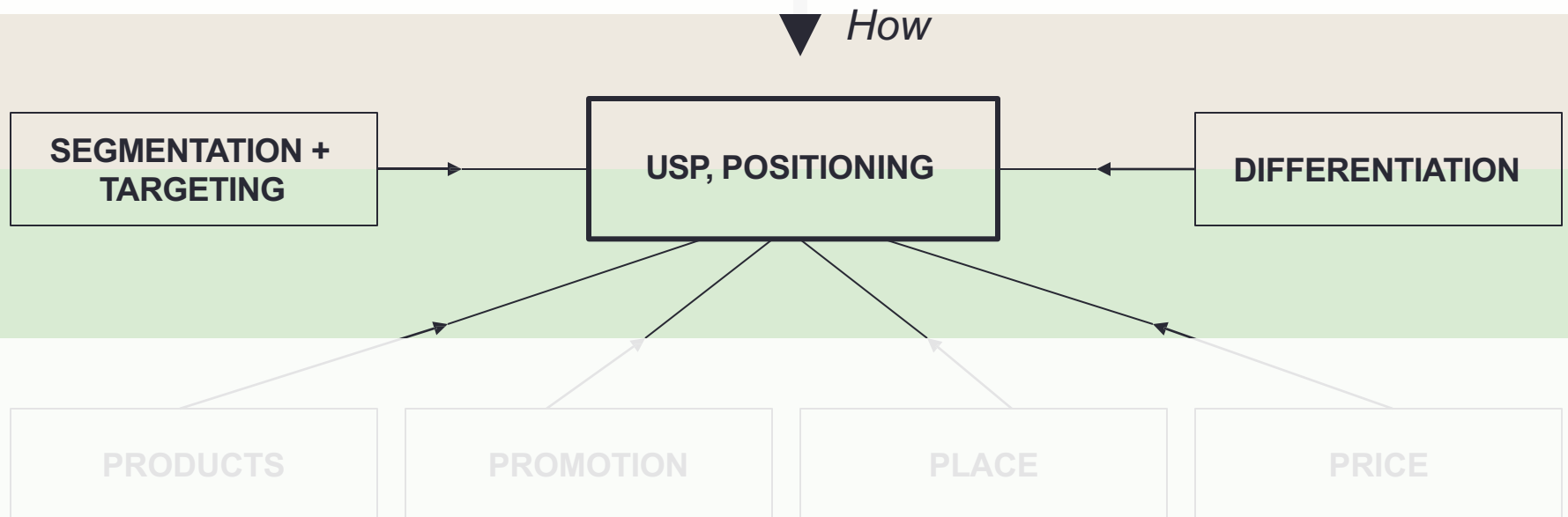
5C

- Customers:
 - What needs do we seek to satisfy?
 - What's the DMU? What's the DMP?
 - Willingness to pay? Loyalty?
- Company skills:
 - What special competence do we possess to meet those needs?
- Collaborators:
 - Who should we enlist to help us and how do we motivate them? (supply chain)
 - What opportunities do you have for them?
- Competitors:
 - Who competes with us in meeting those needs? (direct and indirect competitors, now and future)
 - What avenues are they a threat to you?
- Context:
 - What cultural, technological and legal factors limit what is possible?



STP

- Segment the market: “Who is **likely** to buy?”
- Target the markets: “Who are we trying to **delight**?”
 - Offering to some; NOT offering to others
 - Attractive?
 - Because not all customers desire the same thing
- Position the offerings
 - Because not all customers are impacted uniformly by a marketing piece



STP: Segmenting

- Segment by:
 - Demographic (socioeconomic)
 - Geographic
 - Psychographic/lifestyle (preferences, concerns)
 - Behavioral (benefit sought, usage, specific need)
- Attractiveness “first cut” before deep dive into each segment.
 - Measurable: Size, purchasing power, profiles can be measured
 - Accessible: Segments can be reached and served profitably
 - Substantial: Segments are profitable enough to serve
 - Differentiable: Segments respond to “differential” marketing
 - Implementable: Company can attract and serve the segments

STP: Targeting

Consider:

- The firm's **comparative strengths** and **weaknesses** vis-a-vis competition given the target market's purchase criteria.
- The firm's **corporate goals** and the fit of the segment with these goals.
- The **resources necessary** to market successfully to the target segment.
- The need for/availability of **appropriate collaborators** to market successfully.
- The **likely financial returns** from the segment.

STP: Positioning

- Craft a **positioning statement** for each target market considering...
 - ...what is **received**, and not simply sent
 - ...why us, and why not the competition
- Academically speaking:
 - Promise relevant superiority** . . . (*explicitly or implicitly*)
 - ...in the mind of the customer.** . . . (*not just what you say, but what they hear*)
 - ...relative to competition.** (*why they should buy from you rather than the competition*)

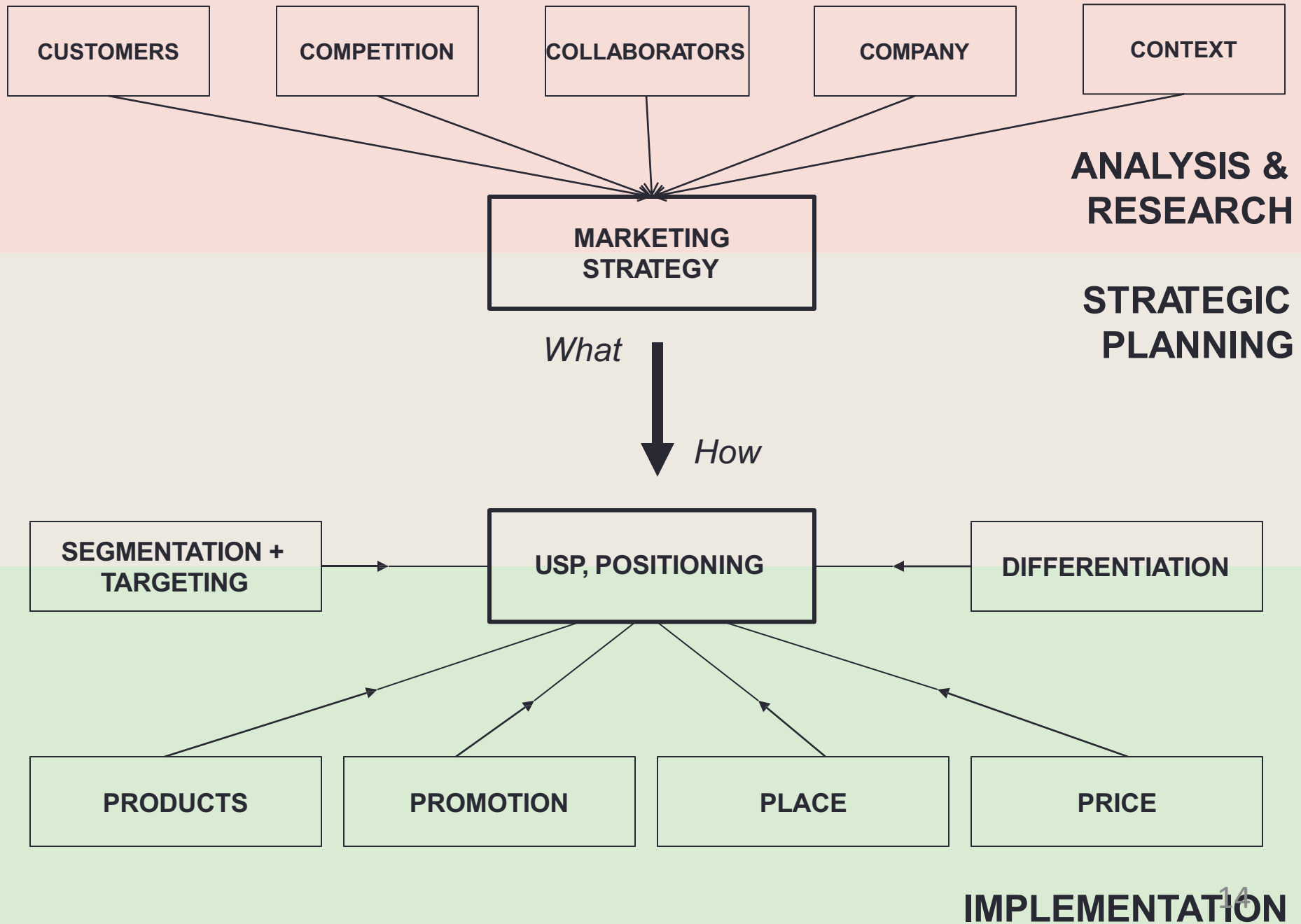
STP: Positioning

- **Template** positioning statement: To (our customers/prospects), our brand is the brand within this category (frame of reference) that promises (relevant superiority, differentiation, USP) based on (rational and/or emotional, compelling proof points).
- USP: a unique essence about the company that helps you “rise above the clutter”
- **Sample** positioning statement:

To our busy young parent community (within 10 mile area of city, seeking childcare, education, and language development), XYZ is the place among East Bay preschools that promises a child will grow to be socially adept, culturally mindful, and prepared for kindergarten through our play-based, love-reinforced, bilingual program that provides a nurturing, creative, and loving learning environment.

STP: Factors of Successful Positioning

- **Relevant:** Will the target customers care about the promise?
- **Believable:** Will they find the promise credible given brand reputation and market circumstances?
- **Superior:** Are we promising something better – not just different –vs. competition?
- **Focused:** Will the target customers remember the key idea(s)? – PICK just 2. Three is almost too many to be believable.
- **Transformational:** Will the promise change target customers view of the industry and prompt action, ideally purchases?
- **Sustainable:** Can promise remain relevant, persuasive and deliverable over time despite market changes and competitive counter-actions?



Marketing Mix

- Capture of value, Communication of value, Delivery of value, Extracting/Exchanging value

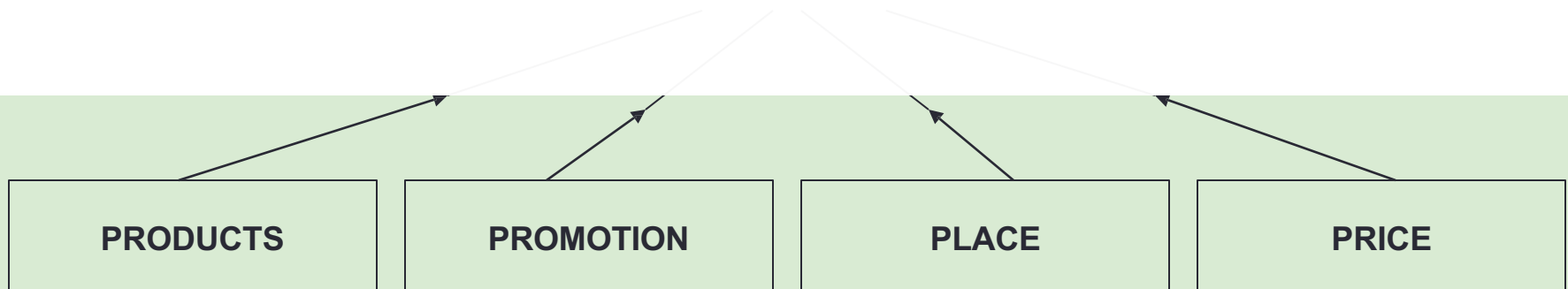
What

How

SEGMENTATION +
TARGETING

USP, POSITIONING

DIFFERENTIATION



1. Product, Portfolios and Brands

- A brand is a stand-in for value in a customer's mind
 - Could be + or -
- The portfolio is a curated collection of brands, each with a role.
 - Ranging from Branded house to House of brands
 - & Sub-brands
 - & Endorsement brands
- Key factors to consider in designing a portfolio's architecture:
 - **Coverage** of market and target segments is sufficient
 - Separation between brand shares of mind: "**daylight**" or "distance"
 - Efficiency/cost of the **management** of brands
 - **Risk** to parent/other brands



Product: Brand Portfolios

House of Brands



Pros Builds equity in strong stand-alone brands across a wide range of categories

Cons Requires greater marketing investment

Hybrid



Leverages strong master brand while allowing flexibility.

Requires planning to avoid confusing customers or diluting the master brand.

Branded House



Results in strong master brand.

Can be difficult to extend beyond the expertise of the master brand.

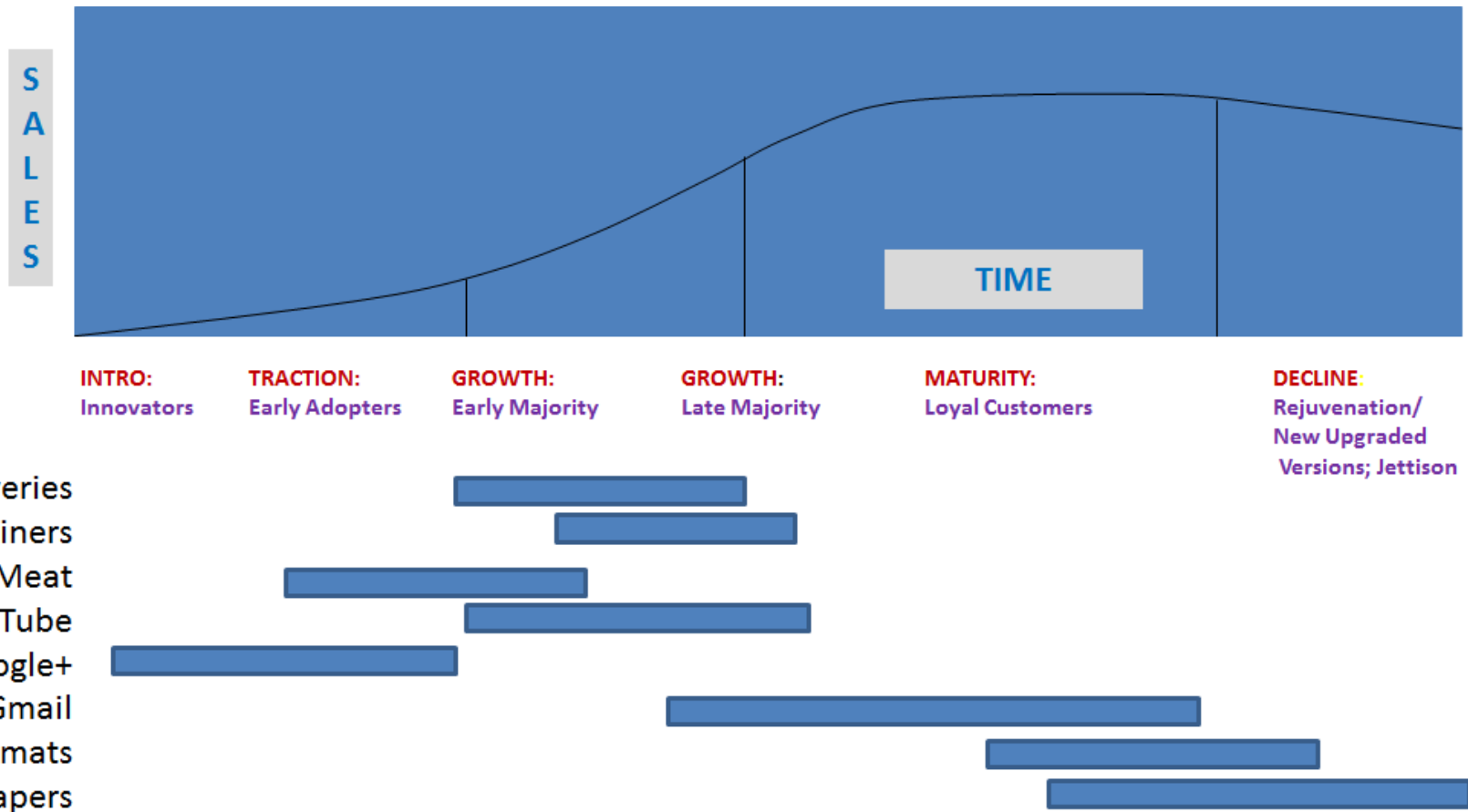
Product: Changes to a Brand Portfolio

Key question: Which brands/products to keep, kill, grow?

- Portfolio: Monitor, assess, adjust. Product changes due to market adoption and innovation.
 - Product lifecycle
 - BCG growth matrix & GE matrix.



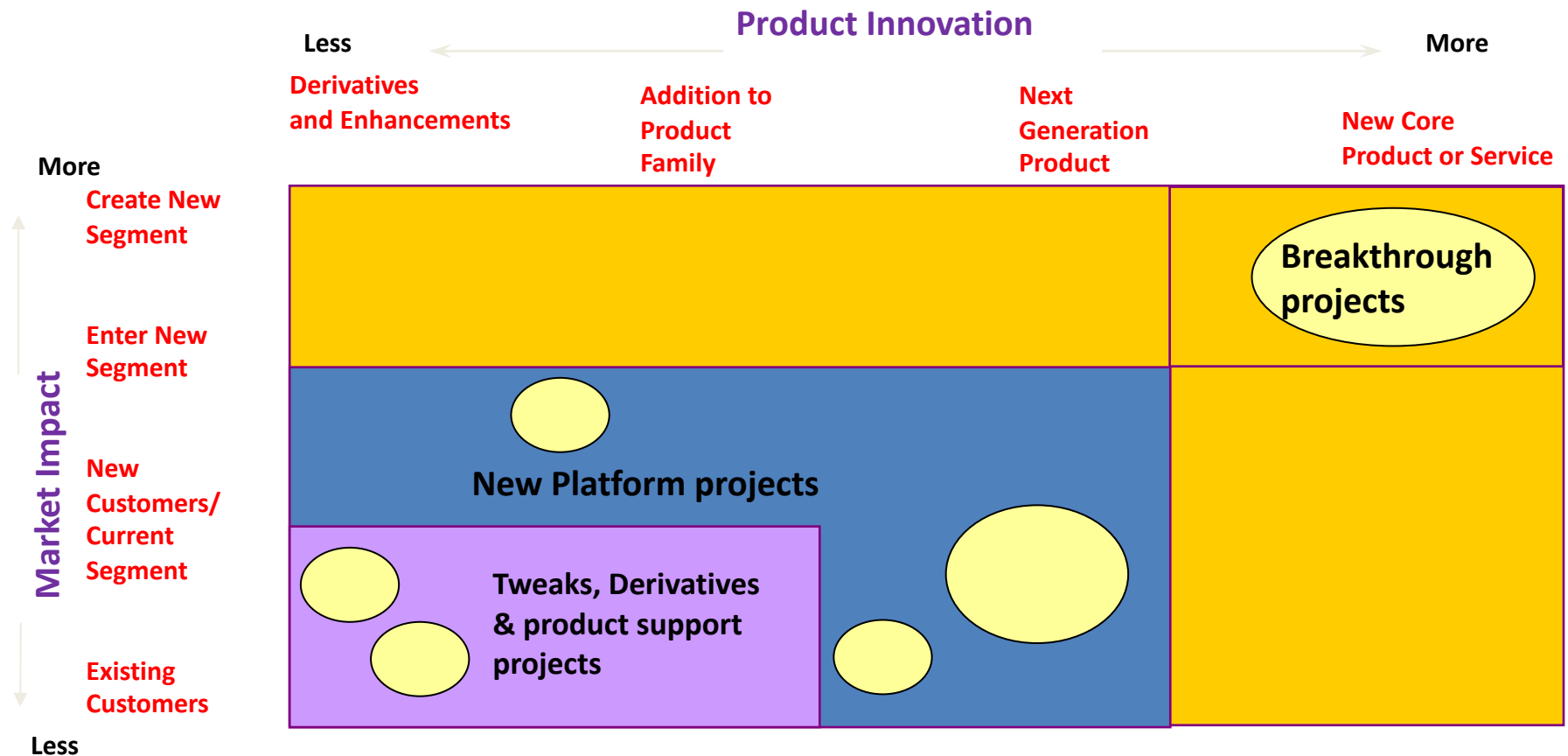
Product: Life Cycle



Product: Portfolio Changes with Innovation

- Line extension
 - Shampoos → Body washes
 - Horiz: Different smells of shampoo
 - Vertical: Cleansing only vs reducing frays, straightening
- Category extension
 - Shampoos → Deodorants
- Customer extension
 - For women → for men (?)
 - For women → for pets
- Channel extension
 - Shampoos in Supermarkets → Specialty stores (Bath & Body Works)
 - Natureview @ Supermarkets → Natural foods

Brand: Portfolio Changes with Innovation



The Product Itself

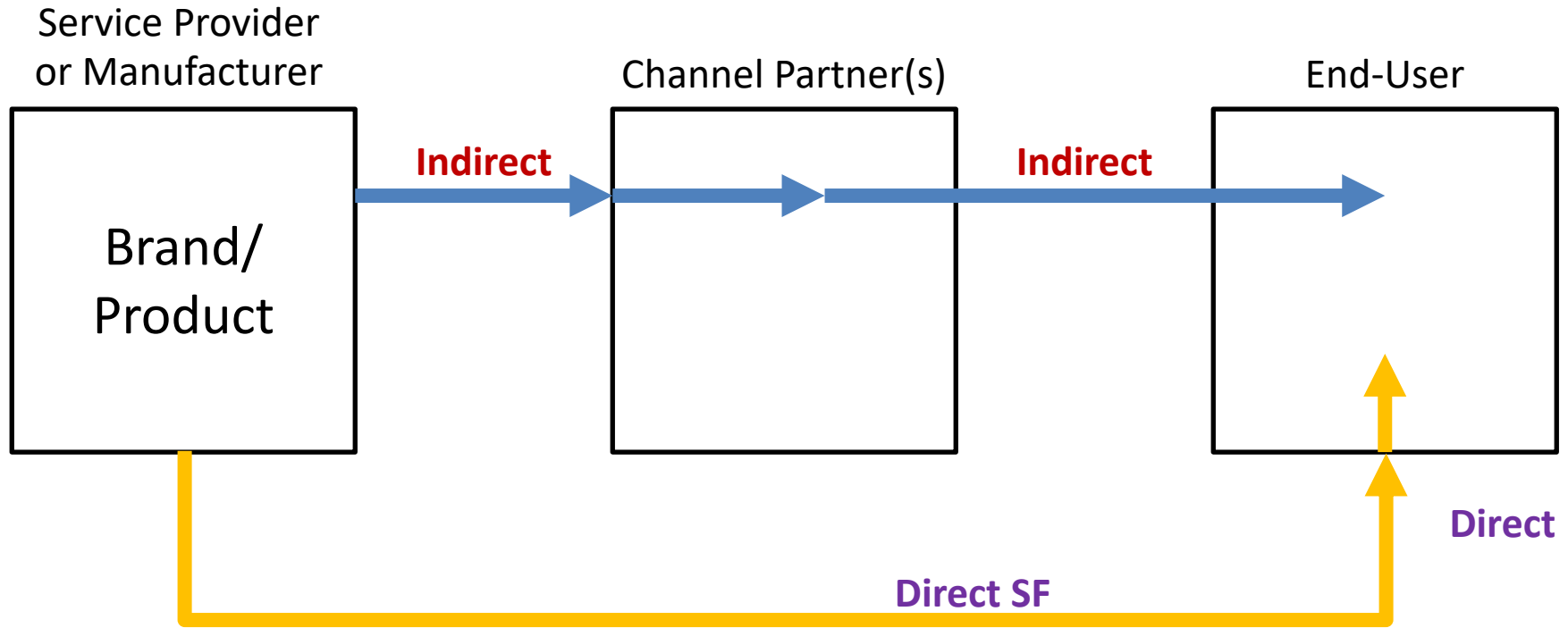
- Other things to consider for this P:
 - Design
 - Aqualisa: Design the shower product for the homeowner and the multigenerational family unit...
 - Accessories
 - Aqualisa: ...but include parts, training, and sales channels for the plumber, the real DMU
 - Brand/Portfolio
 - Chase's management of customer demographics among Chase Sapphire subbrands and avoiding cannibalization across said subbrands and among other Chase's credit cards.
 - Services (after-sales service/upgrades)
 - And more...

2. Place

Some distribution channels:

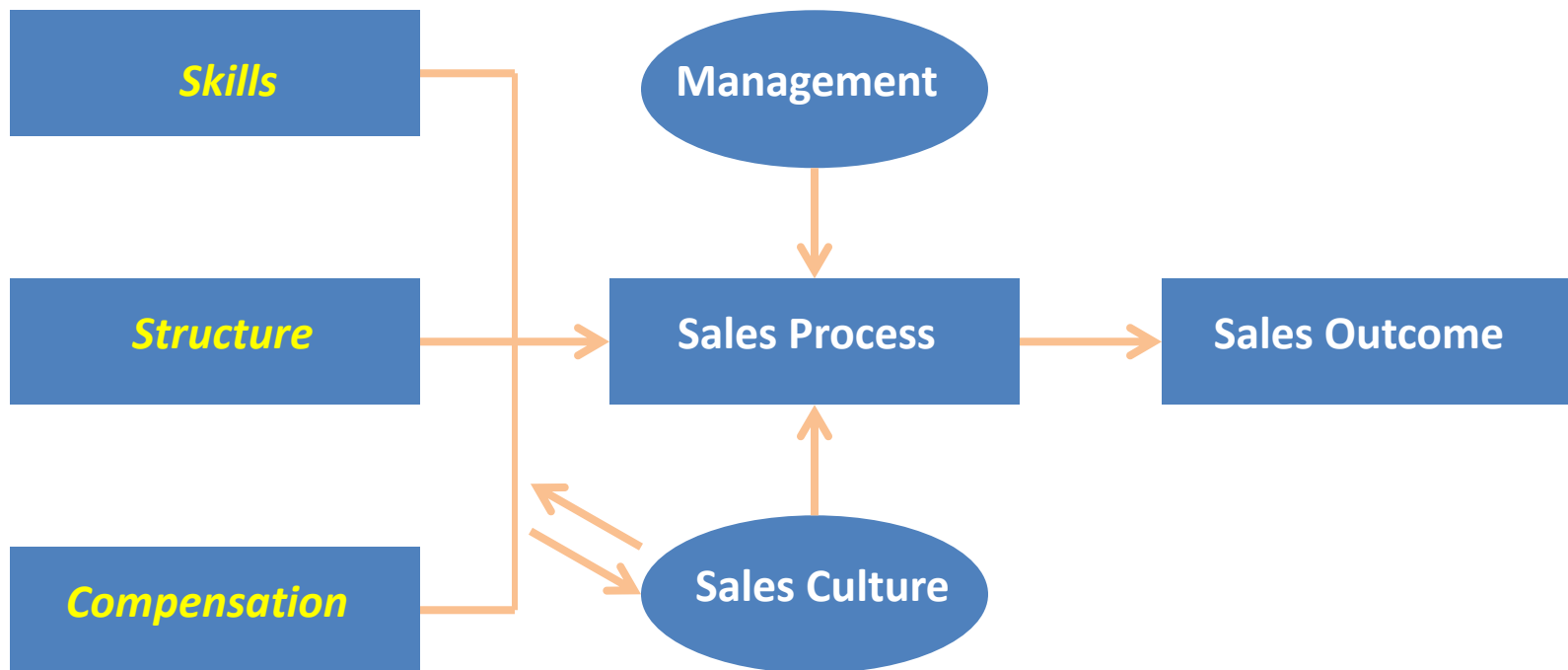
- **OEM (Original Equipment Manufacturer):** e.g., Graphics Supplier to Apple, HP
- **SI (Systems Integrator):** Integrates systems/components to sell to End User
- **VAR (Value Added Reseller):** Adds value in installation, service etc (Less than SI)
- **Aggregator:** e.g., Arrow, Avnet, focus on particular verticals
- **Wholesalers:** Sell in Bulk
- **Distributors:** Another tier in channel
- **2-Step Virtual Disty:** e.g., Amazon (Broader segment coverage)
- **Dealers:** Usually an extension of distributors and take ownership of product
- **Direct Sales Force:** Company sales force – ‘Inside’ and ‘Outside’
- **Retailers:** Sell to end-users
- **Web/Online/Dedicated e-commerce:**
- **Platform App Store:** e.g., Apple

Place: direct vs. indirect



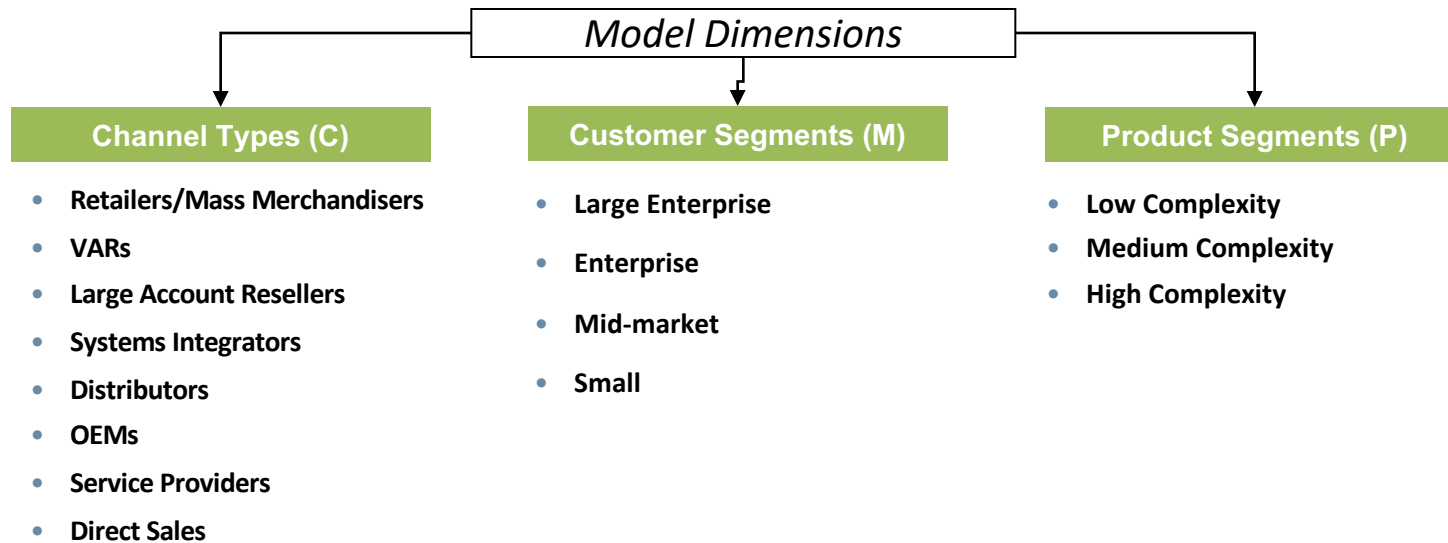
Place: sales force

- Godes (3 levers) to structure your sales force

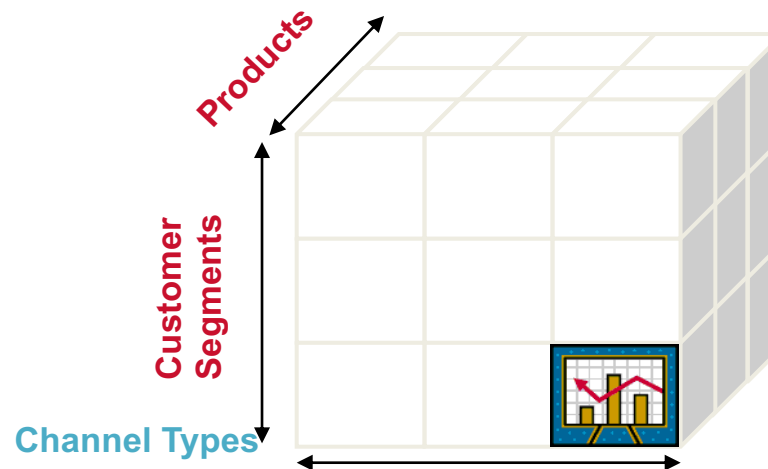


- Evaluation (3Es): effort (input), effectiveness (output), efficiency (cost/effort to secure the output)

Place: PMC alignment



1. Products through channels to segments
2. Costs for each route
3. Profitability for each route



Place: partners

- Understand the preferred **routes** for each product area from your customers' viewpoint (not yours)
 - Understand the costs and complexities of each route
- Build a **coverage model** (rep and partner) that meets your cost objectives
- Manage **conflict** with segmentation and setting **boundaries**
- **Execute** programs, processes and policies that drive cost out of the model for your partners
 - Allow for **regional/field flexibility** to leverage local market requirements

3. Promotion

6M's of marketing communication:

Markets (Identify Target Audience Segment)
Mass, Niche, Segment – Demo/Psychographic, Lifestyle

Mission (Set Communications Objectives)
By DMP (Decision Making Process), Strategic Objective (Offense, Hold, Defense)
By stage in life cycle (Acquire, Retain, Maximize,)

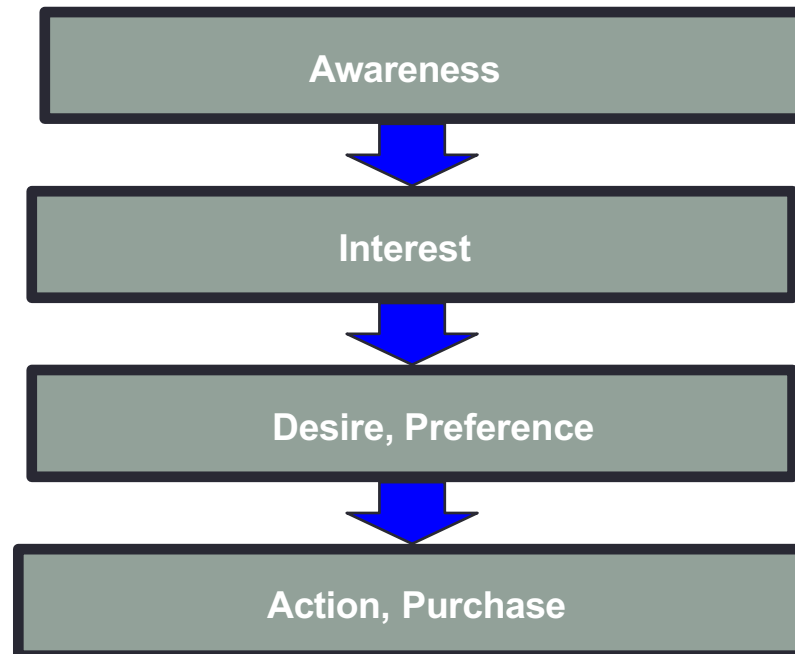
Message (Decide theme, Positioning)
How to break the clutter and accomplish mission
Positioning, USP (Unique Selling Proposition)

Media (Select Communications Mix)
Metrics
Tradeoffs (e.g., Reach vs. Frequency, Cost vs. Coverage)
Other Considerations (Complexity of message, CPM, CPC,...)

Money (Allocate budget across media)
Heuristic approaches
Objectives and task methods

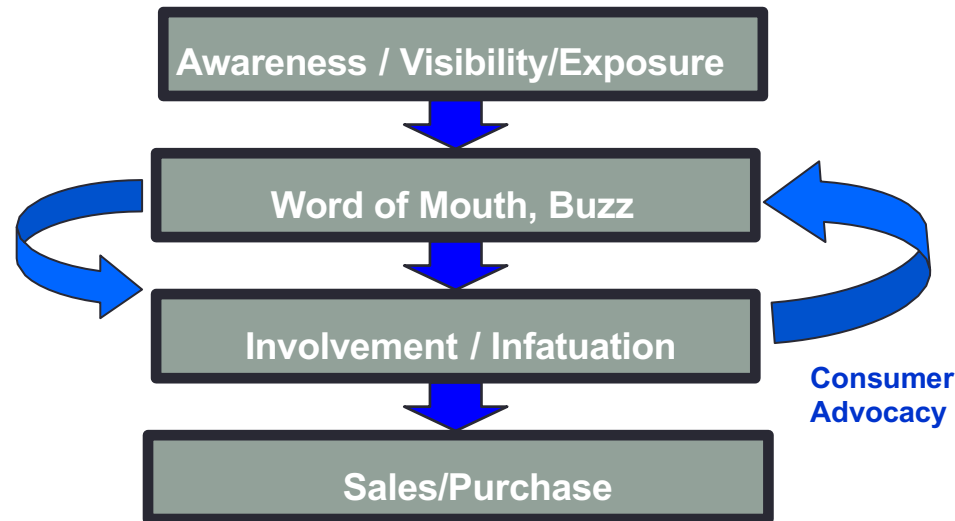
Measurement (Measure results)
- Versus Objectives (Mission) : Margins? Profits? New Segments? Offense?
Defense?..

Promotion: traditional



Promotion: non-traditional

- When to use non-traditional media?
 - Sharks:
 - A point of differentiation, repositioning
 - Reaffirming a known brand identity
 - Rise above the clutter, a splash
 - New product introduction
 - Fish:
 - Guerilla tactic for small players or a message of humor/weirdness
 - Rise above the clutter, a splash, new product introduction



- But consider the risks:
 - Difficulty to evaluate
 - Less control of received messages

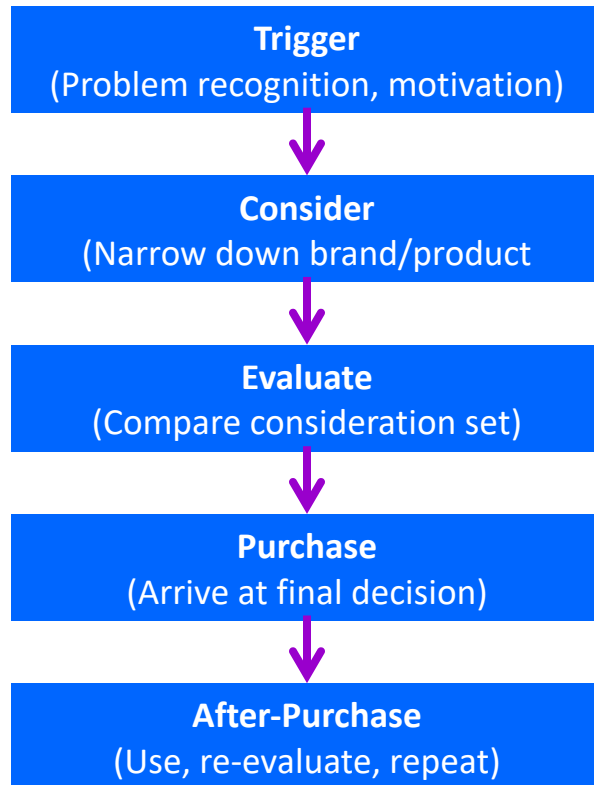
Promotion: categories

- Categories of advertising

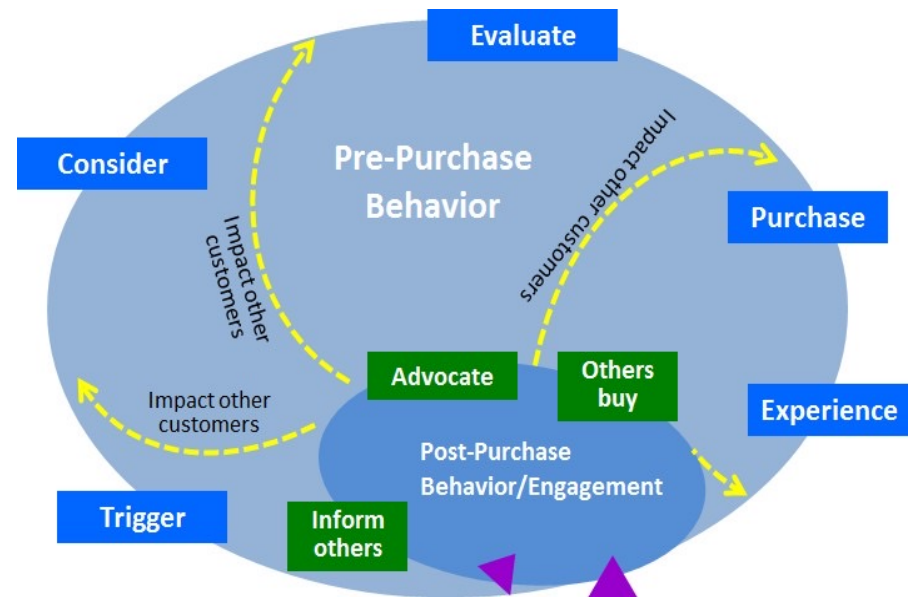
	Transparent	Concealed
Traditional	TV, Newspapers, Magazines, Billboards, online ads?	Product Placement in Movies
Non-traditional	MSN Butterflies, Evian, Swatch, Ralph Lauren, Emirates, Lego, A&F	Vespa, Ericsson, YouTube influencers/reviewers

Promotion: social media

- Must have a clear understanding of DMP to execute NT advertising and brand advocacy: myriad of weak links



Traditional decision funnel



DMP in a digital context

Promotion: social media

Traditional marketing

Networked marketing

Marketer initiated



Customer-steered

Competitive pressures



Competition multiplied & blurred

Marketed distributed



Launched by marketer;
distributed by customers

Brands as lighthouses



Brands as moveable buoys

Predictable channels



Continuously evolving channels

Long-term planning



Planned spontaneity

Manipulated from behind the
curtain

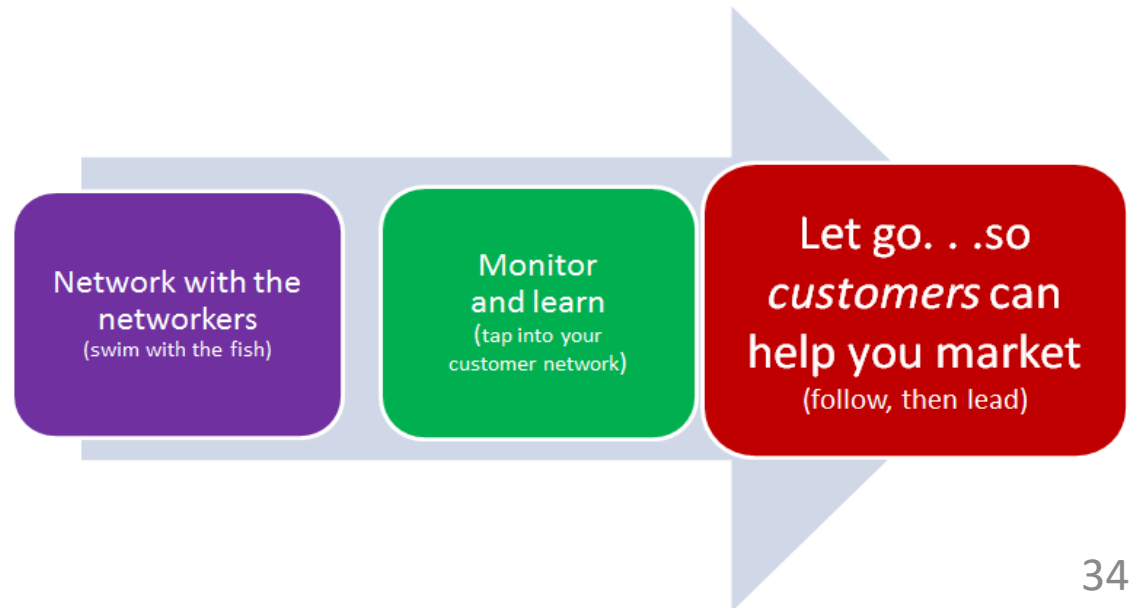


Transparent and always on-stage

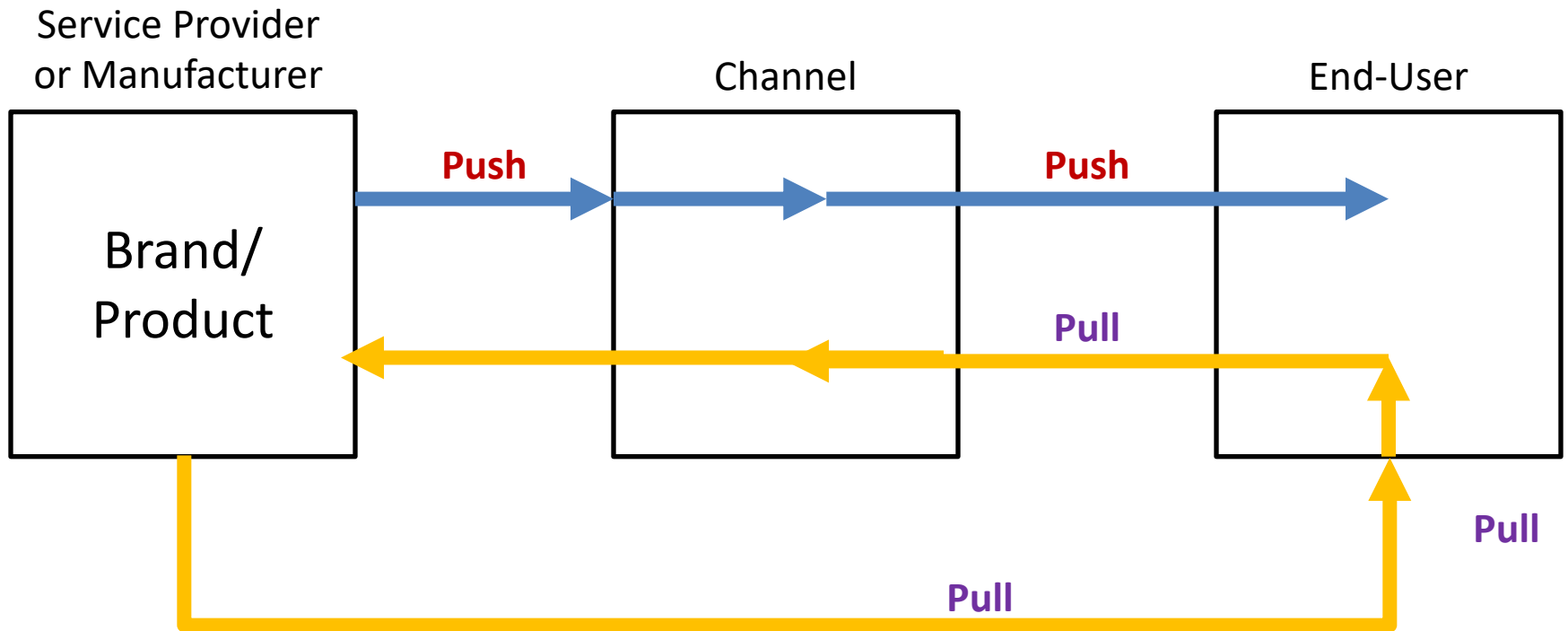
An enhanced form of marketing that enables optimum buyer involvement

Promotion: social media

- 4I's of mobile social media:
 - **INVOLVE** users through engaging conversations.
 - **INITIATE** creation of user-generated content (UGC).
 - **INTEGRATE** activities into your users' life and avoid being a nuisance.
 - **INDIVIDUALIZE** activities to take account of user preferences and interests.

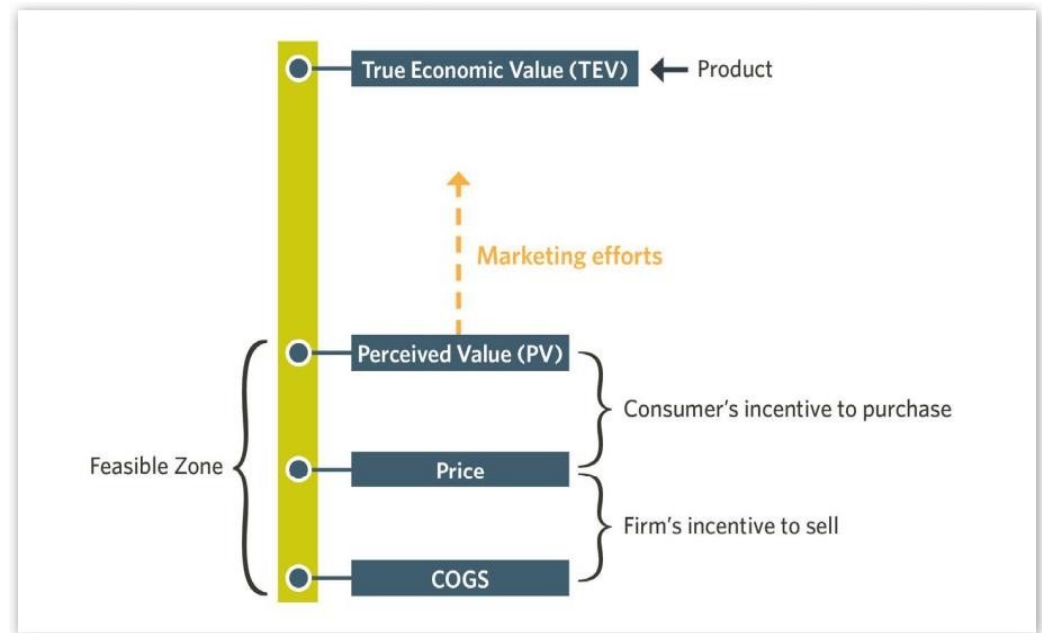


Promotion: Pull and Push



4. Price

- Skimming/penetration
- Freemium/SaaS



Free	Unlimited	Premium
Your music is free and instant. Completely free	Unlimited, uninterrupted music. \$4.99 a month.	Your music is everywhere. \$9.99 a month.
Listen on your desktop & laptop Millions of songs — just hit play Made possible by ads	Listen on your desktop & laptop Millions of songs — just hit play No ads & no commitment	Listen on all your devices Download music & listen offline No ads & no commitment
Get Free	Get Unlimited	Try Premium

30 Day Free Trial

Price: skimming and penetration

When to skim?

- Very few substitutes
- Weak competition
- Long lead time
- High value to performance sensitive customer with high WTP,
- Inelastic demand
- Margin game

Needed to Succeed for Skimming:

- Maintaining high quality in products
- Excellent promotion and after sales service resources
- Brand Equity and Reputation for Innovation and Quality
- High Quality Supply Chain and Distribution Partners
- Product Innovation Leadership
- Excellent R&D facilities and Innovative Engineering Skills
- Incentives for Product Innovation

When to penetrate?

- Price Sensitive Customers with Low WTP
- Customers have Options available
- Short Lead time
- Elastic demand
- Volume Game

Needed to Succeed for Penetration Pricing

- High Volume, Low-Cost production capacity
- Process efficiencies
- Low-cost throughput through the Value Chain
- Process Engineering Skills
- Incentives to meet Quantitative Targets & follow SOPs (Standard Operating Procedures)
- Wide Extensive Distribution

Price: Freemium

- Freemium: Limited service + pay for performance
 - Typically limit service along one or more of these dimensions:
 - Capacity, feature, segmented pricing, time, etc.
 - Requirements for successful freemium model
 - Target is segmentable, low variable cost, high virality, usefulness decreases over a user's PLC triggering a buy for more functionality
 - Consider Freemium if:
 - Low costs to serve, product is sticky, clear path to monetization, clear reason to upgrade, low acquisition costs, etc.

Price: SaaS

- SaaS: deliver service/ software via the Web and charge a **monthly subscription fee** for usage
- Pros:
 - barrier to purchase is lower for new customers
 - products look inexpensive vs. competitive offerings
 - may encourage customers to continuously use the service
 - can extract more contribution per sale over the long run
- Cons:
 - increases chances of customer churn
 - risks of non-payment and high variable costs of providing service
 - low upfront cost may attract wrong kind of customers
 - upfront paying SaaS pricing model maximizes revenue in the short term
- SaaS needs:
 - Lower entry costs
 - Longer duration revenue streams
 - Direct sales, after sales support
 - Product leadership, incremental innovation
 - Fences against competitors

Freemium/SaaS Calculation

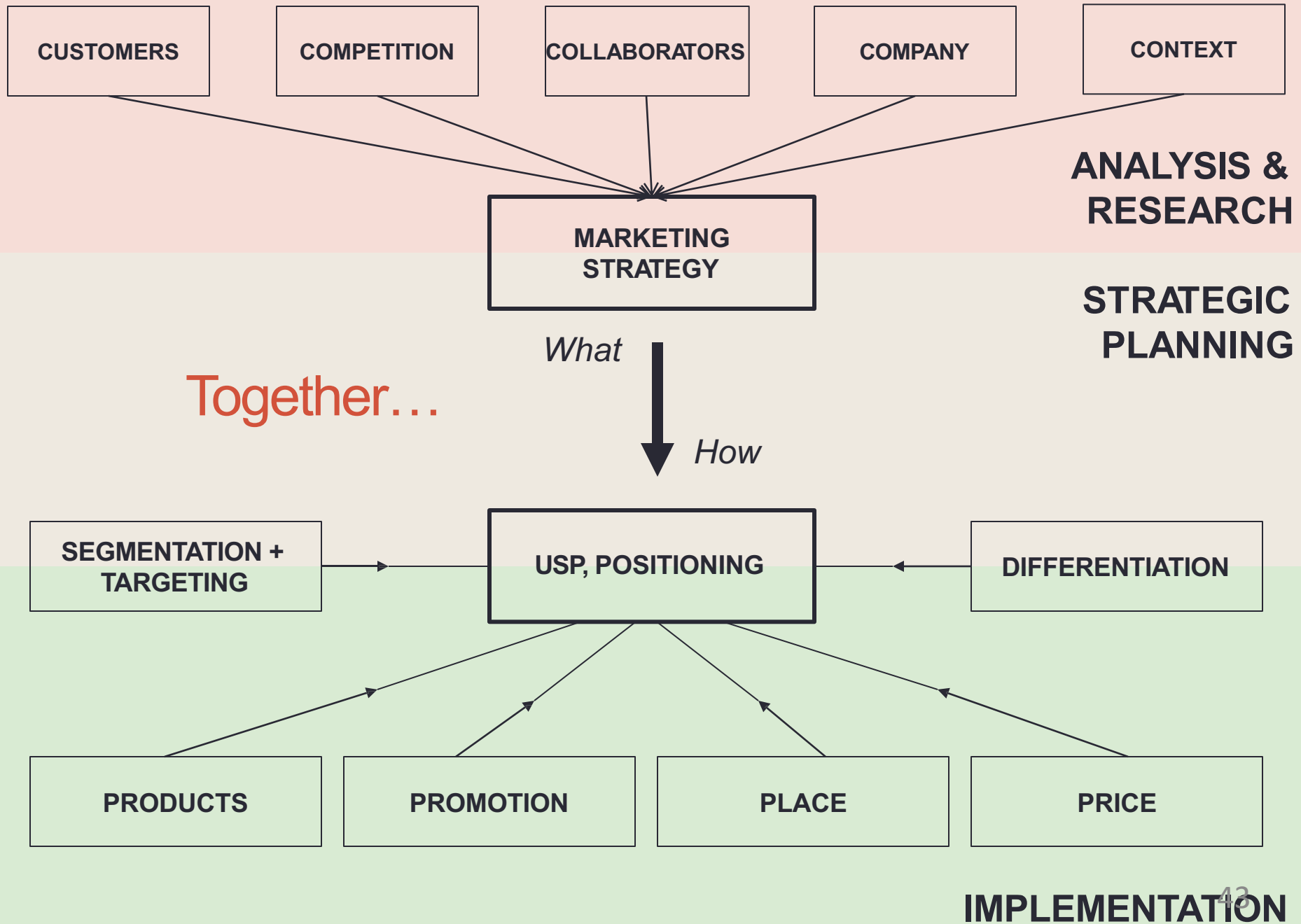
- Conversion Rate = Ratio of Paying Users/Total Users.
- c = Annual Churn Rate: % of Customers that do not renew their service = $1 - \% \text{ Retention Rate } (r)$
- Lifetime of a Customer = Approx = $1 / \% \text{ Churn rate}$
- CAC = Cost to Acquire a Customer
- LTV = CLV = Lifetime Value of a Customer = Contribution of Customer per year / % Churn Rate
- LTV/CAC = Measure of Relative return rate generated on investment in various channels
 - Rule of Thumb = average should be > 3

Freemium/SaaS Calculation (cont.)

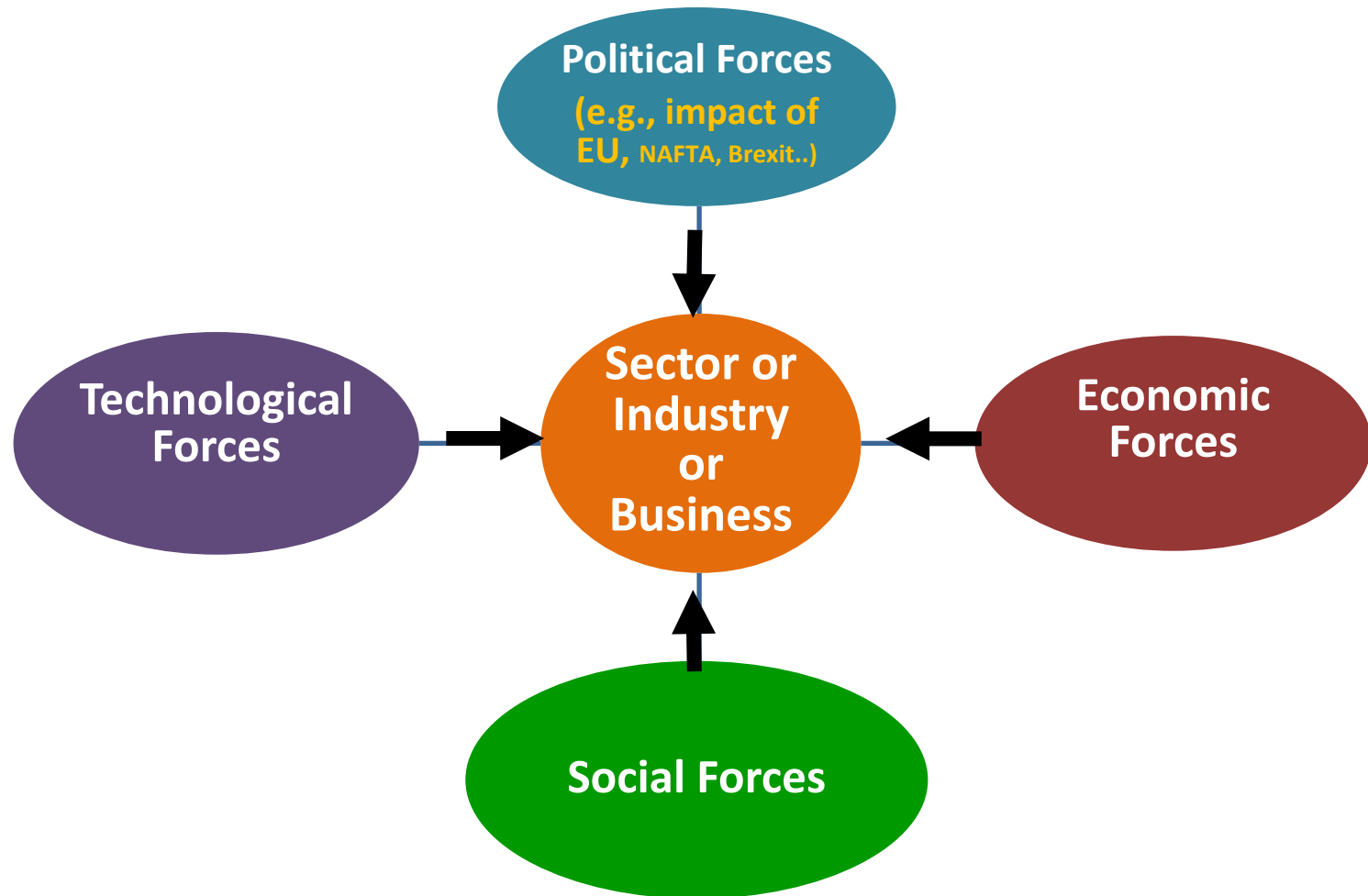
- $ARPU = \text{Average Rev per User} = \text{Total Rev Generated} / \# \text{ of Users (including Free Users)}$ = also for bulk user accounts termed ARPA (Average Revenue Per Account)
- $ARPPU = \text{Average Revenue Per Paying User} = \text{Total Rev Generated} / \# \text{ of Paying Users}$
- $\text{Cell} = \text{Unit} = 1 \text{ Subscription Paying User} + \# \text{ of Free Users Needed to acquire Paying User} = \text{Inverse of \% conversion rate.}$
- $\text{Contribution/Paying User} = \text{Rev from Paying User} - \text{VC to Support Paying User}$
- $\text{Contribution/Cell} = \text{Contribution from Paying User} - \text{VC to Support Free Users in 1 Cell}$

Freemium/SaaS Calculation (cont.)

- ASP = Average Sale Price (usually annual) including discounts, that customers pay per license
- Average Deal Size = $\text{ASP} \times \# \text{ of Licenses sold per customer at one sale.}$
- ACV = Annual Contract Value = Average Revenue from Contract per year from Customer
- TCV = Total Contract Value over lifetime of Contract
- ARR = Annual Recurring Revenue (could be from all contracts or one contract as defined)
 - ARR also used for Annualized Run Rate = Revenue from a month $\times 12$ or Revenue from a quarter $\times 4$
- MRR = Monthly Recurring Revenue

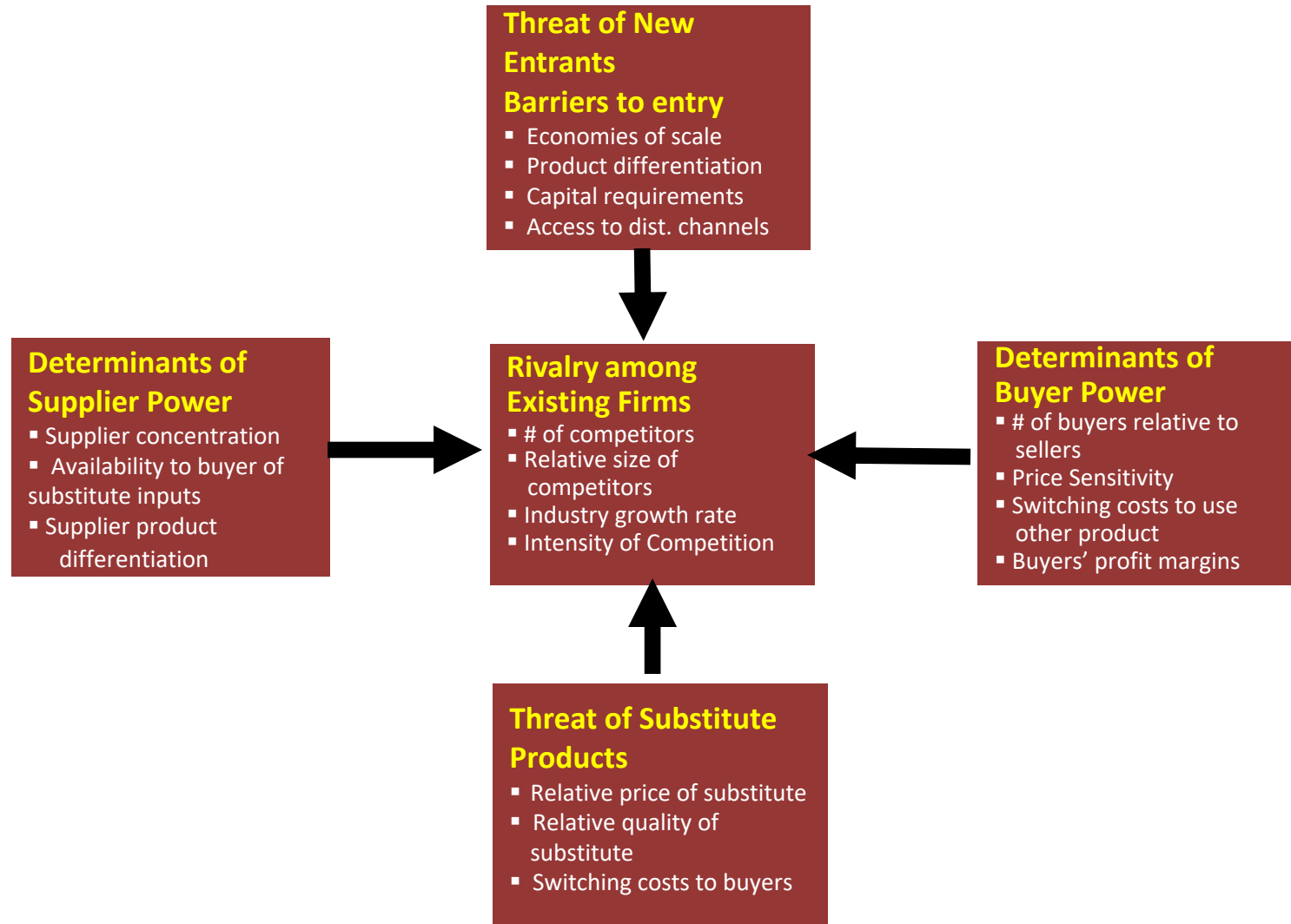


PESTEL macro environment



+ Environmental & Legislative

Porter's 5 Forces Model



Strategy frameworks

- Generic Strategies (Michael Porter)
 - Low cost:
 - Offering Basic Low-Price Products/Service
 - Differentiation:
 - Offering Differentiated Value Proposition
 - Focus:
 - Targeting a Niche / Narrow Segment rather than broader market
- Value Disciplines (Treacy and Wiersema)
 - Operational Excellence:
 - Running an extremely efficient operation
 - Product Leadership:
 - Being the Lead Innovator Company
 - Customer Intimacy:
 - Being close to the customer; excellent customer service

Final Exam...

- Part 1: Numerical
 - Make sure you understand the key concepts related to Freemium/SaaS
- Part 2: Essay
 - Concepts: 5C, STP, marketing mix (product, place, promotion, price), brand portfolio/architecture, strategy frameworks, value disciplines
 - Cases: Eileen Fisher, Chase, Aqualisa, Maersk, ASICS, OLAY, Pattern, SK2, Natureview, Starbucks, Qualtrics, Centra, Dropbox, Cisco