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EBU5402 Enterprise Management

Lecture 8 - Marketing

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Agenda

- ▶ Introduction to Marketing
 - ▶ The Marketing Concept
 - ▶ Marketing Mix (4Ps -> 7Ps)
 - ▶ Market Identification
 - ▶ Market Segmentation

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What is Marketing?

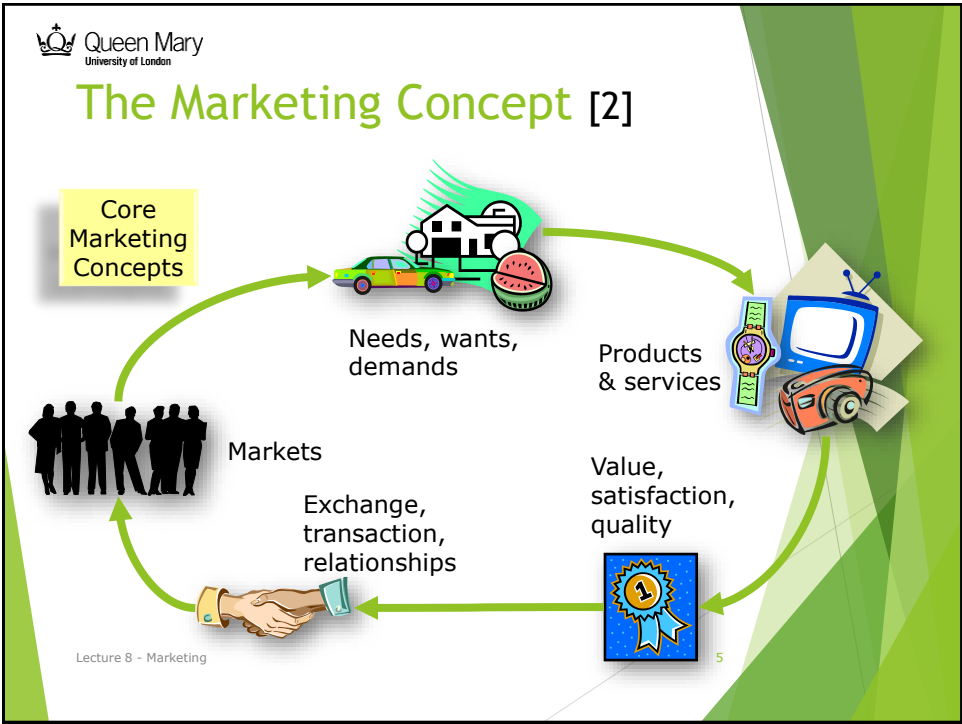
Definition:

- ▶ Marketing is the social and managerial process by which **individuals** and **groups** obtain what they **need** and **want** through **creating** and **exchanging** **products** and **values** with others. [1]

What is Marketing?

- ▶ Some see it only as **selling** and **promotion**
- ▶ If marketer does a good job of identifying
 - ▶ consumer **needs**,
 - ▶ developing good **products**,
 - ▶ good **pricing**,
 - ▶ **distributing** and
 - ▶ **promoting** them effectivelythen these products will sell very easily
- ▶ Selling and promotion are only a small part of the marketing mix





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The Marketing Concept - Needs, wants & demands

- ▶ Human need
 - ▶ a state of **deprivation** that you **feel**
- ▶ Human want
 - ▶ the form that a human need takes as shaped by **culture** and **individual personality**
- ▶ Demands
 - ▶ human **wants** that are backed by **buying power**

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The Marketing Concept - Products and services

- ▶ Product
 - ▶ **anything** that can be **offered** to a market for attention, acquisition, use or consumption that might satisfy a want or need
 - ▶ it includes physical objects, services, persons, places, organisations and ideas
- ▶ Services
 - ▶ activities, benefits or satisfactions that are offered for sale

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The Marketing Concept - Value, satisfaction and quality

- ▶ Customer value
 - ▶ the consumer's assessment of the product's overall capacity to satisfy his or her needs
- ▶ Customer satisfaction
 - ▶ the extent to which a product's perceived performance matches a buyer's expectations
 - ▶ If the product's performance falls short of expectations, the buyer is dissatisfied
 - ▶ If performance matches or exceeds expectations, the buyer is satisfied or delighted

Performance

Expectations



Performance

Expectations



The Marketing Concept - Exchange, transactions and relationships


- ▶ Exchange
 - ▶ the act of **obtaining** a desired object from someone by **offering** something in return
- ▶ Transaction
 - ▶ a **trade** between two parties that involves at least **two things** of value, agreed-upon conditions, a time of agreement and a place of agreement
- ▶ Relationship marketing
 - ▶ the process of creating, maintaining and enhancing strong, value-laden **relationships** with **customers** and other **stakeholders**.




The Marketing Concept - Markets

- ▶ Markets
 - ▶ the set of all actual and potential buyers of a product or service






1) Recap of key points




- ▶ Marketing is the process by which individuals and groups obtain what they **need** and **want** through creating and exchanging products and values with others
- ▶ **Customer value**
the consumer’s assessment of the product’s overall capacity to satisfy his or her needs
- ▶ **Customer satisfaction**
the extent to which a product’s perceived performance matches a buyer’s expectations

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Marketing Mix



- ▶ Definition:
 - ▶ “the set of **controllable tactical marketing tools** - product, price, place and promotion - that the firm **blends** to produce the **response** it wants in the **target market**” [3]
- ▶ Also known as the 4 ‘P’s
 - ▶ Product
 - ▶ Promotion
 - ▶ Price
 - ▶ Place
- ▶ More recently 3 more have been added to make the 7 ‘P’s - known as the **extended marketing mix**:
 - ▶ People
 - ▶ Process
 - ▶ Physical Environment

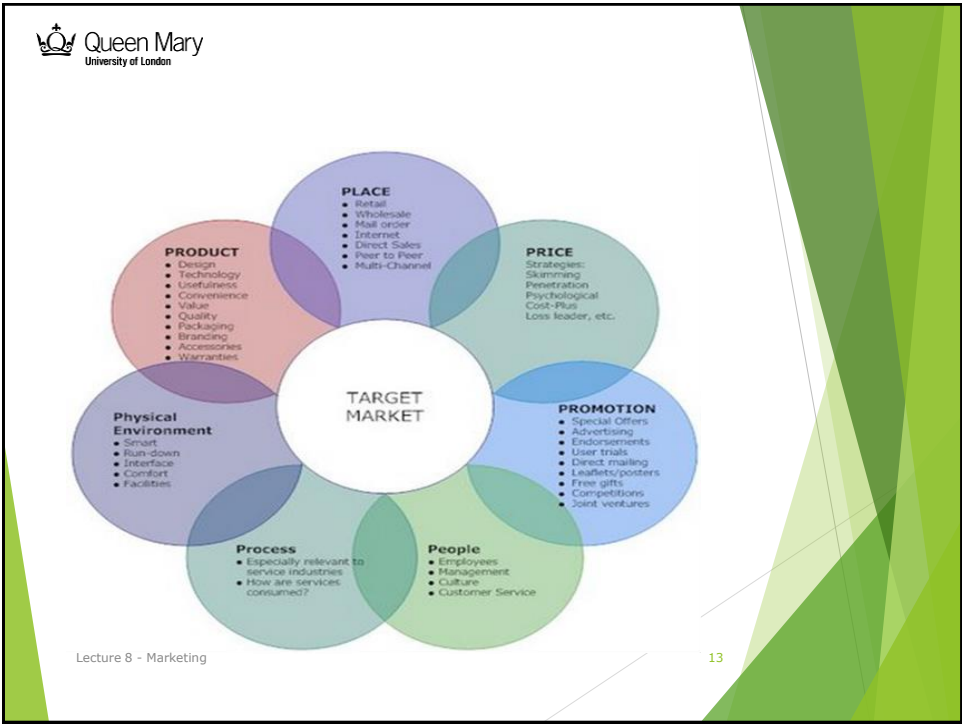
- Employees
- Management
- Culture
- Customer Service

- Especially relevant to service industries
- How are services consumed?

- Smart
- Run-down
- Interface
- Comfort
- Facilities

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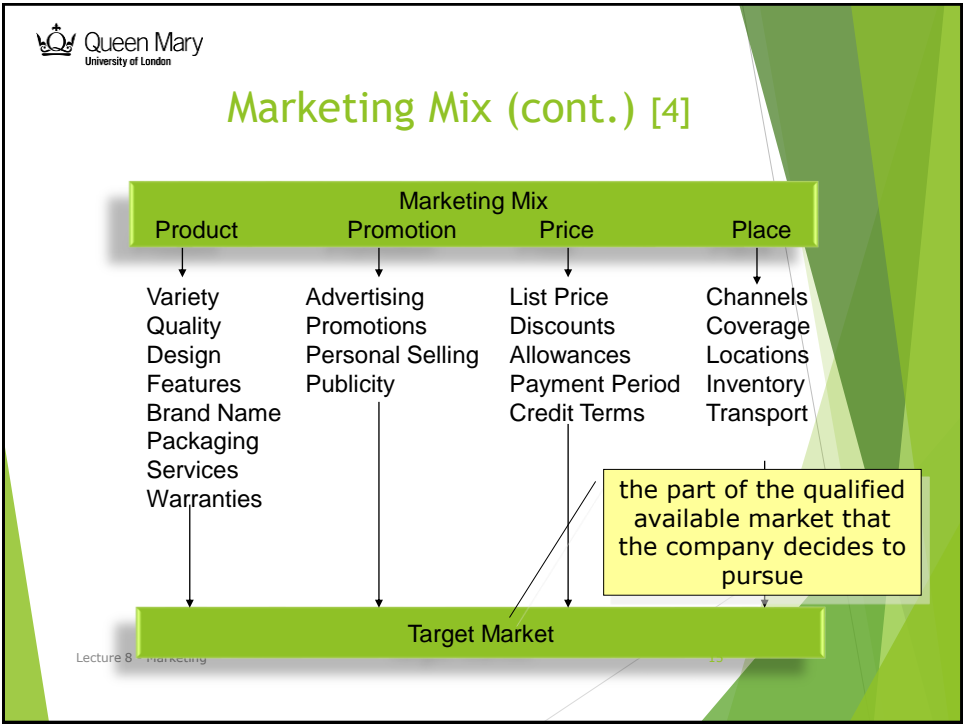
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A new marketing mix?

- ▶ With the Internet , a ‘New 4Ps’ model has been suggested to supplement the traditional marketing 4Ps
 - ▶ **Personalization** - customization of products and services through the use of the Internet
 - ▶ **Participation** - allows customers to participate in what the brand should stand for: what should be the product directions and even which ads to run
 - ▶ **Peer-to-Peer** - customer networks and communities where product recommendations are shared
 - ▶ **Predictive modelling** - predictive algorithms, such as neural networks, that are being successfully applied in marketing problems



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Marketing Mix - Product

- ▶ Definition
 - ▶ “anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisations and ideas” [5]
 - ▶ “**Services** are products that consist of activities, benefits or satisfactions that are offered for sale and are essentially intangible” [5]

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Marketing Mix

- Product differentiation

- ▶ There are **three levels** on which products can be differentiated [6]
- 1. **Core product** - definition:
 - ▶ “the problem-solving services or core benefits that consumers are really buying when they obtain a product” [7]
 - ▶ the essential basics needed to compete in a product market
 - ▶ e.g. a PC needs to be able to run software and display the results
- 2. **Actual Product** - definition:
 - ▶ “a product’s parts, quality level, features, design, brand name, packaging and other attributes that combine to deliver core product benefits” [8]

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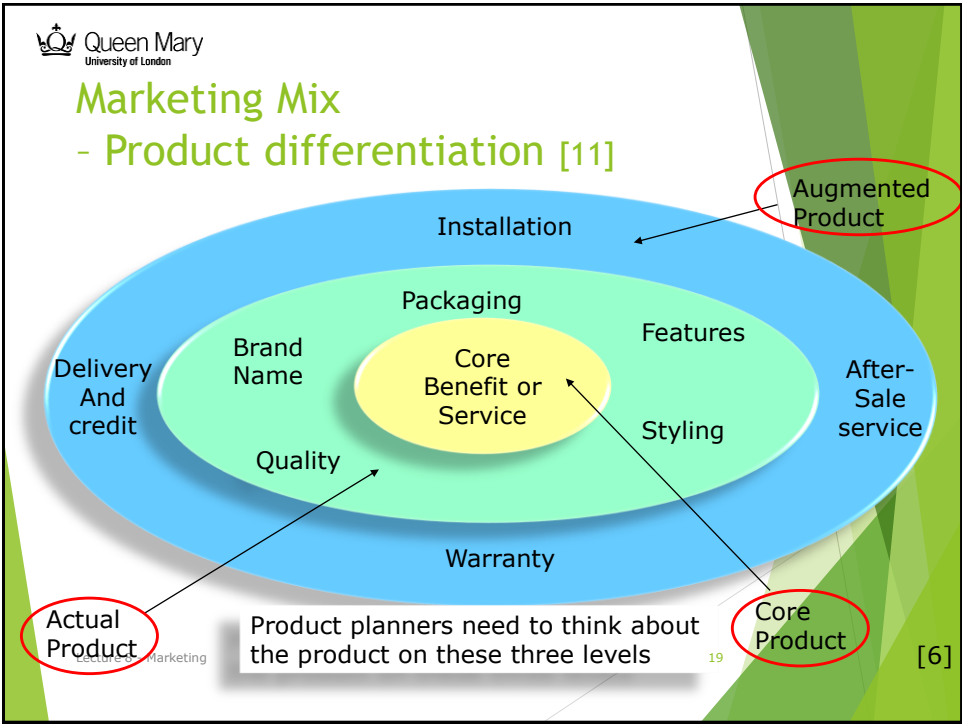
Marketing Mix

- Product differentiation

- 3. **Augmented product** - definition:
 - ▶ “additional consumer services and benefits built around the core and actual products” [9]
 - ▶ offers features, services or benefits that go beyond normal expectations
 - ▶ e.g. free installation, free broadband connection for a year etc
- ▶ An additional category highlighted by Levitt (1986) [10]
 - ▶ **Potential product** - includes all of the features and services that could be envisaged as beneficial to customers, i.e. what can be used to differentiate the product next?

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Marketing Mix

- augmenting products

- Where does the distinction lie between each of these?
What makes something augmented over expected? e.g. mobile phone with camera

BUT – this may leave a gap in the market for 'no frills' products

Competition drives
Market leaders
Market followers
...
Consumers then
Companies then have to create new services etc. to differentiate their products

Product Competing product Expectation

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Marketing Mix

- Product differentiation

- ▶ It is vital that company is capable of **fulfilling** differentiation strategy
- ▶ All market gain would be lost if it is unable to do this
 - ▶ e.g. don't promise superb customer service if you can't provide it
- ▶ The company must ensure differentiation is part of the **overall corporate strategy** to ensure full support
- ▶ Also ensure **full product range** is treated in the same way to avoid consumer confusion
 - ▶ e.g. BMW





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Marketing Mix

- Product Classification

- ▶ Marketers have categorised products according to their durability and on the types of consumers that use them: [12]
- ▶ **Consumer product** - a product bought by final consumers for personal consumption
- 
 - ▶ **Non-durable product** - a consumer product that is normally consumed in *one or a few uses*
- 
 - ▶ **Durable product** - a consumer product that is usually used over *an extended period of time* and that normally survives many uses

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Marketing Mix

- Product Classification



Convenience product - a consumer product that the customer usually buys *frequently*, immediately, and with a minimum of comparison and buying effort

- ▶ e.g. toothpaste, magazines

▶ **Shopping product** - a consumer product that the consumer, in the process of selection and purchase, characteristically *compares with others* on such bases as suitability, quality, price and style

- ▶ e.g. major appliances - TV, clothing



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Marketing Mix

- Product Classification



▶ **Speciality product** - a consumer product with *unique characteristics or brand identification* for which a significant group of buyers is willing to make a special purchase effort e.g. luxury goods

- ▶ e.g. Rolex watch, iPhone




▶ **Unsought product** - a consumer product that the consumer either does not know about or knows about but *does not normally think of buying*

- ▶ e.g. life insurance

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Marketing Mix

- Product Classification

- ▶ **Industrial product** - a product bought by individuals and organisations for *further processing* or for use in *conducting a business*
 - ▶ e.g. Intel chips for Dell PCs




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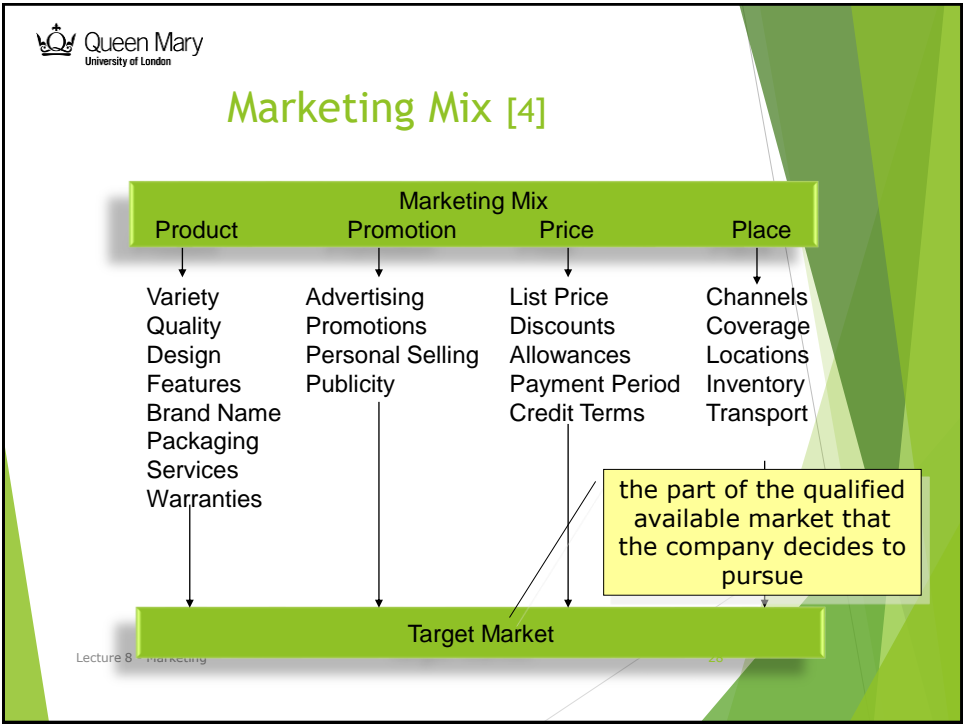


2) Recap of key points

- ▶ Firms use a blend of **marketing tools** to produce the response they want in the target market - this is the *marketing mix*. Also known as the 4 'P's'
 - ▶ **Product**
 - ▶ Product Differentiation
 - ▶ Product Classification
 - ▶ **Promotion**
 - ▶ **Price**
 - ▶ **Place**



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Marketing Mix - Branding

► Definition:

► “a name, term, sign, symbol or design, or a combination of these, intended to **identify** the goods or services of one seller or group of sellers and to **differentiate** them from those of competitors” [13]



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Marketing Mix

- Promotion

- ▶ Promotion
 - ▶ Activities that **communicate** the product or service and its **merits** to target customers and persuade them to buy [14]
- ▶ Promotion Mix
 - ▶ The specific **mix** of advertising, personal selling, sales promotion and public relations that a company uses to pursue its **advertising** and **marketing objectives** [15]



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Marketing Mix

- Promotion tools

There are five main promotion tools [16]


1. Advertising
 - ▶ any **paid** form of **non-personal** presentation and promotion of ideas, goods or services by an identified sponsor
2. Personal selling
 - ▶ **personal** presentation by the firm's sales force for the purpose of making sales and building customer relationships



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Marketing Mix

- Promotion tools

These incentives can be to customers (e.g. buy one get one free) or to retailers (e.g. free holiday for top retailer)




Sales promotion

- ▶ short-term **incentives** to encourage the purchase or sale of a product or service


Public relations

- ▶ building good relations with the company's target audiences by
 - ▶ obtaining favourable **publicity**,
 - ▶ building up a good 'corporate **image**' and
 - ▶ handling or heading off **unfavourable rumours**, stories and events



Direct marketing

- ▶ direct connections with **individual customers** to obtain an immediate response and generate lasting customer relationships



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3) Recap of key points

- ▶ Firms use a blend of **marketing tools** to produce the response they want in the target market - this is the *marketing mix*. Also known as the **4 'P's**
 - ▶ **Product**
 - ▶ Product Differentiation
 - ▶ Product Classification
 - ▶ **Promotion**
 - ▶ Advertising
 - ▶ Personal selling
 - ▶ Sales promotion
 - ▶ Public relations
 - ▶ Direct marketing



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Marketing Mix


- Price

- ▶ Definition:
 - ▶ “the amount of **money** charged for a product or service, or the sum of the **values** that consumers **exchange** for the benefits of **having** or **using** the product or service” [17]
- ▶ i.e. what you pay for what you get
 - ▶ this might be money plus goods you exchange - e.g. trading in a car



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Marketing Mix

- Factors influencing pricing [18]

Pricing decisions are influenced by **internal** (company) factors and **external** factors

Internal factors

Marketing objectives

Marketing-mix strategy

Costs

Organisation for pricing

Pricing Decisions

External factors

Nature of the market & demand

Competition

Other environmental factors (economy, resellers, government)

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Marketing Mix

- General pricing approaches [19]

Companies set prices based on one or more of

- ▶ The Cost-based approach
 - ▶ what does it cost me to **make**?
- ▶ Value-based approach
 - ▶ what do customers **think** it is worth?
- ▶ Competition-based approach
 - ▶ what is **everybody else** charging?
- ▶ Adding a standard **mark-up** to the **cost** of the product

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Marketing Mix

- Cost-based pricing [19]

- ▶ Adding a standard **mark-up** to the **cost** of the product
- ▶ Example - *a mobile phone manufacturer has the following costs and expected sales of **handsets***
 - ▶ Variable Cost (per unit) = £10
 - ▶ Fixed Cost (total) = £300,000
 - ▶ Expected Unit sales = 50,000

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Marketing Mix

- cost-based pricing [20]

The manufacturer's cost per handset is given by:

$$\text{Unit cost} = \text{Variable cost} + \frac{\text{Fixed costs}}{\text{Unit sales}} = £10 + \frac{£300,000}{50,000} = £16$$

The manufacturer would like to earn a 20% mark-up on sales; the mark-up price is given by:

$$\text{Mark - up price} = \frac{\text{Unit cost}}{(1.0 - \text{Desired return on sales})} = \frac{£16}{(1.0 - 0.2)} = £20$$

Mark-up is 20% of the final price

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Marketing Mix - Price (cont.)

- ▶ Value-based pricing
 - ▶ Setting price based on **buyer's perceptions** of product values rather than on cost
- ▶ Competition-based pricing
 - ▶ Going-rate pricing - setting price based on following **competitors' prices** rather than on company costs or demand

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Marketing Mix - Place [21]

- ▶ 'Place' is
 - ▶ **all** the company activities that make the product or service **available** to target customers
 - ▶ How products and services are **delivered** to customers for final usage or consumption can make a difference to how they are **perceived**
 - ▶ e.g. a good shop environment suggests a good product
 - ▶ Firms are increasingly paying greater attention to **distribution channels** to deliver goods and services that customers want at the right time, right place and right price



4) Recap of key points - continue

- ▶ **Price**
 - ▶ Cost-based approach
 - ▶ Value-based approach
 - ▶ Competition-based approach
- ▶ **Place**
 - ▶ **all** the company activities that make the product or service available to target customers






Identifying your target market

- ▶ To utilise the marketing mix fully, it is essential to identify your **target market**
- ▶ The first step is to use **market segmentation** to narrow down the overall market
 - ▶ The *overall market* is the set of all actual and potential buyers of the product



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Definition of terms

market

potential market

available market

qualified available market

target market

the set of **all** the actual potential buyers of a product

the set of consumers who profess **some level of interest** in a particular product or service

set of consumers who have **interest, income** and **access** to a particular product or service

the set of consumers who have interest, income, access and **qualifications** (e.g. driving licence) for a particular product or service

the **part of the qualified available market that the company decides to pursue**

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Market segmentation

- ▶ We need to **segment** the market to help us identify the **Target Market**
- ▶ Definition
 - ▶ “dividing a market into distinct groups of buyers with different **needs, characteristics or behaviour**, who might require separate products or marketing mixes” [24]



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Market segmentation (cont.)

There are four **levels** of market segmentation:

- ▶ Mass marketing
- ▶ Segmented markets
- ▶ Niche marketing
- ▶ Micromarketing



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Market segmentation - Mass Marketing



- ▶ Definition
 - ▶ “using almost the same product, promotion and distribution for all consumers” [25]
- ▶ Basically **no segmentation** is carried out
- ▶ Form of marketing used for much of 20th Century
 - ▶ Ford Model T and “any colour as long as it’s black”
- ▶ **Advantage** - could mean a larger market for the one product
- ▶ **Disadvantage** - diverse groups of customers expect products to closely fit their own needs



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Market segmentation - Segmenting Markets

- ▶ Definition
 - ▶ “adapting a company’s offerings so they more closely match the needs of one or more segments” [26]
- ▶ Recognition that customers have **different** needs, perceptions and buying behaviours
- ▶ Isolation of a segment of the entire market, marketing is then channelled accordingly
- ▶ For example, business, private contract and ‘pay-as-you go’ mobile phone market segments



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Market segmentation - Segmenting Markets

- ▶ Likely to have **customer profiles** for each segment
- ▶ Benefits -
 - ▶ marketing is more efficient,
 - ▶ communications is geared towards specific customers
 - ▶ this should lead to a higher return on marketing investment
- ▶ May lead to **lower levels of competition** as each company may identify a focused market segment



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Market segmentation - Niche marketing

- ▶ Definition
 - ▶ “adapting a company’s offerings to more closely match the needs of one or more sub-segments where there is often little competition” [25]
- ▶ **Sub-segment** of the market segment identified above
- ▶ A more **narrowly defined** group who have **distinctive traits**
- ▶ Therefore attract **less competitors**



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Market segmentation - Niche marketing

- ▶ Niche marketers must **really understand the needs** of their consumers so that they are willing to pay extra for their product
 - ▶ e.g. many magazines - such as 'Tractor'
- ▶ Niches allow **smaller companies** to compete by focusing resources on those niches; those niches may be areas that larger companies have overlooked
- ▶ Bigger companies sometimes also have niche product lines - e.g. Honda snow blowers



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Market segmentation - Micromarketing

- ▶ Definition
 - ▶ “a form of target marketing in which companies tailor their marketing programmes to the needs and wants of **narrowly defined** geographic, demographic, psychographic or behavioural segments” [26]



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Market segmentation - Micromarketing (cont.)

Split into two sections:

- ▶ **Local marketing**
 - ▶ Tailoring brands and promotions to the needs and wants of **local customer groups** even down to individual stores
- ▶ **Individual marketing**
 - ▶ Tailoring products and marketing programmes to the needs and preferences of **individual customers**
 - ▶ For example: made to measure clothing, holidays

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Segmenting consumer markets

- ▶ As well as segmenting by levels, there are **other variables** that are used to segment consumer markets, either alone or in combination
- ▶ These include
 - ▶ Geographic segmentation
 - ▶ Demographic segmentation
 - ▶ Psychographic segmentation
 - ▶ Behavioural segmentation

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Segmenting consumer markets

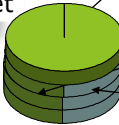
We can segment by these variables

Mass market

Segmented market

Niche market

Micro market



Geographic – e.g. countries, regions, cities

Demographic – e.g. age, occupation, gender


Psychographic – e.g. lifestyle, personality

Behavioural – e.g. occasions, usage rate

We can also segment by layers



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5) Recap of key points

- ▶ To make full use of the marketing mix you must identify your **target market**. **Segmenting** the market helps us identify our target market.
- ▶ There are four **levels** of market segmentation:
 - ▶ Mass marketing
 - ▶ Segmented markets
 - ▶ Niche marketing
 - ▶ Micromarketing



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Directed Reading


Course Textbook (Ebert, R. J. and Griffin, R. W., 9th Edition)

- ▶ Chapter 11 Marketing Processes and Consumer Behavior (p268 - p298)
- ▶ Chapter 12 Developing and Pricing Products (p299- p328)



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References

All references are to Kotler, P, Armstrong, G, Saunders, J, Wong, V, Principles of Marketing, Prentice Hall, Fourth European Edition, 2005, unless otherwise stated

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18. Pg. 665

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