Marketing

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December 6, 2010

Contents

1 Intro

Value is perceived measure

$$\text{Value}_{\text{perceived}} = \frac{\text{benefit}_{\text{perceived}}}{\text{cost}_{\text{perceived}}} \tag{1}$$

Perceived value

- Delivery on time
- Technological performance
- Information about product
- Soft performance

2 Marketing Strategy

1. Marketing strategy
   a) Market **Segmentation**
   b) Market **Targeting**
   c) Market **Positioning**

2.1 Segmentation

divide up the market into segments
Segment: subgroup of people sharing characteristics cause similar needs
Segmentation: dividing the market for customer needs

Requirements for successful segmentation

- **Identifiable** segments are empirically detectable
- **Accessible** segments are reachable through communication and distribution channells
- **Durable** segments msut be realtively stable to minimize the cost of frequent changes
- **Substantial** segments are large enough to be profitable
- **Unique** segments must respond to different stimuli

Segmentation variables for consumer markets

- Geographic
- Demographic
- Psychographic
- Behavioral

Segmentation process

1. Identify customer value
2. Segment the market
3. Find proxies

2.2 Targeting

A set of buyers share common needs that you decide to serve

Rationale behind targeting

- External
  - Segment size
  - segment growth
  - segment attractiveness
- Internal
  - company objectives
  - company resources

outcome can be

- Differentiated
- Undifferentiated
- Concentrated

Key questions

- perceived value better than in other segments?
- how can segment be reached?
- how quick?
- how big is segment?

2.3 Positioning

- Why me rather than competitor?
- unique differentiated features as perceived by segment?

Positioning forms the basis for the marketing mix

Type of goods

Marketing considerations	Convenience	Shopping	Specialty	Unsought
Customer buying behavior	Frequent purchase, little planning, little comparison or shopping effort, low customer involvement	Less frequent purchase, planning and shopping effort, brand comparison on price, quality, style	Strong brand preference, loyalty, special purchase effort, little brand comparison, low price sensitivity	Little product awareness and knowledge (or little/ even negative interest)
Price	Low price	Higher price	High price	Varies
Place	Widespread, convenient locations	Selective distribution in fewer outlets	Exclusive in only one or few outlets per market area	Varies
Promotion	Mass promotion by producer	Advertising and personal selling by producer and resellers	More carefully targeted promotion by both producer and reseller	Aggressive, personal selling by producer and resellers
Examples	*Toothpaste, magazines*	*TV, furniture, clothing*	*Luxury goods, such as Rolex or crystal*	*Life insurance, blood donations*

Figure 1: Generic positioning

3 Product

A product can be defined as anything that is offered to the market for consumption... and that satisfies a *need*.

Two categories of goods

- **tangible**: physical products
- **intangible**: services, events, people, places, ideas, ...

Can also be classified as

- **Nature of customer's buying behavior** convenience goods, shopping goods, or specialty goods
- **Level of involvement in purchase process** low (customer), high (industrial)
- **Type of customer benefit** functional or emotional

Product Line is a group of items satisfying **similar** customer **needs**

A **Product mix** encompasses **all product lines**

A product line has two dimensions

- **depth** number of versions of each product in the line
- **length** number of products within a product line

Product augmentation The augmented product provides additional benefits examples

- customer service
- installation

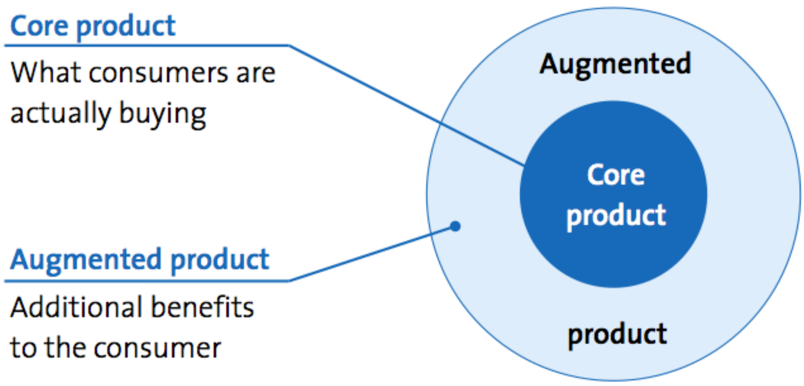

Figure 2: There is more than the product itself

- repair and delivery service
- warranty
- credit possibilities

Brand Names and symbols that make **product differentiation** concrete. Identity, quality, consistency, legal protection , segmentation.

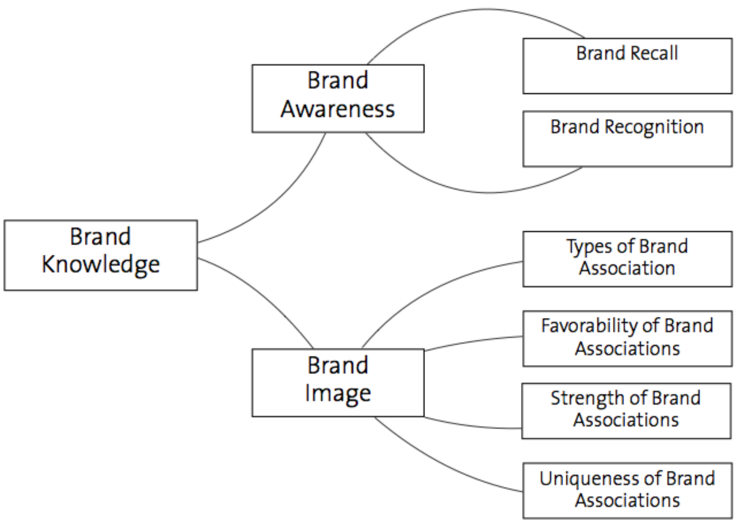

Figure 3: Brand

Brand awareness: can you **identify** the brand?
Brand image: what do you identify the brand with ?
Brand can be augmented.

4 Place

4.1 Marketing Channel

Marketing channels connect to customers

- The set of mechanisms or the network via the the firm goes to market
- How the seller **places the product** in the hands of the buyer
- Selling, transporting, storing, and **making goods available** for the customer
- Marketing channels are sets of **interdependent organizations** that help make a product or servic available for consumption

Marketing channels have four main functions

- **Demand generation** - sales generation - how the customer acquires the product
  - Direct vs indirect
    - mom and pop store
    - internet store
    - warehouse store
  - differences to consider
    - interaction
    - availability
    - price
- **Demand fulfillment** - distribution channel - how the product reaches the customer
  - direct vs indirect
  - distribution channels provide products where and when customers want them
- After-sale service
- Information/ market feedback for strategy development

Consumer and business channels can be of different lengths. Different terminology for business or private customer.

- **Private**: → (wholesaler) → retailer
- **Business**: → (manufacturer's representative of sales branch) → business distributor

4.2 Intermediaries

Much less connections with an intermediary. ($3 \cdot 3 = 9$ vs $3 + 3 = 6$)

- Increase reach of products
- Lower cost of sales and distribution
- Facilitate search by customers

Can be a company sales force, manufacturer's agency, industrial distributors, wholesaler, retailer, ...

Intermediaries **bridge** place and possession **gaps** that separate goods and services from those that would use them.

Payment intermediaries facilitate financial transactions between buyers and sellers. Payment intermediaries **bridge** the trust gaps that separate buyers and sellers.

4.3 Direct vs indirect channel

- Direct sales: no independent party exists between firm and customer for selling
- indirect sales: independent party for selling
- Direct distribution: no independent party exists between firm and customer to distribute the product
- Indirect distribution: independent party exists for distributing product.

Examples:
direct + direct: IKEA (warehouse), Nike (brands)
direct distribution + indirect sale: sales represent or through specialized agencies (airlines, hotels)
indirect + indirect: retail stores, wholesalers or business distributors
direct sale but indirect distribution: no change in ownership -> outsourced distribution

From the perspective of a manufacturer, retailing companies enable indirect sales and distribution:
retailing: all activities involved in selling goods or services directly to final customers for their **personal, nonbusiness use**
wholesaling: all-activities involved in selling goods and services to those buying for resale of **business** use.

Various types of direct sales Personal | non-personal and physical | non-physical

4.4 Channel decisions

Factors influencing channel decisions

- sales cycle
- nature of the selling task
- personal relations

- product line
- target market
- customer location
- product development
- order size
- order placement
- after-sales service

The channel breadth is the number of distribution points in each layer.

- Convenience good
- Specialty good
- Shopping good

A framework for designing marketing channels

1. Identify homogeneous segments
2. Identifying customer's channel function requirements
3. Benchmarking own and competitors' capabilities with requirements
4. Develop options that satisfy customers' requirements
5. Evaluate options
6. Analyze channel overlaps

Several conflict can occur

- Horizontal conflict: between two channels
- Vertical: within channel
- Dual distribution conflict: business vs personal

5 Promotion

The paid activities or events that provide inducements to customers to do something

- Get people to hear about the company
- Get product in front of customers, channel intermediaries or press
- Provide temporary inducement for buying or trying product

5.1 Promotion Mix

5.1.1 Advertising

Any paid form of non-personal presentations and promotion of ideas, goods or services by an identified sponsor using one-way communication with a controlled message.

There are several types of advertising

- Informative advertising
- Persuasive advertising
- Reminder advertising

5.1.2 Sales promotion

Non-personal short term incentives to encourage the immediate purchase or sale, usage or trial of a product or service

Examples:

- Coupons
- Discounts
- Contests
- Point of purchase display
- Rebates
- Gifts
- Free sampless

5.1.3 Public relations

Building good relations with the company's various publics by obtaining favorable publicity, developing a good "corporate image", and handling or heading off unfavorable rumors, stories and events.

5.1.4 Personal selling

Personal two-way presentation by the firm's sales force for the purpose of making sales and building customer relationships.

5.1.5 Direct Marketing

- Direct connections (without intervening media) with carefully targeted individuals customers to both obtain an immediate response and cultivating lasting customer relationships
- Focused on driving purchases attributed to a specific "call to action", thus effectiveness measured directly
- Direct mail, telemarketing, email, etc...

5.1.6 Other forms

- What if others can help communicating our message ?
- Viral marketing
- Giving it away for free can yield everlasting returns
- Loyalty programs communicate a sense of belonging
- Creativity is border less - but make sure to get it right ! (Tele2 case)

5.2 Communication Process

In order to get the customer to purchase, the buyer-readiness has to be developed through stages.

$$\text{Awareness} \rightarrow \text{Knowledge} \rightarrow \text{Liking} \rightarrow \text{Preference} \rightarrow \text{Conviction} \rightarrow \text{Purchase} \qquad (2)$$

Steps in effective marketing communication Marketing communication needs to be structured along five steps

- Identify target audience and characteristics
- Determine communication objectives
- Construct message
- Select media
- Collect feedback

AIDA

- get **A**ttention
- Hold **I**nterest
- Arouse **D**esire
- Obtain **A**ction

Constructing a message - select media

- **Personal communication channels**
  - Word of mouth
  - Important when products are expensive, dangerous or highly visible
- **Non-personal communication channel**
  - Major media
  - Atmospheres
  - Events

5.3 Changes in marketing communication model

- less **broadcasting** more **narrowcasting**
- Decline in television, magazines, and other mass media
- Emergence of highly fragmented needs and market
- Specialized, highly targeted media to reach smaller customer segments with personalized messages
- New channels building on new technologies

New communication channels

- One-to-one marketing (web shop)
- Personalized media (RSS, podcasts)
- The long tail
- Geo-marketing

$$\Rightarrow \text{Challenge is to "cut through the clutter" and get noticed} \tag{3}$$

6 Price

6.1 What is price ?

- Sum of values that customers give up in order to gain the benefits of having or using a product or service
- amount of money charged for a product or service
- price is one of the most flexible marketing mix instrument
- price is the only instrument in the marketing mix that produces revenues; all other elements represent costs.

6.2 Cost - vs. value based pricing

- **Cost-based pricing**

$$\text{Product} \Rightarrow \text{Cost} \Rightarrow \text{Price} \Rightarrow \text{Value} \Rightarrow \text{Customers} \tag{4}$$

- **Value-based pricing**

$$\text{Customers} \Rightarrow \text{Value} \Rightarrow \text{Price} \Rightarrow \text{Cost} \Rightarrow \text{Product} \tag{5}$$

Cost based pricing (markup)

$$\text{Unit cost} = \text{Variable cost} + \frac{\text{Fixed costs}}{\text{Unit sales}} \tag{6}$$

$$\text{Markup price} = \frac{\text{Unit cost}}{1 - \text{Desired return on sales}} \tag{7}$$

Price can also be derived based on target profits at given cumulative quantities.
For each price there is (normally) a break-even volume, at which the sales turns profitable.

6.3 Pricing strategies

	Competitive	Monopolistic	Oligopoly	
Characteristics of market environments	trading uniform commodities			
	differentiated goods	few sellers	one seller	
Seller's degree of freedom	price taker	price range	sensitive to other's prices	free or

The more elastic the demand, the stronger it reacts to a change in price

Throuhout the liecycle of a product, different pricing strategies come in place

- Introduction
  - Market skimming pricing
  - Market penetration pricing
- Maturity
  - Product line pricing
  - Captive product pricing
  - Product bundle pricing
- Decline
  - Price adjustment strategies

6.3.1 Market skimming price

- Characteristics
  - High initial price reduction
  - Subsequent price reduction
  - Skim segments willing to pay premium
- Requirements
  - Quality and image must support higher price
  - Cost efficient production of small volumes
  - entry barriers, competitors cannot undercut

6.3.2 Market penetration pricing

- Characteristics
  - Low initial price for new product
  - Attract many buyers fast, win market share
  - Logic: High volumes → low costs
- Requirements
  - Price sensitive market (elastic demand)
  - Production and distribution costs must fall with volume increase
  - Low price keeps out competition (cost advantage)

6.3.3 Product line pricing

- Setting price differences between product line items
- Simplified pricing
- Cost differences
- Customer evaluation of different features
- Competitor prices

6.3.4 Captive product pricing

- Setting prices for products that must be used along with a main product
- Low entry cost
  - induce usage
  - high captive product prices
  - high usage cost
- Services: two-part pricing
  - fixed fees
  - variable usage rate

6.3.5 Product bundle pricing

- Combining several products
- Offering bundle at reduced price
- Can promote the sales of products which consumers might not otherwise buy
- however, combined price must be low enough to get them to buy the bundle

6.3.6 Price-adjustment strategies

adjusting prices to account for customers differences and changing situations

Discount pricing A straight reduction in price on pruchases during a stated period of time

Allowance pricing bla bla bla

Segmented price Selling the same product for two different prices. The segmented prices must reflect the differences in customers' perceived value

Psychological pricing

- Pricing cues
- High price = high quality ?
- Reference price
- Sale signs
- Prices ending in 9
- Pricing matching guarantee

Promotional pricing

- Temporarily pricing below the list price (or even cost)
- Increase short-run sales
- Can lead to price wars
- Easily copied

"Price promotions are the brand equivalent of heroine: easy to get into but hard to get out of"
and remember... "there is no such things as a free lunch"