

Developing a Strategic Marketing Plan

Warm welcome to SMP 16 participants

June 2020



Agenda

Understanding Customers (June 14, 2020)

Creating a product strategy (June 21, 2020)

Managing Distributions/ Channel Challenges
(June 21, 2020)

Communicating to customers (June 28,
2020)

Pricing it right (June 28, 2020)

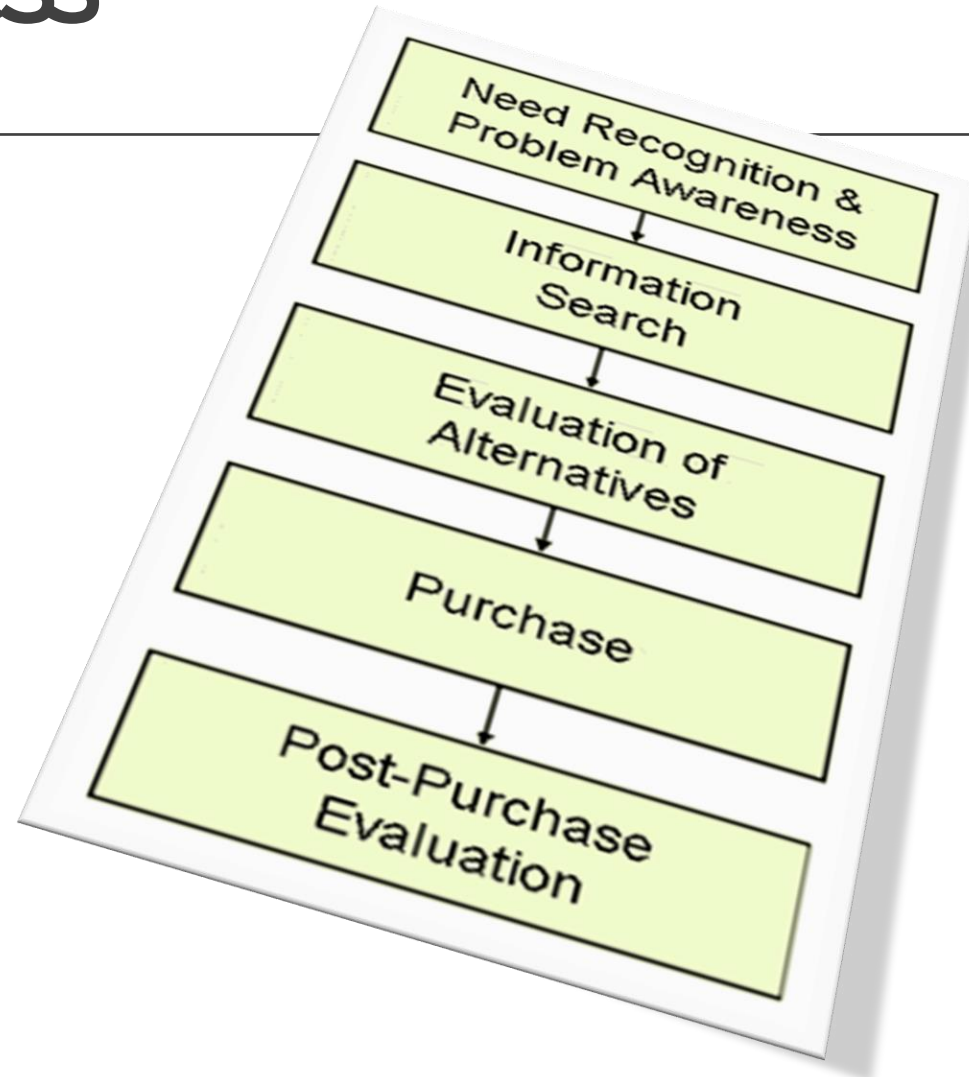
A quick recap!

What you remember from Pre-COVID era!

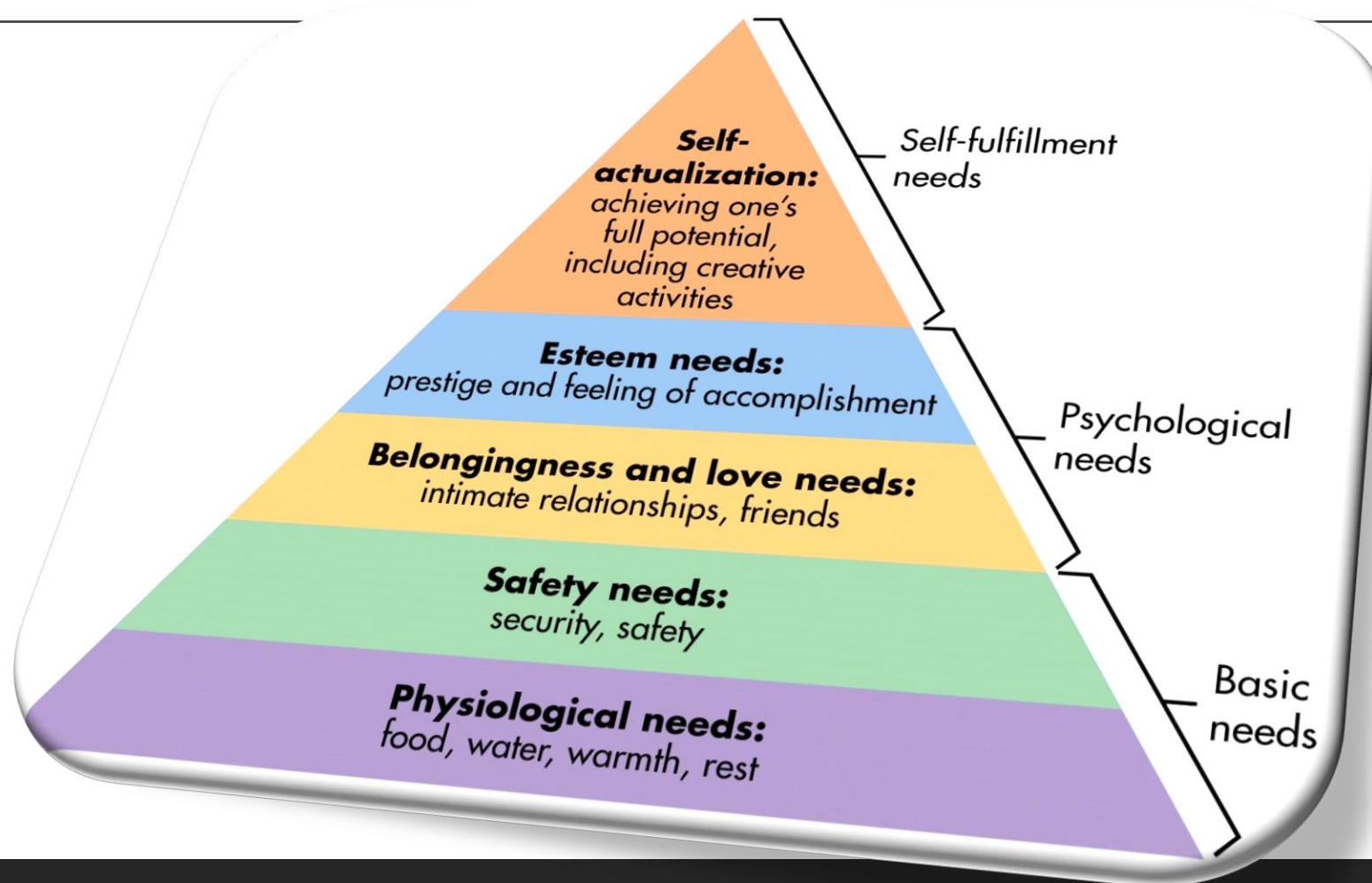
Decision Making Process

The simplest is the:

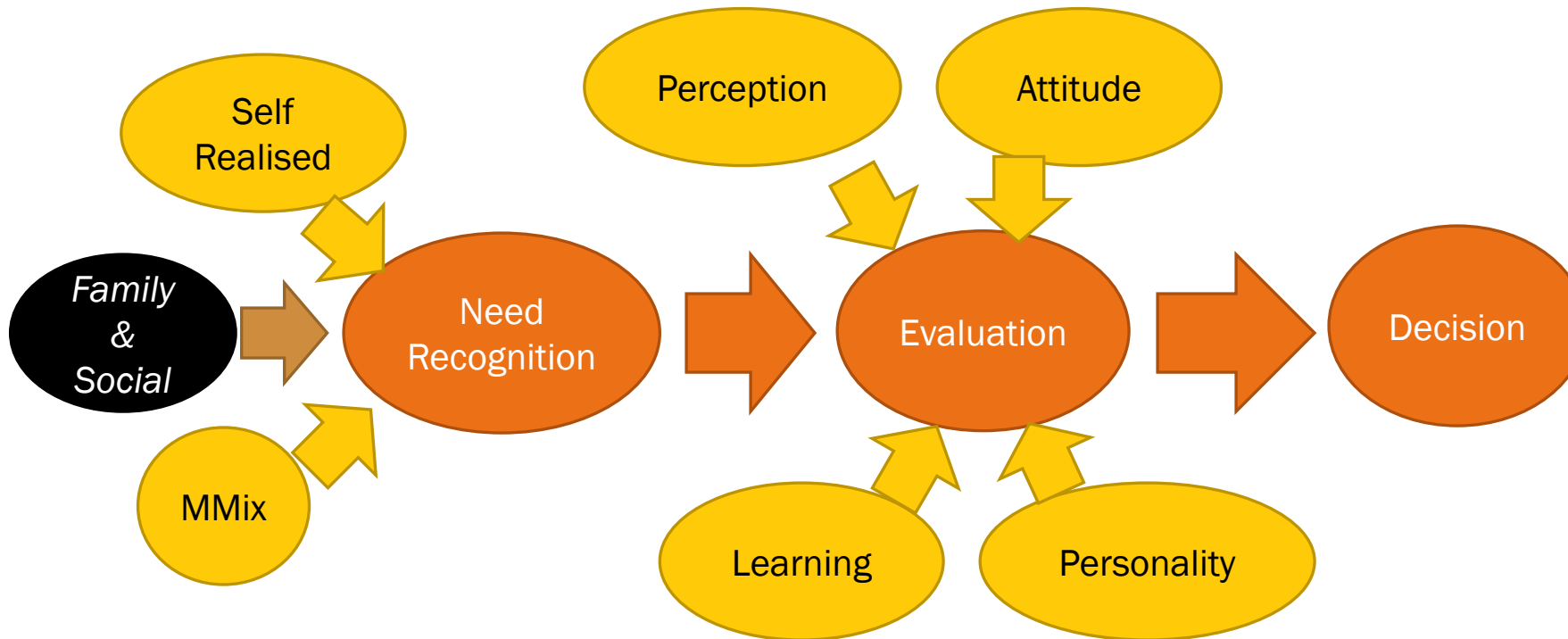
- A-I-D-A model
- More 'detailed' models



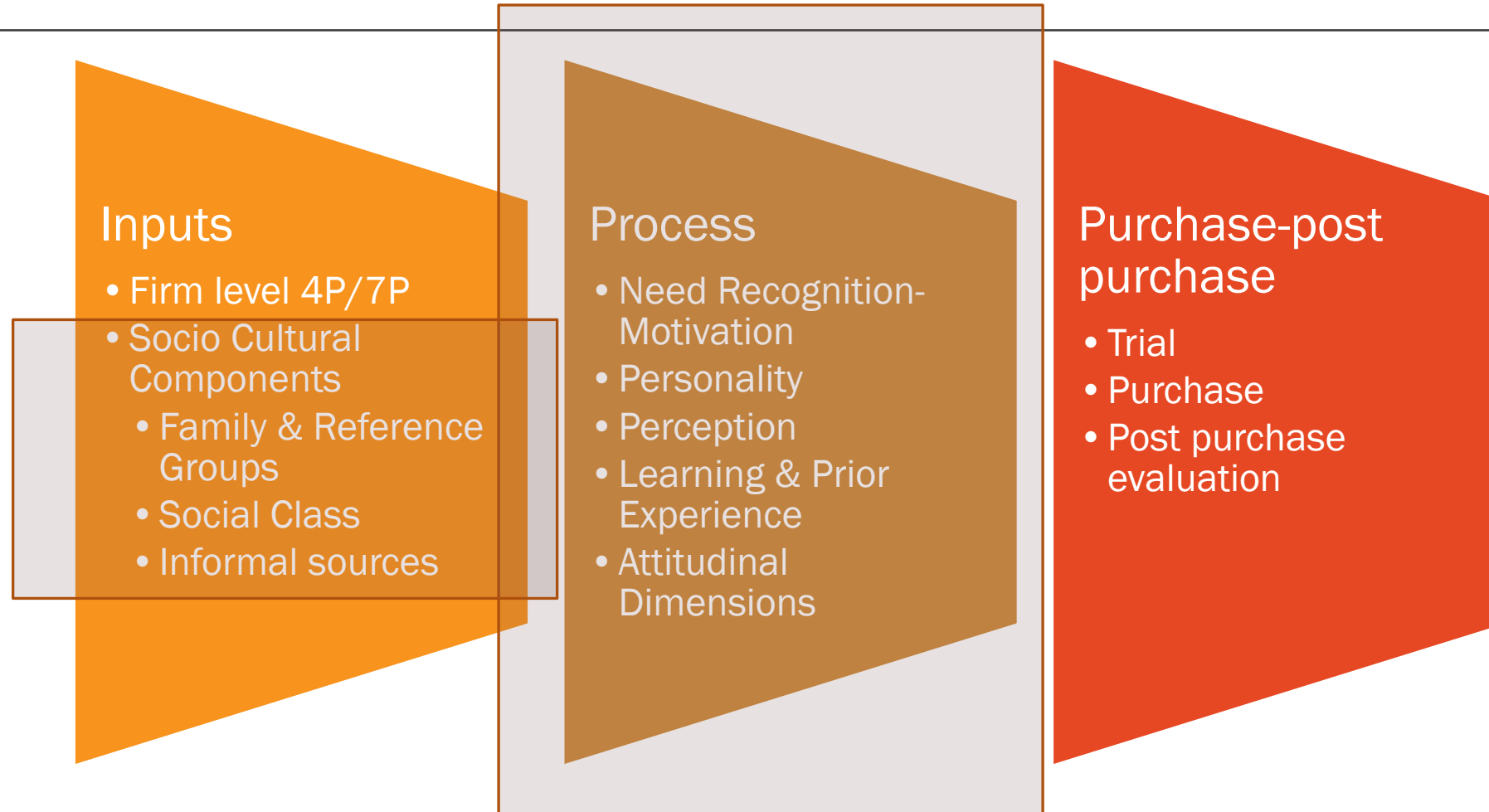
Need, Want and Demand



The process in flow!



The Consumer Decision making process



Needs and Motivation

Cornerstones of Motivation and Needs Studies

- Maslow's Hierarchy of Needs
- Freudian Paradigm
- Drive Theory
 - Gap Between the Current State and Desired State
 - Magnitude of the 'Gap' is important
 - Homeostasis

Loco
Elect
Motive
Ohm's Law?
 $I \propto V$

Ideal
?
Drive
Need
Idea
Current
R = prop. Const
Motiv \propto Need Gap

Needs and Motivation

Expectancy Theory

- *motivation of the behavior selection is determined by the desirability of the outcome. However, at the core of the theory is the cognitive process of how an individual processes the different motivational elements. This is done before making the ultimate choice. The outcome is not the sole determining factor in making the decision of how to behave.*

Emergence of Involvement as a Mediator

- Emerged a critical aspect in the online context

Needs and Motivation

Intrinsic and Extrinsic Needs

- Need for own self
 - Comfort and Convenience
- Other directed Need
 - Impress, status enhancer
- Maybe linked to a single product
- Trade-off Motivators
 - Healthy and Tasty

Positive and Negative Motivation

Approach (positive) and Avoidance (Negative) Goals

- Approach-
 - Fair and Lovely Fairness Cream- Airhostess
- Avoidance
 - Fair and Lovely Dark Circle Remover Cream
 - Dettol
 - Cease-Fire

Rational & Emotive Needs

Personality & its Dimensions

Personality

Makes people Unique

- Refers to a person's reaction to his environment
- Is it consistent?
 - Are we consistent? Always?
- Enduring
 - True?
- Interesting aspects for Lifestyle Marketing
- Do people consume products or symbolism?
 - Ernest Dichter

Personality

Paradigms in Personality

- Freudian Systems
 - Id-
 - Oriented towards Immediate Gratification
 - Party Animal
 - “TATA SAFARI- It is a jungle out there”
 - Superego
 - “Counterweight” to Id
 - Conscience
 - Social Focus
 - Ego
 - Balances between the two extremes
 - Product Symbolism is key- “vicarious experience of the forbidden fruit”

Personality

Other Neo-Freudian Paradigms

- Resulted from unacceptability of motivation around sexual orientation as proposed by Freud
- Karen Horney
 - CAD
- Carl Jung- father of Analytical Psychology
 - Archetypes- handed down from the experience of
 - Fear of Dark
 - Old Wise Man
 - Earth Mother

Personality

Trait Theory

- Introversion- Extroversion (Reserved vis-à-vis Outgoing)
- Materialism (importance on acquiring things)
- Innovativeness (Tries out new things)
- Self-Consciousness (Deliberately monitors him/herself)
- Need for Cognition (likes to think about things)
- Problems with Trait Theory
 - Validity with Scales
 - Need to be modified according to context
 - Specific sections- mentally ill!! 🚨



What are you made of?

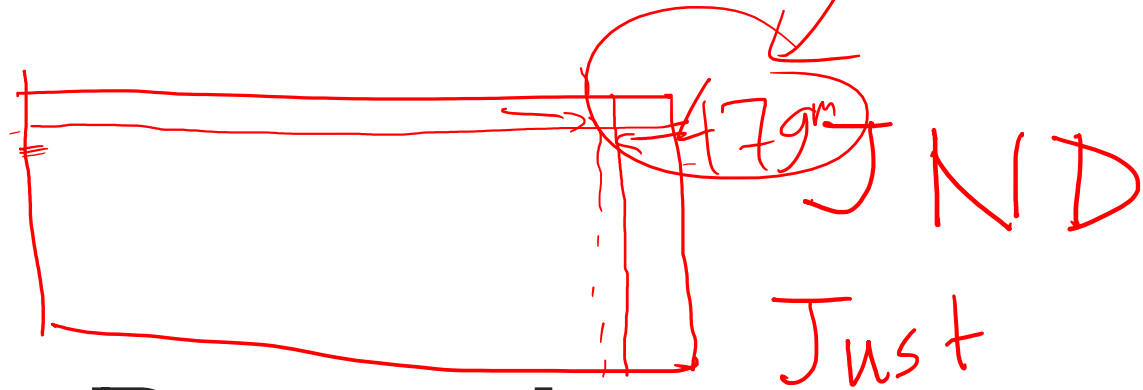
Personality

The Self or the Selves

- Multiple Selves
 - A father, a friend, a husband, a son, or just a man
 - Titan Raga
- Extended Self
 - Attribution to a product/ 'concept'
- Actual/ Ideal
- Expected Self
 - GNIIT

	Internal	External
Actual	<i>Actual self</i>	<i>Social Self</i>
Ideal	<i>Ideal Self</i>	<i>Ideal Social</i>

Parle - G → 100 gm → Rs 4/5 X



Perception

Just
Noticeable
Difference.

Linking to the Price

Perception

Sensation

- Absolute or relative

Absolute threshold

- Sensory Adaptation
 - Cosmetic Changes
 - Substantive Changes

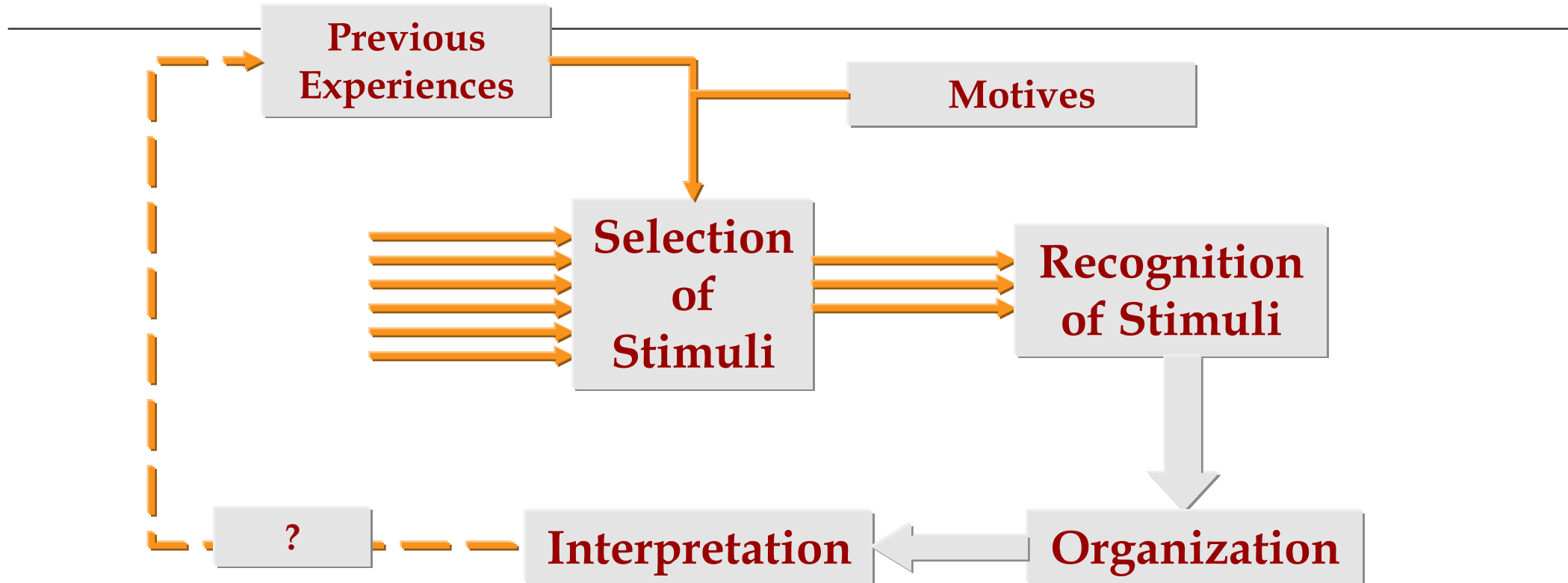
Perception

Differential threshold

- Weber's Law
 - Amount of change that is necessary to be noticed is systematically related to the intensity of the original stimulus
- JND
 - Campbell's Soup
 - Nestlé Munch
 - Pond's Dreamflower Talc- 30% more

$$k = \frac{\Delta i}{I}$$

Perception



Perception

Selection

- Contrast
 - **More-**
 - J & N
 - Bright color ads in Newspaper
 - Black and White ads in a glossy colorful magazine
 - **Less-**
 - Advertorials
 - Nature Fresh
 - Showing ad clips during high involvement serials- often depicting the actors in those advertisements
 - *Importance of “Figure and Ground”*

Perception

Internal Ref. Price

Perception and Pricing

- Reference Prices
 - Internal Reference Price
 - Through Learning, advertising, product category
 - External Reference Price
 - Through Marketers' Claims. "create value"
- Transaction Utility
 - Internal Reference Price ~ Purchase Price
 - Change Internal Reference Price (?)
- Acquisition Utility
 - $U(x) \sim \text{Purchase Price}$
 - "Enhance Experience"

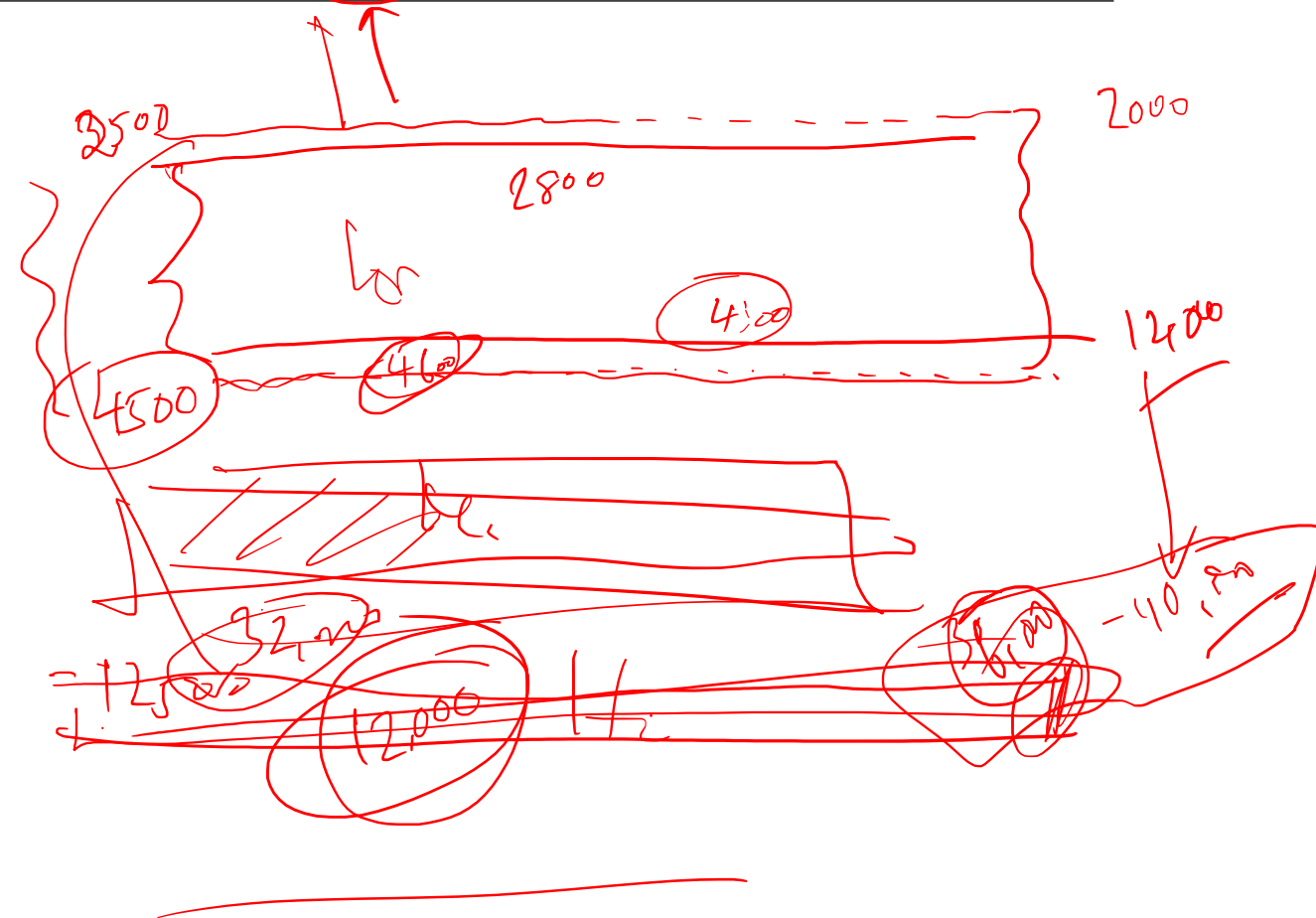
9,999
~~13,999~~
4,000
28 1/2

Total
 $U = \text{Acq } U + \text{Trans } U$

Perception

- Assimilation – Contrast Theory
 - High Plausible
 - Low Plausible
 - High Implausible
 - Low Implausible
- Marketer's Implications

Point of Parity
1200 Difference

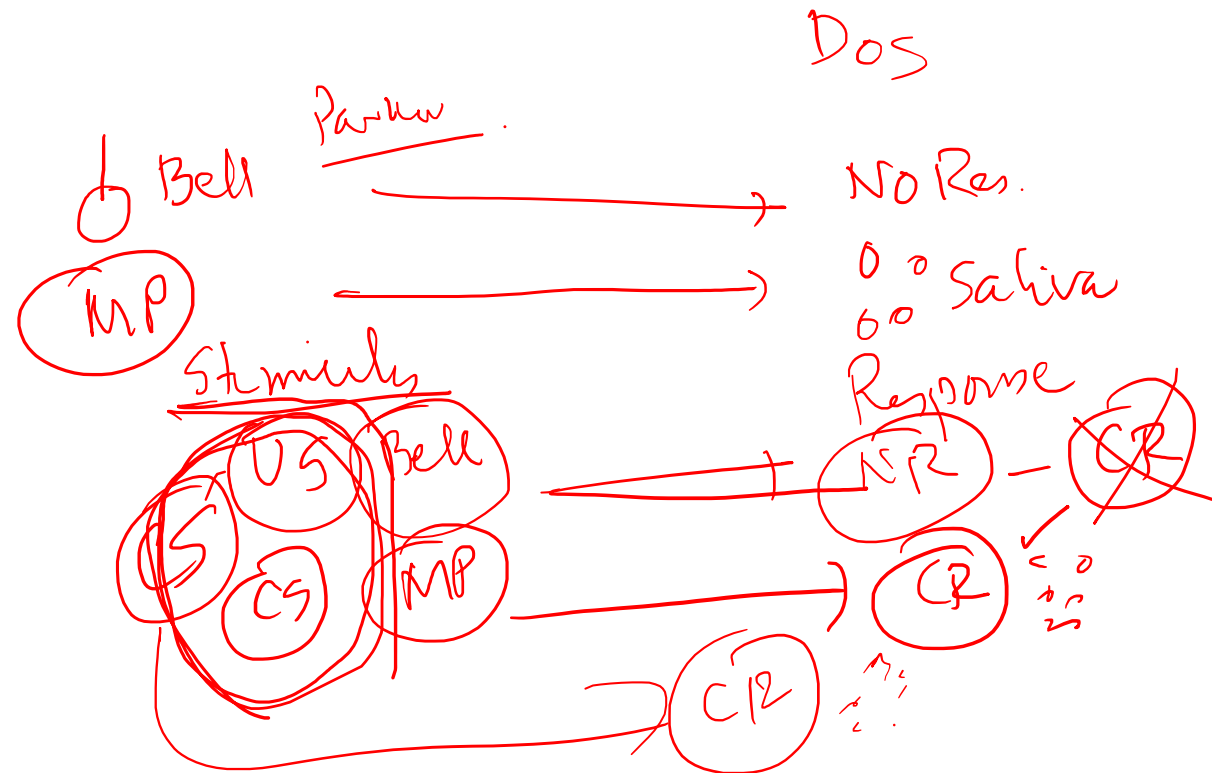


Learning

Learning

Classical Conditioning

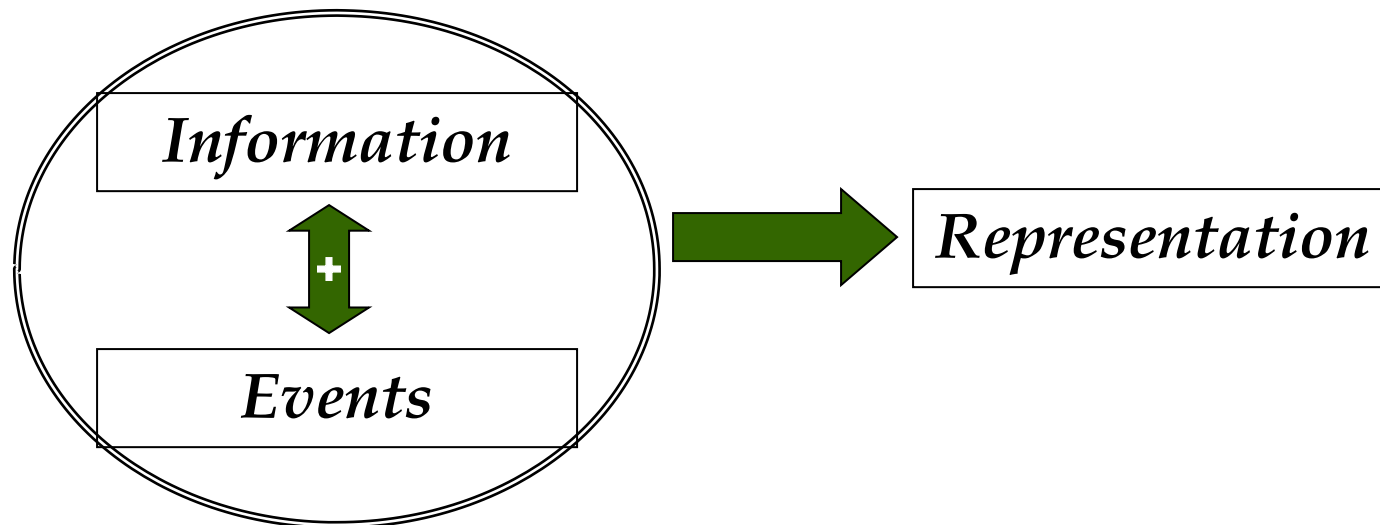
- Pavlovian Dog
- Brand Recognition
 - Learning
- Advertisements
 - “Wear out” issues
 - Cosmetic Variation
 - Substantive Variation
- 3 Hit theory
 - Awareness
 - Relevance
 - Reminding



Learning

Classical Conditioning

- More recent theoretical Implications
 - Pepsi - associations
- Cognitive Associative Learning
 - Repeated associations



Learning

Classical Conditioning

- Stimulus Generalization
 - NIRMA- *Nima*
 - Promise
 - Soft Drinks Market
 - *Brands with distinct/ strong images may fall prey*
- Extension
 - Line, Form and Category
 - Brand Extensions
 - Family Branding
 - Industrial vis-à-vis Consumer goods

Learning

Classical Conditioning

- Licensing
- *Generalization of Usage?*
- *Stimulus Discrimination*
- Positioning
- Product Differentiation
 - *New*
 - *Improved*
 - *Better*
 - *More*

Learning

Observational Learning

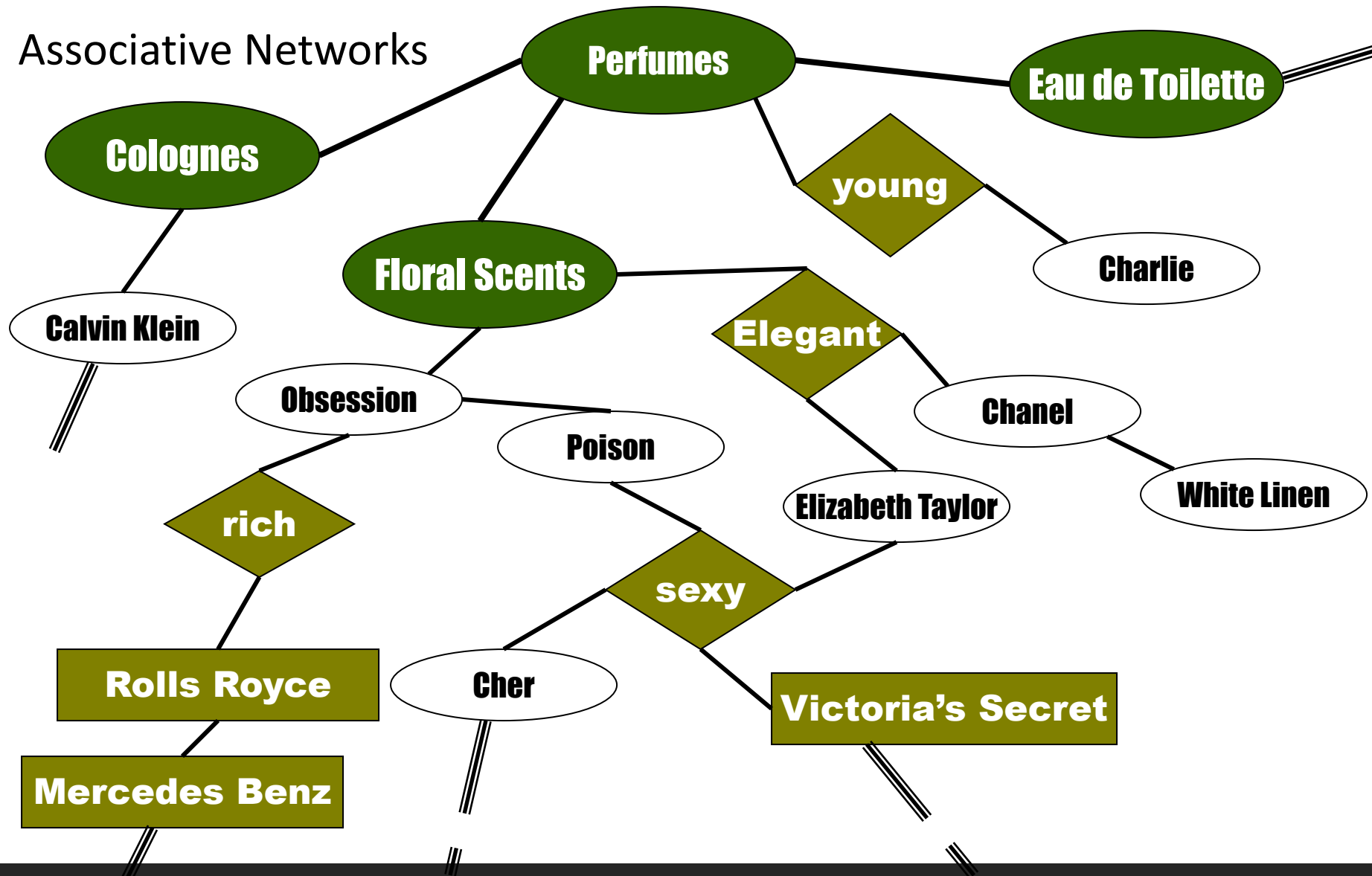
- Vicarious Learning
 - Children learn watching parents, siblings
 - Largely with Negative reinforcement but also some with positive reinforcement
 - Fair and Lovely
 - Most of recent communication depict scenes of common people- “Slices of Life”

Learning

Cognitive Learning Theory

- Information Processing individual
 - Familiarity with category aids in processing
- Structure of Memory
 - Sensory Store
 - Short Term memory
 - Long Term memory
 - Through Rehearsal
 - Encoding
 - Retention
 - Formation of Schema

Associative Networks



Attitude

Attitude

Attitudes

- A 'Learned' pre-disposition
 - Directed- Either towards or Away
- Attitude Object
 - Brand
 - Product Category
 - Or a Product
- Attitude Formation
 - Direct Experience
 - WOM
 - Information

ATIO

Activity
Interest
Opinions

→ Consumption
↳ Product
↳ Brand -

Attitude

Attitudes are lasting

- Towards Smoking

Attitudes can change

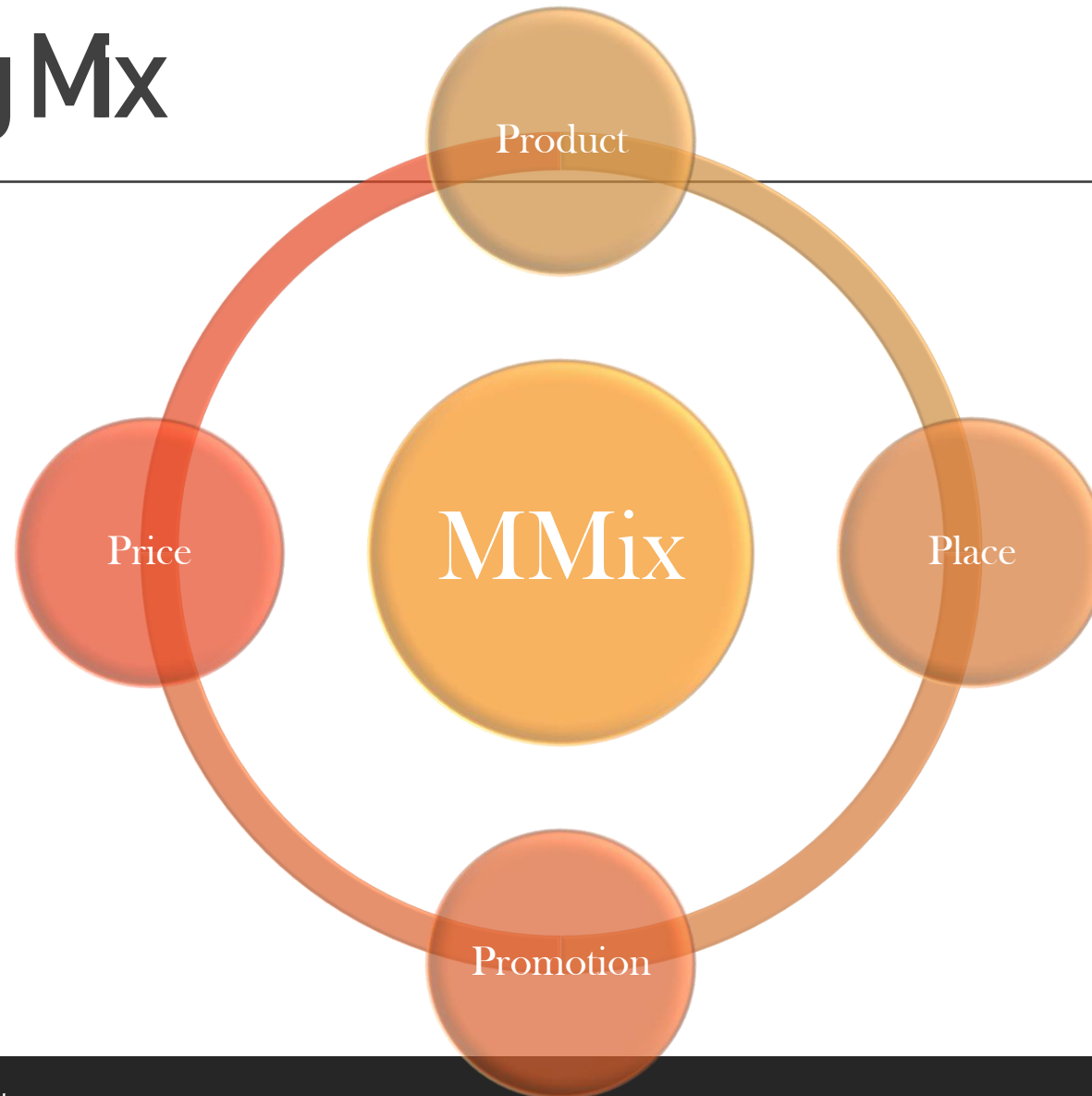
- With respect to a situation
- Capitalize
 - Create unique positioning
 - Firoz hates Fast Food, but for Late nights from his office, he walks into the local Pizza store
 - Anand hates to splurge, but just might buy a diamond ring for his girlfriend

Importance of Marketing Mix

The 4Ps of Marketing Mix

- Product
- Place (Distribution)
- Promotion (reaching out to customers with the information on the product)
- Price (the amount we charge customers)

Marketing Mix



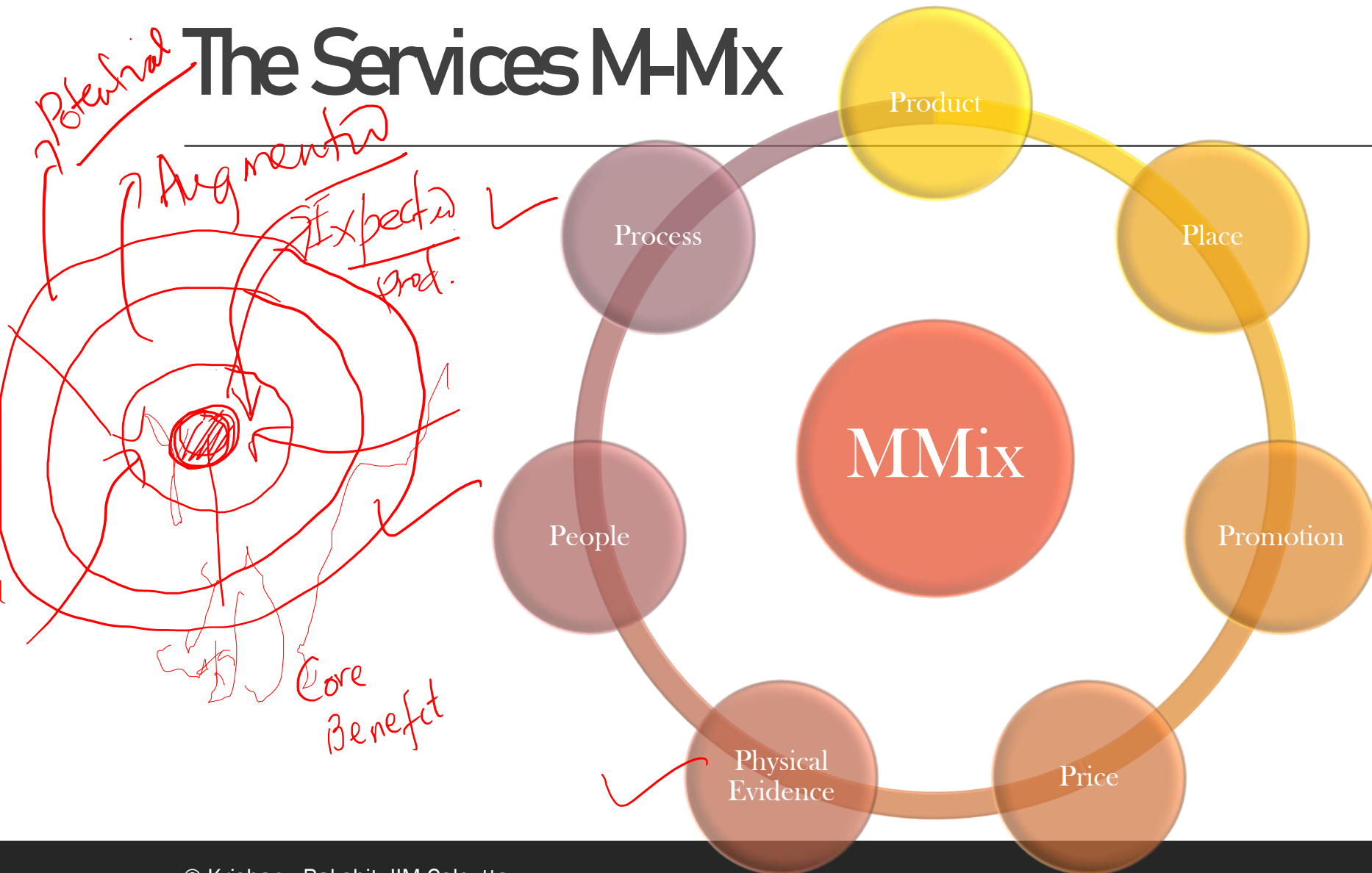
Importance of Marketing Mix

The extended version of Marketing Mix 7Ps

Used mostly in case of Services Marketing

- Physical Evidence
- People
- Process

The Services M-Mix



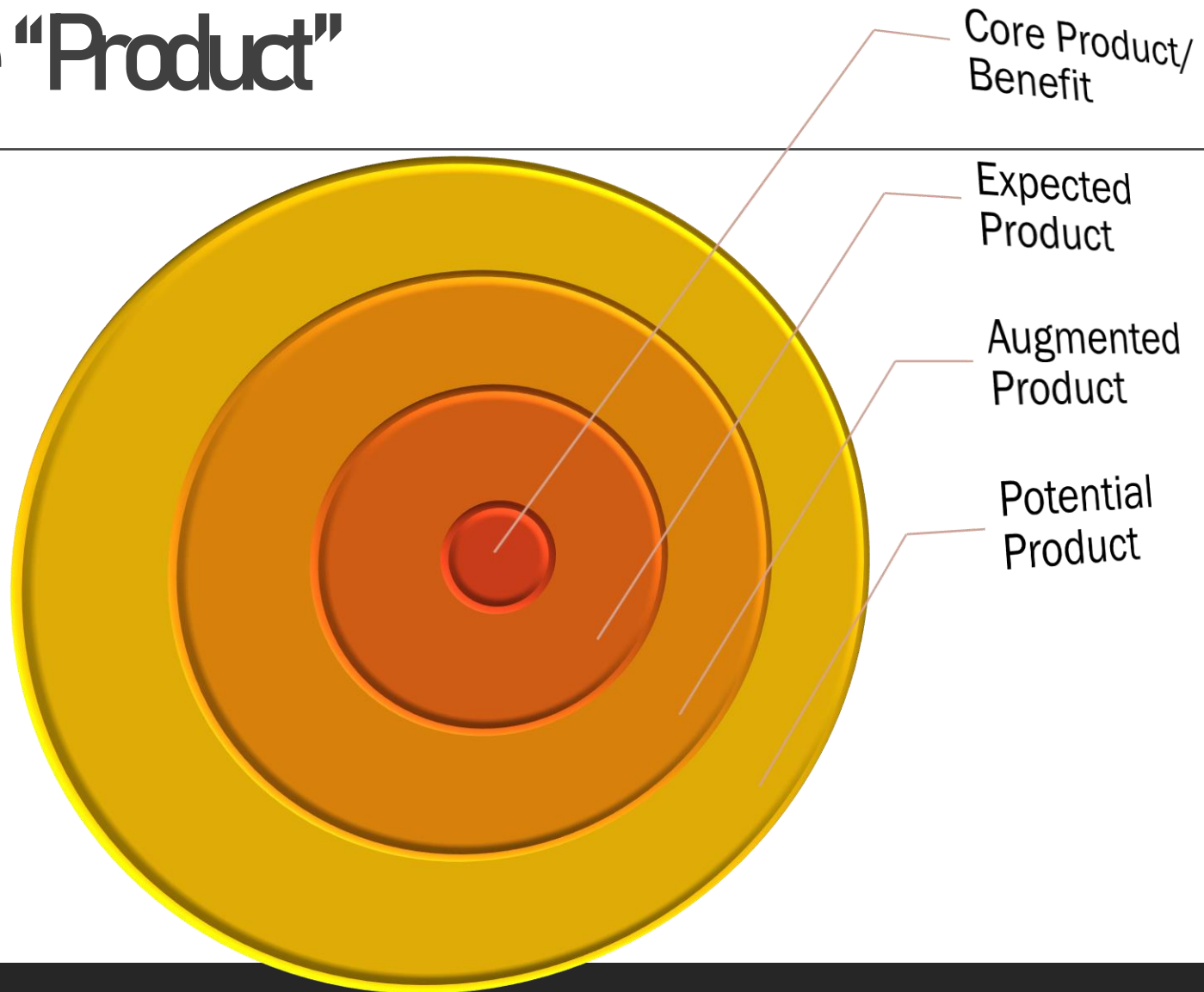
Product

Products (and services) are developed to service a specific *need* and include a *benefit* for consumers/ customers

Therefore marketers' responsibility is to understand the reason which benefit consumers are seeking

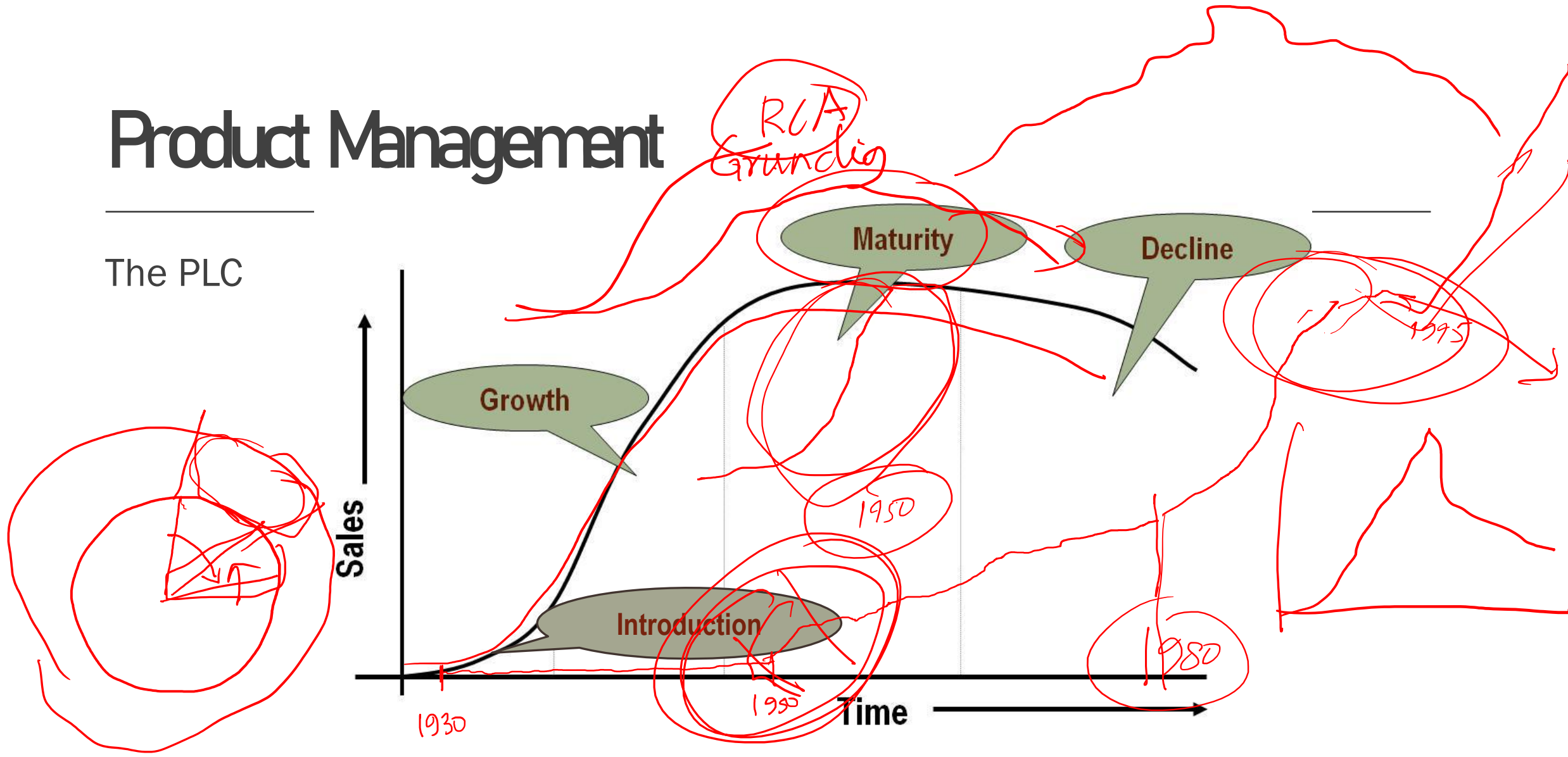
- Understand the competitive products/ substitutes

The “Product”



Product Management

The PLC



Product

To understand the purchasing context of consumers, another useful classification:

- Convenience Goods
 - Standard products, less involved decision making process
- Shopping Goods
 - Consumers search and compare across offerings
- Specialty Goods
 - Consumers can go great lengths to find out the *right* products for themselves
- Any examples?

Product

Classification

- Consumer vs. Industrial Goods
 - Same products could be consumer as well as industrial goods, however, the *context* is important
 - E.g. Desktop computers, Soaps
- Durable vs. FMCG
- Products vs. Services
 - Services follow the broad basics of Products marketing as well, however, poses certain unique challenges
 - Unique characteristics

Product & Services

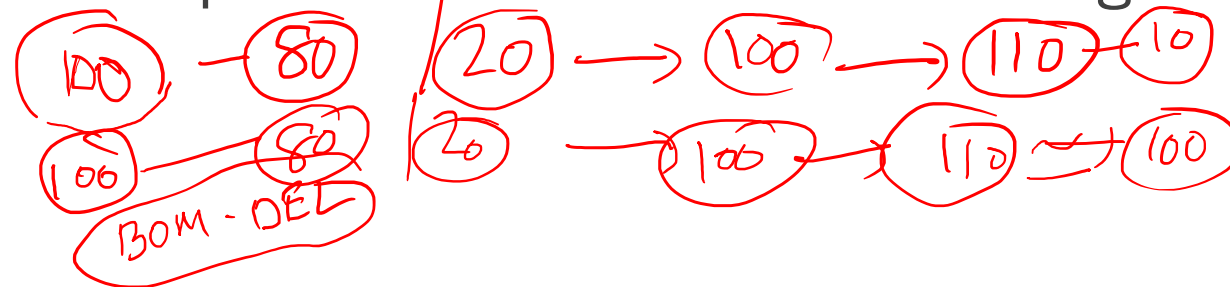
Search goods
Experience goods
Credence goods -

Services are different from products as they are

- **Intangible** in nature
- **Perishable** *i.e. cannot be stored*
- Produced and consumed at the **same time**
- **Heterogeneous** in nature

These are unique challenges from the delivery point of view

- Services, highlight the importance of few more marketing mix variables
- **People & Process**



Product & Services

For Services, it is very important to understand which are:

- Experience based Services
- Credence based services

For Services Delivery it is critical

- That you *standardise* the service delivery process as much as possible
 - At the same time, empower the customer facing personnel to *customise* the experience depending on customer requests
 - **In short, manage process/ standards with flexibility!**

Place

Place serves as an “agent” for disaggregation and convenience.

- Place also provides assurance to the prospective buyer, as the channel represents the “face” of the company.
- Exclusive outlets provides reassurance to potential consumers
 - High-end technology product.
 - Chinese Products.

Note that, channel structures are developed based on the product or service contexts.

- Insurance Products.

Place

Transfer of Title

- Ownership is transferred from upstream member to the down stream member.
- Transfer of title attracts taxation and brings in legal issues.

Risk Mitigation through Inventory Build-up

- Channels plan inventory requirements by understanding the local demand and carries optimum inventory, creating zero stock outs.
- Channels relieve producers from holding central inventory, by carrying smaller inventories at various locations.

Product & Services

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Place (Distribution)

Channels for reaching out..

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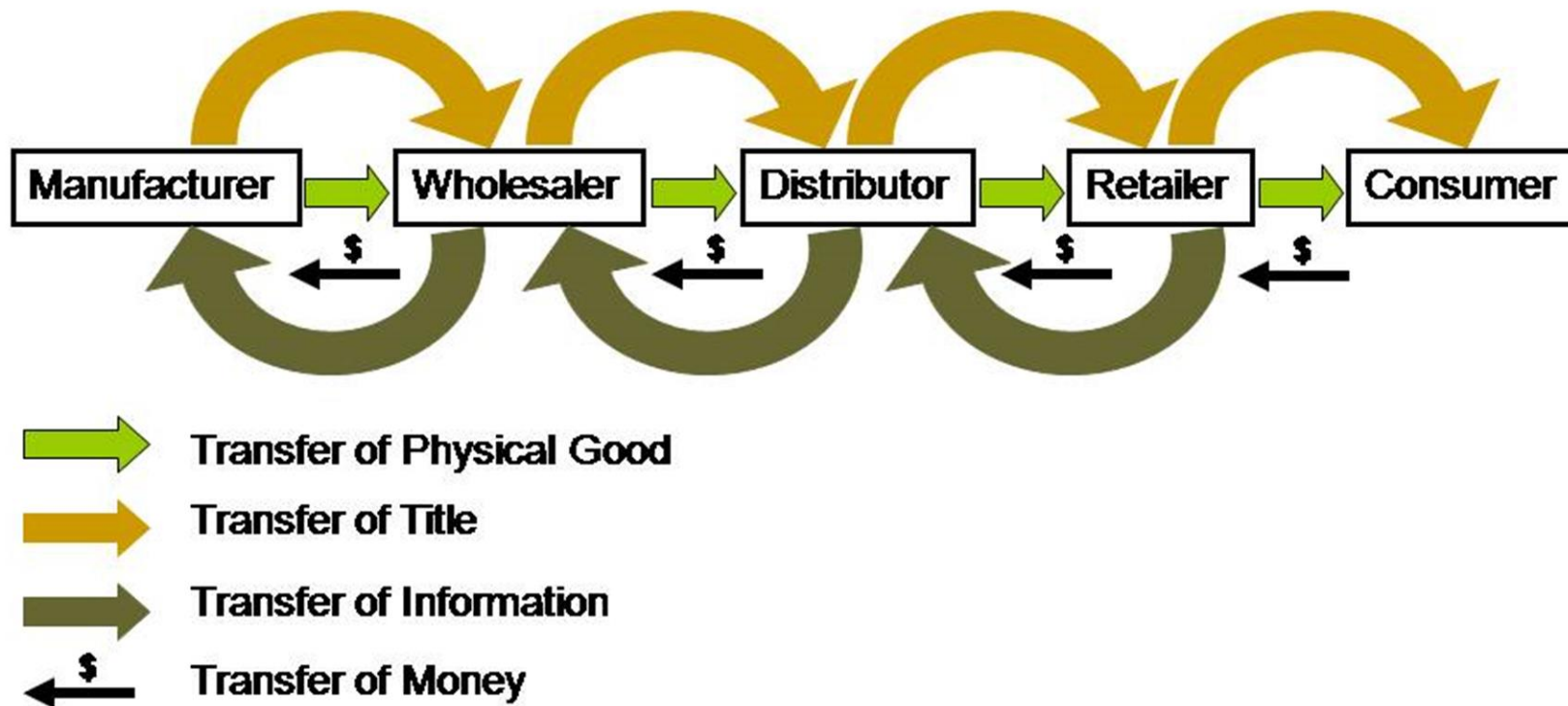
Credit management

- At each level in the Manufacturer – Wholesaler – Customer link, it is the responsibility of each node to collect revenues and pass them upstream.
- Generally, the manufacturer restricts his credit risk to the extent of credit offered to the Wholesaler / Distributor.

Passage of Information

- The upstream flow is not restricted to revenues, but also includes market and consumer related intelligence from the retailer to manufacturer.

Place



Place

The channel strategies are devised based on the product type, customers' specific needs and the degree of control over the channel.

Types of Channels are:

- Traditional.
- Vertical Marketing Systems.
- Multiple Channel Retailing.

Place

Traditional Channel- Pros and Cons

- Pros:

- Distribution infrastructure need not be integrated into the firm structure.
- Ability to access the markets better by appointing more retailers.

- Cons:

- Retailer or the Distributor focuses on volume and not customer satisfaction, since margins generate revenue.
- Manufacturer will have minimal or in fact no control on the product placement.

Place

Traditional Channel- Pros and Cons

- Cons (Contd.)
 - The agility of the manufacturer to the market requirements will be slow, because of slow information movement upstream
 - Since the business is margin driven, partners focus on volumes and not consumer satisfaction
 - Conflict among channel members - horizontal and vertical, are quite frequent and necessitates the intervention of the manufacturer

Place

Vertical Marketing System (VMS)

- The manufacturer integrates the distribution function into its structure.
- This Integration provides greater agility to the manufacturer, since there is a direct contact with the customers.
- The title to the goods will remain with the manufacturer, till the product is sold to the customers.
- This method is suitable when the products and services have very high customisation and information content requirements to be met.

Place

VMS (Pros)

- Perfect control on the placement of product, its delivery and quality control as the manufacturer engages himself in the distribution process
- Owing to better dissemination of product information, enhanced consumer satisfaction is achieved
- Less response time to consumer grievance, given the direct access to information
- Integration provides the requisite efficiency to the system

Place

VMS (Cons)

- VMS structure require huge investments and may not be viable for manufacturers with less margin products
- Being an integrated structure, there might be a chance of loosing flexibility in handling new methods or product markets by the manufacturer

Place- Strategic Choices

	Concentrated Market (few/ geographically contiguous customers)	Fragmented Market (Many/ geographically separated customers)
High on Information content/ Customisation	VMS- Direct Distribution (company owned)	Franchise operation
Low on Information content/ Customisation	Hybrid Channel; Direct Order taking + 3 rd Party Order servicing	Intensive 3 rd party Distribution

Promotion

Promotion

Broadly covers all aspects of *reaching out* to the customer

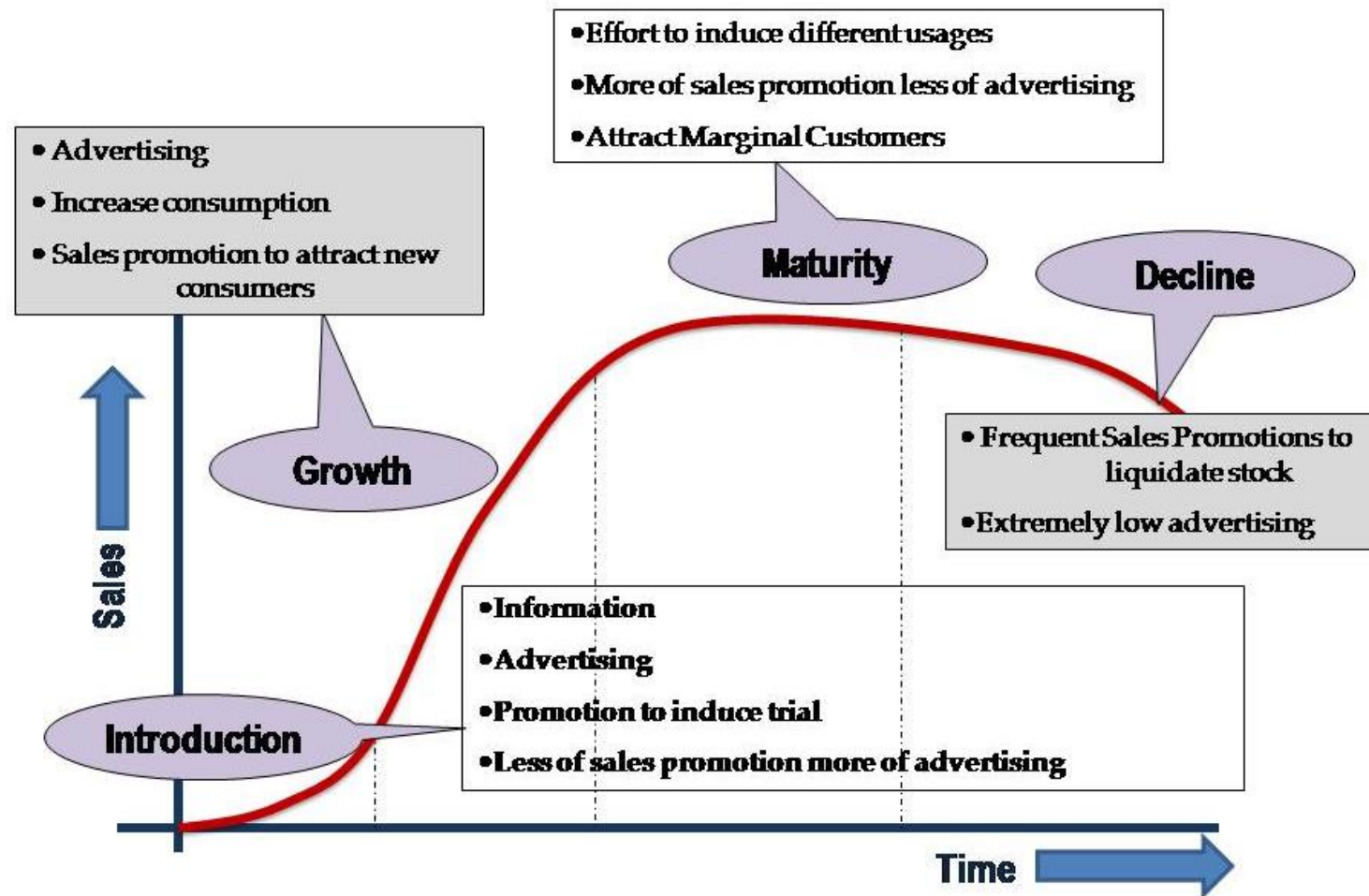
- Advertising- the most visible and talked about part
- Consumer promotions
- Sales Promotions – mainly targeted at channel partners
- Personal Selling – linked to *Place*
- Direct Marketing (and Telemarketing)
- Public Relations
- Publicity

Promotion

Why do we need to promote

- Promote the Category- new product category, new use
- Promote the Brand
 - Create a differentiated image, through its unique offerings
 - Create a “buzz” around the brand
- Change/ update attitude towards Brand
 - Customers grow, brands need to grow along with them to be *relevant*
- Promote *Purchase Intention*
 - Through discounts, special occasions and bundling

Developing the Promotion Mix across PLC



Promotion Tools

Choice has to be made between:

- Impersonal Communication
- Personal communication

Basis of promotional budget

- Percentage of sales?
- Competitive estimate?
- Objective & task



Promotional Efficiency

Impersonal Communication

- Costs are high (large fixed costs, per person costs are low)
- Helps in reaching out to a large number with a generic message
- Conversion efficiencies are low

Personal Communication

- Costs are high per person, total costs are lower
- Directed toward specific individuals, efficiency of conversion high
- Compared to *Rifle strategy* vs. *Cannon (Shotgun) strategy*
- Today, marketers are using personal Word-of-Mouth (WOM)
- Using Social networking to promote



Price

$$\text{Value} = \text{Benefits} - \text{Cost}$$

Price

A Pricing Example:

ZipKo is a manufacturer of Cutting tools for machining products. It is facing fierce competition from local/unorganised sector manufacturers. They often sell cheaper versions of the cutting tools at \$1 a piece, whereas ZipKo sells its cutting tools at \$5 a piece. Plant operators often go for these cheaper tools ignoring the fact that these cutting tools require replacement every 30 hours of operations, whereas ZipKo tools work for over 120 hours before replacement.

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Cutting tool replacement requires an average of 15minutes of worker's time- trained worker's wages could be as high as \$20 an hour.

A Pricing Example:

Price of Local: \$1

ZipKo: \$5

Perceived value Pricing

4 times the life of tool: therefore, 4 cycles of local tool= equivalent of 1 ZipKo.

Therefore, 3 extra tooling requirement = 45 minutes or $\frac{3}{4}$ of an hour @ \$20 = \$15 of wages

Therefore, total savings = $\$4 - \$5 + \$15 = \14 (Saved)

So, can we price it at \$10??

- What is the effect?

Price

The most important variable for the firm

- It generates revenues!
- Customers should perceive *unmatched value!* (compared to other offerings)
 - Too high, and consumers might switch
 - Too low, it may be perceived as of *low quality!*
- Customers focus on benefits and costs
 - Costs may not be only monetary costs of purchasing
 - Other costs, e.g. Switching costs, transaction costs, long term maintenance costs (ownership costs), etc.

Price

A vast amount of research has been done in this area

- But very few *templates* are available, which can suggest successful pricing strategies
- Still, most often marketers fail to price products correctly in the first instance!

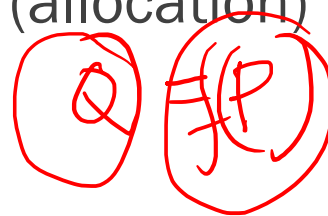
It is critical to balance

- Too high a price (higher profits) but few consumers buy!
- Too low a price (lower profits) firm would have problems!
 - Consumers may also consider it to be of *low quality*!
- Critical to price it right for optimal revenues

Pricing basics

Traditionally, cost plus pricing was adopted!

- Firms ascertain cost of production (variable costs)
- Allocate fixed costs/ Semi variable costs
- Cost = Variable cost + Fixed cost (allocation)
- Price = Cost + margin (%)



Handwritten red circles around Q and $f(P)$ with an arrow pointing from the list item "Price = Cost + margin (%)" to them.



Handwritten red equation: $\text{Price} = f(P) + \%$

Simple, yet disastrous

- This is firm centric pricing
- Not, customer centric or, does not assess the pricing strategy of competitive products!

Pricing Basics

Target costing

- The concept has been popularised by the Japanese firms
 - A product development team first ascertains how much the customers will be willing to pay
 - Also other competitive products may be priced
 - A cross-functional team is then formed to work towards achieving this *target*
 - This costing/pricing technique incorporates both customer/competition centric approach

Pricing Basics

Perceived Value pricing

- Need to know how consumers *value* the offer
 - Higher quality product, should be more expensive
 - Signalling
 - e.g. Maytag products, Korean vs. German automobiles

Pricing Basics

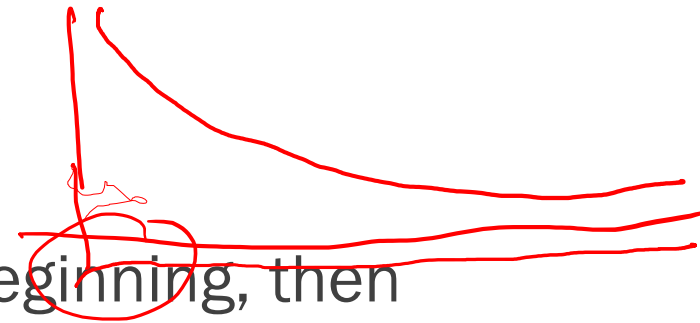
Others include

- *Going rate* pricing- at par with competitive offers
- *Auction type* pricing- for select product/services
- *Bundling*
 - Interesting strategy employed to attract customers-
 - Increase perceived value from the bundled offer!
 - 1 Shirt at Rs300, 3 at Rs800!
 - Buy an automobile for Rs5.50 Lakhs, and get extended warranty for 10 years. (Car Price Rs4.70 comes with base warranty of 5 years + Service charges every year on an average amount to Rs20,000)

Pricing a new product

How do I price a new product?

- Charge high at the beginning?
 - And then reduce the price over a period?
- Charge low to get more customers at the beginning?
 - Then gradually increase the price later?
- High technology products usually price high at the beginning, then reduce prices- this is known as skimming strategy
 - High initial investment in R&D – recover fixed costs early!
- Low tech/ FMCG products usually use lower price to enter
 - *Penetration* pricing- encourage purchase and then charge more!



Q&A

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