# Fundamentals of Marketing

## Exam 2 Review

The following are the key topic areas to be included on this exam. Please note that this list is not exhaustive, but is a good reference to start your preparation for the exam. In addition to closely studying the lecture notes, you should reread the textbook chapters, paying close attention to the concepts covered in class. You should also review the following readings: *Now at Starbucks: A Rebound*, *Celebrities in Advertising Are Almost Always a Big Waste of Money, Paid to Tweet, Have You Ever Tried to Sell a Diamond; The $200,000 Nanny Club; Why There are More .300 Hitters than .299 Hitters; Wal-Mart Wants More Buying; Clout*.

**Chapter 10: New Products**

* Product classifications
  + Product Mix – All product lines offered by a company (all products offered by P&G).
  + Product Line – Group of closely related products (laundry detergents from P&G)
  + Product Item – A specific product within a product line (Tide with bleach laundry detergent)
  + Product Form – How the product is presented.
  + SKU (Stock Keeping Unit) – Each size of a product item (72 oz v. 52 oz size of Tide w/ Bleach)
* Classifying Products
  + Nondurable Goods – Immediately consumed over a few uses
  + Durable Goods – Lasts over many uses
  + Services - Intangible
* Why products succeed and fail
  + Fail
    - Too small of a target market, insignificant point of difference, poor product quality, poor use of research, bad timing, poor execution of the marketing mix, inadequate budget, no economic access for buyers, and consumer disconnect.
  + Succeed
    - Top-management commitment, start with the consumer – not the factory, intelligent use of research, exploit a competitive advantage, and speed to market.
* New product strategy development
  + New product strategy development -> idea generation -> screening and evaluation -> business analysis -> development -> market testing -> commercialization
* Test marketing – why it works, why it fails
  + It’s hard to reasonable represent the country as a whole.
  + Problem of competitive knowledge of your test. Maybe they don’t know or care what else is out there.
  + Problem of translation national media pans into local equivalents

**Chapter 11: Managing Products and Brands**

* 4 stages of the product life cycle (introduction, growth, maturity, decline)
  + Introduction
    - Occurs when the product is first introduced. Slow sales growth, profit is minimal, and creates consumer trial.
  + Growth
    - Rapid increase in sales. Competitors appear. More aggressive pricing -> profit usually peaks, product sales grow as a result of people using the product and repeat users, and increased distribution.
  + Maturity
    - Slowing of total industry sales. Marginal competitors exit the market, most consumers have tried (and abandoned the product) and profit declines.
  + Decline
    - Sales and profits decline, often occurs due to environmental factors.
* Different kinds of product life cycle curves
  + High-learning product, low-learning product, fashion product, and fad product.
* Adoption Rates – barriers to adoption
  + Relative Advantage – How much improvement over current option.
  + Compatibility – Compatible with existing systems, values, beliefs, and ideas.
  + Complexity – How hard is it to use the innovation?
  + Trialability – Ability of potential users to try on a limited basis.
  + Observability – Degree to which innovation and results are observable by others.
  + **Or**
  + Usage Barriers – Existing habits
  + Value Barriers – No reason to change.
  + Risk Barriers – Physical, economic, or social
  + Psychological Barriers – Cultural differences or images
* Managing the product life cycle
  + Role of Product Manager
    - Manages the marketing efforts of the products or brand in:
      * Modifying the product – Changing the product characteristics.
      * Modifying the market – Finding new users, increasing use through reaching a new market, catching a rising trend, or changing the value offered.
      * Repositioning the product – Change the place a product occupies in consumers minds.
* Branding – When an organization uses signals to articulate itself to customers
  + Strategies
    - Multiproduct Branding – Uses one name for all of its branding (virgin)
      * Advantages: If customer has 1 positive experience it is transferred to other products. Enables line extensions.
      * Disadvantages: Brand confusion, one bad experience can bleed over across brands.
    - Multibrand Products – Each product has distinct name
      * Advantages: Each brand is unique and no risk that one failure would affect another’s products. Products don’t all have to “work together”
      * Disadvantages: Company has to generate marketing and consumer recognition of each brand individually.
    - Private Branding – Manufacturer sells the brand under the brand name of a wholesaler or retailer.
    - Mixed Branding – The firm markets products under own name and that of the reseller b/c the segment is “attached” to the reseller.
  + Equity
    - The added value a brand name gives to a product beyond the functional benefits provided. Benefits of brand equity – competitive advantage and higher $
  + Personality
    - Human characteristics associated with the brand.

**Chapter 13: Building the Price Foundation**

* **6 steps in price setting** 
  + **Step 1: Identify pricing objectives and constraints**
  + **Step 2: Estimate demand and revenue**
  + **Step 3: Determine cost, volume, and profit relationships**
* Objectives and constraints in pricing
  + Generate a certain amount in sales
  + Market share
  + Unit volume
  + Survival
  + Social Responsibility
* Objectives relating to profit (long-run profits, current profits, target return)
  + Return on Investment / Assets
    - Managing for long-run profits – Give up immediate profit by developing high-end products to penetrate competitive markets -> profits generated via market share.
    - Maximizing current profit – Setting a short term profit (Quarter year or less)
    - Target return – Firm sets specific profit goal.
* Demand curve – Graph relating the quantity sold and price.
* Elasticity of demand (elastic demand, inelastic demand, unitary demand)
  + Elastic Demand – When 1% decrease in price produces more than 1% increase in quantity. Increases sales revenue.
  + Inelastic Demand – When 1% decrease in price produces less than 1% increase in quantity. Decreases sales revenue.
  + Unitary Demand – When % change in price is identical to % change in quantity demanded. Sales revenue remains constant.
* Price elasticity of demand
  + Determined by factors:
    - Substitutability: More substitutes -> more price elastic
    - Necessity (or not)
    - Price compared to wealth
* All equations
  + BEP = Fixed Cost / (Unit Price – Unit Variable Cost)
  + Price Elasticity of Demand = % Change in Quantity Demanded / % Change in Price

**Chapter 14: Pricing**

* **4 approaches to setting price level**
  + **Demand-oriented approaches**
  + **Cost-oriented approaches**
  + **Competition-oriented approaches**
  + **Profit-oriented approaches**
* **Price objectives and constraints**
* **All equations**
* **Legal issues of pricing**

**Chapter 15: Managing Marketing Channels and Wholesaling**

* **What are intermediaries and what do each kind do?**
* **What value do intermediaries provide**
* **Marketing channels**
* **Channel Conflict**