Marketing

- **What is marketing?**
  Many people think of marketing as only selling and advertising. We are bombarded every day with TV commercials, catalogues, spiels from salespeople, and online pitches. However, selling and advertising are only the tip of the marketing iceberg. Today, marketing must be understood not in the old sense of making a sale — "telling and selling"—but in the new sense of satisfying customer needs. If the marketer engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes, and promotes them well, these products will sell easily.
- In fact, according to management guru Peter Drucker, "The aim of marketing is to make selling unnecessary."
- Selling and advertising are only part of a larger marketing mix—a set of marketing tools that work together to satisfy customer needs and build customer relationships.
- **Broadly defined, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers.**
- **Hence, we define marketing as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.**

Marketing is the process of discovering and translating consumer needs and wants into products and services, creating demand for these products and services and then in turn expanding this demand. (H.L. Hansen.)

Marketing is the business process by which products are matched with markets and through which transfer of ownership are affected. (Edward W. Cundiff)

Marketing consists of the performance of business activities that direct the flow of goods and services from producers or suppliers to consumers or end-users. (American Marketing Association)

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what *philosophy* should guide these marketing strategies? What weight should be given to the interests of customers, the organization, and society? Very often, these interests' conflict.

There are five alternative concepts under which organizations design and carry out their marketing strategies: the *production*, *product*, *selling*, *marketing*, and *societal marketing concepts.*

The Production Concept

- The **production concept** holds that consumers will favour products that are **available and highly affordable**. Therefore, management should focus on improving production and distribution efficiency.
- This concept is one of the oldest orientations that guide sellers.
- During the earlier days of industrial revolution, the demand for industrial goods started picking up but the number of producers were limited. As a result, the demand exceeded the supply.
- Selling was no problem. Anybody who could produce the goods was able to sell. The focus of business activities was, therefore, on production of goods.
- It was believed that profits could be maximised by producing at large scale, thereby reducing the average cost of production. It was also assumed that consumers would favour those products which were widely available at an affordable price.
- **Thus, availability and affordability** of the product were considered to be the key to the success of a firm. Therefore, greater emphasis was placed on improving the production and distribution efficiency of the firms.

The Product Concept

- As a result of emphasis on production capacity during the earlier days, the position of supply increased over period of time. Mere availability and low price of the product could not ensure increased sale and as such the survival and growth of the firm.
- Thus, with the increase in the supply of the products, customers started looking for products which were superior in quality, performance and features. Therefore, the emphasis of the firms shifted from quantity of production to quality of products.
- The focus of business activity changed to bringing continuous improvement in the quality, incorporating new features etc.
- Thus, product improvement became the key to profit maximisation of a firm, under the concept of product orientation
- The **product concept** holds that consumers will favour products that offer the most in quality, performance, and innovative features.
- Under this concept, marketing strategy focuses on making continual product improvements.
- Product quality and improvement are important parts of most marketing strategies.

The Selling Concept

- With the passage of time, the marketing environment underwent further change. The increase in the scale of business further improved the position with respect to supply of goods, resulting in increased competition among sellers.
- The product quality and availability did not ensure the survival and growth of firms because of the large number of sellers selling quality products. This led to greater importance to attracting and persuading customers to buy the product.
- The business philosophy changed. It was assumed that the customers would not buy, or not buy enough, unless they are adequately convinced and motivated to do so. Therefore, firms must undertake aggressive selling and promotional efforts to make customers buy their products. The use of promotional techniques such as advertising, personal selling and sales promotion were considered essential for selling of products.
- Thus, the focus of business firms shifted to pushing the sale of products through aggressive selling techniques with a view to persuade, lure or coax the buyers to buy the products.
- Making sale through any means became important. It was assumed that buyers can be manipulated but what was forgotten was that in the long run what matters most is the customer satisfaction, rather than anything else.
- Many companies follow the **selling concept**, which holds that consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort.
- The selling concept is typically practised with unsought goods—those that buyers do not normally think of buying, such as insurance. These industries must be good at tracking down prospects and selling them on a product's benefits. Such aggressive selling, however, carries high risks. It focuses on creating sales transactions rather than on building long-term, profitable customer relationships.
- The aim is often to sell what the company makes rather than making what the market wants. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they will possibly forget their disappointment and buy it again later. These are usually poor assumptions.

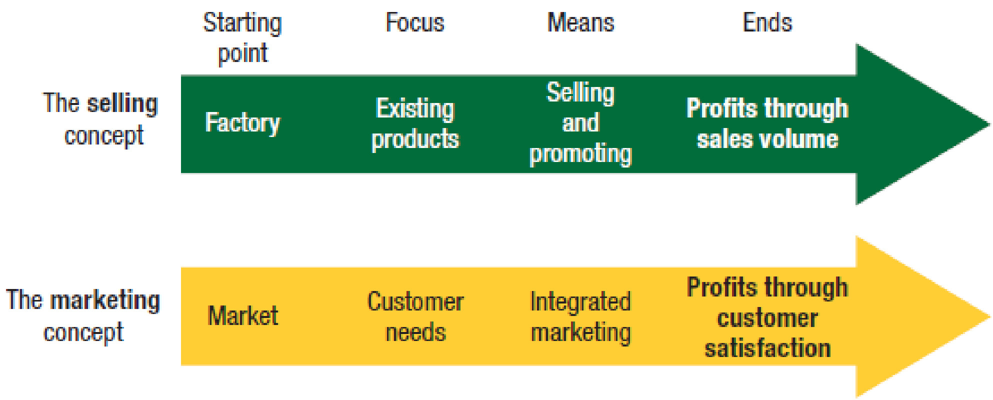
The Marketing Concept

- The **marketing concept** holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.
- Under the marketing concept, customer focus and value are the *paths* to sales and profits. Instead of a product-centred *make-and sell* philosophy, the marketing concept is a customer-centred *sense-and-respond* philosophy.
- The job is not to find the right customers for your product but to find the right products for your customers.
- Marketing concept is based on the following pillars: (i) Identification of market or customer who are chosen as the target of marketing effort. (ii) Understanding needs and wants of customers in the target market. (iii) Development of products or

services for satisfying needs of the target market. (iv) Satisfying needs of target market better than the competitors. (v) Doing all this at a profit.

- **The below figure contrasts the selling concept and the marketing concept.** The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. It focuses primarily on customer conquest—getting short-term sales with little concern about who buys or why. In contrast, the marketing concept takes an *outside-in* perspective. As Herb Kelleher, the colourful founder of Southwest Airlines, once put it, "We don't have a marketing department; we have a customer department."
- The marketing concept starts with a well defined market, focuses on customer needs, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating relationships with the right customers based on customer value and satisfaction.
- Implementing the marketing concept often means more than simply responding to customers' stated desires and obvious needs.
- *Customer-driven* companies research customers deeply to learn about their desires, gather new product ideas, and test product improvements. Such customer-driven marketing usually works well when a clear need exists and when customers know what they want.

FIGURE 1.3 The Selling and Marketing Concepts Contrasted

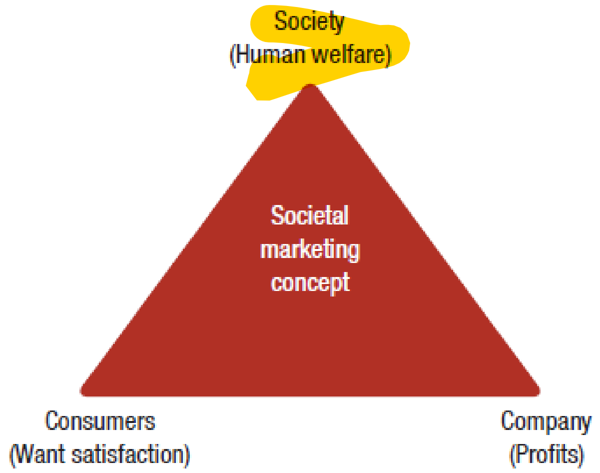


The Societal Marketing Concept

- The marketing concept, as described in the preceeding section cannot be considered as adequate if we look at the challenges posed by social problems like environmental pollution, deforestation, shortage of resources, population explosion and inflation. It is so because any activity which satisfies human needs but is detrimental to the interests of the society at large cannot be justified. The business orientation should, therefore, not be short-sighted to serve only consumers' needs. It should also consider large issues of long-term social welfare,

- The **societal marketing concept** questions whether the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare.* Is a firm that satisfies the immediate needs and wants of target markets always doing what's best for its consumers in the long run?
- The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's *and society's* wellbeing.
- It calls for *sustainable marketing*—socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability of future generations to meet their needs.
- Even more broadly, many leading business and marketing thinkers are now preaching the concept of *shared value*, which recognizes that societal needs, not just economic needs, define markets.
- The concept of shared value focuses on creating economic value in a way that also creates value for society.
- A growing number of companies known for their hard-nosed approaches to business—such as GE, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Walmart—are rethinking the interactions between society and corporate performance.
- They are concerned not just with short-term economic gains, but with the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, and the economic well-being of the communities in which they produce and sell.
- Thus, the societal marketing concept holds that the task of any organisation is to identify the needs and wants of the target market and deliver the desired satisfaction in an effective and efficient manner so that the long-term well-being of the consumers and the society is taken care of.
- The societal marketing concept is the extension of the marketing concept as supplemented by the concern for the long-term welfare of the society. Apart from the customer satisfaction, it pays attention to the social, ethical and ecological aspects of marketing. There are large number of such issues that need to be attended.

The Considerations Underlying the Societal Marketing Concept



Companies should balance three considerations in setting their marketing strategies: company profits, the consumer wants, and society's interests.

1. Society (Human Welfare)

Companies must make sure the products, services, actions, investment innovations servers society first.

2. Consumers (Satisfaction)

Products and services should be satisfying the consumer's needs.

3. Company (Profits)

Building long-term customer relationships, being socially responsible, and providing satisfactory products are important for profit-making and wealth maximization.

Objectives of Societal Marketing Concept

- To maintain a long-term relationship with customers.
- To create a better image in the society for the company than it's competitors.
- To carry out its social responsibilities.
- Developing community awareness towards its brands.
- To carry out its social responsibilities.
- To increase the consumer base and market share.

FUNCTIONS OF MARKETING

A role that helps a company to identify and source potentially successful products for the marketplace and then promote them by differentiating them from similar products. Typical marketing function types within a larger business might include performing market research, producing a marketing plan, and product development, as well as strategically overseeing advertising, promotion, distribution for sale, customer service and public relations.

Marketing is important to every small business, helping companies increase revenue and profit by meeting customers' needs effectively. Although one person or one department is generally responsible for managing the seven functions of marketing, it's important for all employees to understand customer needs so they can develop the right products and provide the highest standards of customer service.

1. **Marketing Information Management -** Managing marketing information helps you understand your customers' needs. You can gather information by reviewing published market research reports, asking your sales team for feedback or carrying out a survey using a market research firm. You should also monitor product review sites and social media, such as Facebook and Twitter, where you can find information on consumers' needs and attitudes toward products.
2. **Distribution -** Your distribution strategy determines how and where customers can obtain your products. If you market products to a small number of business customers, you may deal with them directly through a sales team. If your business expands to other regions or countries, it may be more cost effective to deal with customers through local distributors. Companies marketing consumer products distribute them through retail outlets or, increasingly, via the Internet.
3. **Product/Service Management -** Marketing provides valuable input to product and service development. Information on customers' needs helps to identify the features to incorporate in new products and product upgrades. Marketing also identifies opportunities to extend a product range or launch existing products into new sectors.
4. **Pricing -** Pricing plays an important role in determining market success and profitability. If you market products that have many competitors, you may face strong price competition. In that situation, you must aim to be the lowest-cost supplier so you can set low prices and

still remain profitable. You can overcome low price competition by differentiating your product and offering customers benefits and value that competitors cannot match.

5. **Promotion -** Promotion makes customers and prospects aware of your products and your company. Using promotional techniques, such as advertising, direct marketing, telemarketing or public relations, you can communicate product benefits and build preference for your company's products.
6. **Selling -** Marketing and selling are complementary functions. Marketing creates awareness and builds preference for a product, helping company sales representatives or retail sales staff sell more of a product. Marketing also supports sales by generating leads for the sales team to follow up.
7. **Financing -** Successful marketing provides a regular flow of revenue to pay for business operations. Marketing programs that strengthen customer loyalty help to secure long-term revenue, while product development programs open new revenue streams. Financing also plays a role in marketing success by offering customers alternative methods of payment, such as loans, extended credit terms or leasing.

Functions of marketing

MARKETING MIX

The **Marketing mix** is a set of four decisions which needs to be taken before launching any new product. These variables are also known as the **4 P's of marketing**. These four variables help the firm in making strategic decisions necessary for the smooth running of any product / organization.

If you ask **What is the marketing mix?** Then in summary these 4 variables comprise the Marketing mix.

1. Product – What the company is manufacturing?
2. Price – What is the pricing strategy used by the company?
3. Place – Where is the company selling?
4. Promotions – How is the company promoting the product?

What are the two types of Marketing mix?

1) **Product marketing mix** – Comprised of Product, price, place and promotions. This marketing mix is mainly used in case of Tangible goods.

2) **Service marketing mix** – The service marketing mix has three further variables included which are people, physical evidence and process. They are discussed in detail in the article on service marketing mix.

The term marketing mix was first coined by Neil H Borden back in 1964 in his article "The concept of marketing mix". Several strategic analysts over the years believe that the marketing mix can make or break the firm. Having the right marketing mix at the start of the marketing plan is absolutely essential. Over time the concept of marketing mix has provided a steady platform for the launch of a new product or business.

As mentioned before, the *marketing mix* is characterized by four different but equally important variables. These variables are never constant and may be changed over time. However, a change in one of the variables may cause a change in all the other variables as well.

The Variables of Marketing mix are as follows

1) **Product in the Marketing mix** – The first thing you need, if you want to start a business, is a product. Therefore Product is also the first variable in the marketing mix. Product decisions are the first decisions you need to take before making any marketing plan. A product can be divided into three levels. The three product levels includes Core Benefit, Actual Product and Augmented Product.

Before deciding on the product component there are some questions which you need to ask yourself.

1. What product are you selling?
2. What would be the quality of your product?
3. Which features are different from the market?
4. What is the USP of the product?
5. Whether the product will be branded as sub brand or completely new?
6. What are the secondary products which can be sold along with primary (Warranty, services)

Based on these questions, several **product decisions** have to be made. These product decisions will in turn affect the other variables of the mix. For example – You launch a car with is to have the highest quality. Thus the pricing, promotions and placing would have to be altered accordingly. Thus as long as you dont know your product, you cannot decide any other variable of the marketing mix. However, if the product features are not fitting in the mix, you can alter the product such that it finds a place for itself in the marketing mix.

2) **Pricing in the Marketing mix** – Pricing of a product depends on a lot of different variables and hence it is constantly updated. Major consideration in pricing is the costing of the product, the advertising and marketing expenses, any price fluctuations in the market, distribution costs etc. Many of these factors can change separately. Thus the pricing has to be such that it can bear the brunt of changes for a certain period of time. However, if all these variables change, then the pricing of a product has to be increased and decreased accordingly.

Along with the above factors, there are also other things which have to be taken in consideration when deciding on a pricing strategy. Competition can be the best example. Similarly, pricing also affects the targeting and positioning of a product. Pricing is used for sales promotions in the form of trade discounts. Thus based on these factors there are several pricing strategies, one of which is implemented for the marketing mix.

3) **Place in the Marketing mix** – Place refers to the distribution channel of a product. If a product is a consumer product, it needs to be available as far and wide as possible. On the other hand, if the product is a *Premium consumer product*, it will be available only in select stores. Similarly, if the product is a business product, you need a team which interacts with businesses

and makes the product available to them. Thus the place where the product is distributed, depends on the product and pricing decisions, as well as any STP decisions taken by a firm.

Distribution has a huge affect on the profitability of a product. Consider a FMCG company which has national distribution for its product. An increase in petrol rates by 10 rs will in fact bring about drastic changes in the profitability of the company. Thus supply chain and logistics decisions are considered as very important costing decisions of the firm. The firm needs to have a full proof logistics and supply chain plan for its distribution.

4) **Promotions in the Marketing mix** – Promotions in the marketing mix includes the complete integrated marketing communications which in turn includes ATL (Above the Line) - meaning that advertising is for wider audience , TV commercials, Radio, Billboards and BTL (Below the line) - advertising targeted to a specific group- (Direct emailing, direct demonstrations for a specific group of people) as well as sales promotions. Promotions are dependent a lot on the product and pricing decision. What is the budget for marketing and advertising? What stage is the product in? If the product is completely new in the market, it needs brand / product awareness promotions, whereas if the product is already existing then it will need brand recall promotions.

Promotions also decide the segmentation targeting and positioning of the product. The right kind of promotions affect all the other three variables – the product, price and place. If the promotions are effective, you might have to increase distribution points, you might get to increase the price because of the rising brand equity of the product, and the profitability might support you in launching even more products. However, the budget required for extensive promotions is also high. Promotions is considered as marketing expenses and the same needs to be taken in consideration while deciding the costing of the product.

Four Forms: Personal Selling, Advertisements, Sales Promotion, Publicity

Thus as we see from the above diagram, all the four variables of marketing mix are inter related and affect each other. By increasing the pricing of the product, demand of the product might lessen, and lesser distribution points might be needed. On the other hand, the product USP can be such that maximum concentration is on creating brand awareness, thereby increasing need of better pricing and more promotions. Finally, the overall marketing mix can result in your customer base asking for some improvement in the product, and the same can be launched as the upgraded product.

The role of Four P's of marketing in Strategy – Marketing mix plays a crucial role while deciding the strategy of an organization. It is the first step even when a marketing plan or a business plan is being made. This is because, your marketing mix decision will also affect segmentation, targeting and positioning decisions. Based on products, segmentation and targeting will be done. Based on the price, positioning can be decided. And these decisions will likely affect the place and promotion decisions. Thus, the marketing mix strategy goes hand in hand with segmentation targeting and positioning.

Using the 4Ps of Marketing

The model can be used to help you decide how to take a new offer to market. It can also be used to test your existing **marketing strategy**. Whether you are considering a new or existing offer, follow the steps below help you define and improve your marketing mix.

1. Start by identifying the product or service that you want to analyze.

2. Now go through and answer the 4Ps questions – as defined in detail above.

3. Try asking "why" and "what if" questions too, to challenge your offer. For example, ask ***why*** your target audience needs a particular feature. What if you drop your price by 5%? What if you offer more colors? Why sell through wholesalers rather than direct channels? What if you improve PR rather than rely on online advertising?

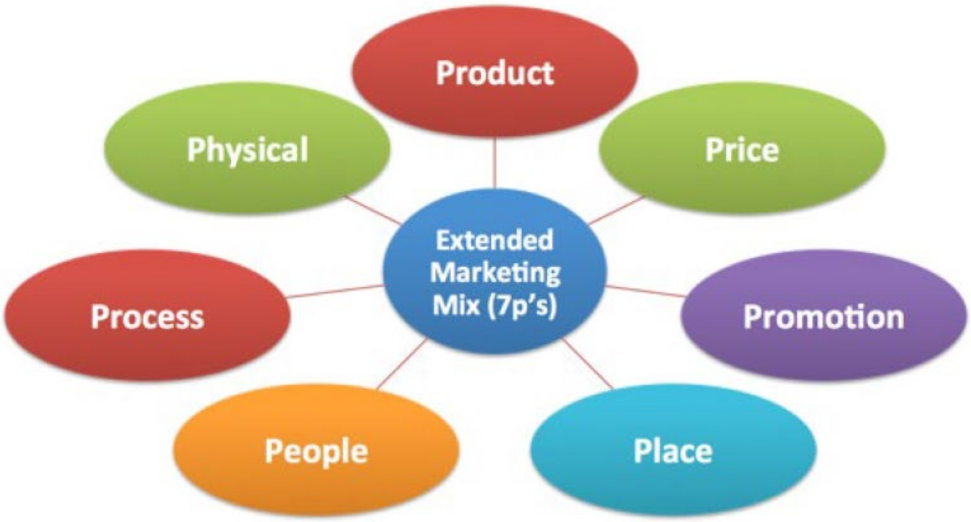
4. Once you have a well-defined marketing mix, try "testing" the overall offer from the customer's perspective, by asking customer focused questions:

    a) Does it meet their needs? (product)
    b) Will they find it where they shop? (place)
    c) Will they consider it's priced favorably? (price)
    d) And will the marketing communications reach them? (promotion)

5. Keep on asking questions and making changes to your mix until you are satisfied that you have optimized your marketing mix, given the information and facts and figures you have available.

6. Review your marketing mix regularly, as some elements will need to change as the product or service, and its market grow, mature and adapt in an ever-changing competitive environment.

The Extended Marketing Mix



The extended 7 Ps:

People – All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.

Processes –The delivery of your service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.

Physical Evidence – Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. Your consumer should always receive something physical to validate their purchase. Consider how braces give you straight teeth, hairdressers give you a new look, and receipts are proof of a purchase. People like to receive something that evokes their senses to confirm that they have gotten a product or service,

even if it is just the receipt. This tangible item validates the experience of purchasing and fosters a sense of value from that purchase.

Consider for example, a hair salon would provide their client with a completed hairdo and an insurance company would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDFs) they are still receiving a "physical product" by this definition.

DIFFERENCE BETWEEN SELLING AND MARKETING

In general we use 'marketing' and 'selling' as synonyms but there is a substantial difference between both the concepts. It is necessary to understand the differences between marketing vs. selling for a successful marketing manager. Selling has a product focus and mostly producer driven. It is the action part of marketing only and has short – term goal of achieving market share. The emphasis is on price variation for closing the sale where the objective can be stated, as "I must somehow sell the product". This short – term focus does not consider a prudential planning for building up the brand in the market place and winning competitive advantage through a high loyal set of customers. The end means of any sales activity is maximizing profits through sales maximization.

When the focus is on selling, the businessman thinks that after production has been completed the task of the sales force starts. It is also the task of the sales department to sell whatever the production department has manufactured. Aggressive sales methods are justified to meet this goal and customer's actual needs and satisfaction are taken for granted. Selling converts the product in to cash for the company in the short run.

Marketing as a concept and approach is much wider than selling and is also dynamic as the focus is on the customer rather than the product. While selling revolves around the needs and interest of the manufacturer or marketer, marketing revolves around that of consumer. It is the whole process of meeting and satisfying the needs of the consumer.

Marketing vs selling

Marketing consists of all those activities that are associated with product planning, pricing, promoting and distributing the product or service. The task commences with identifying consumer needs and does not end till feedback on consumer sat-\isfaction from the consumption of the product is received. It is a long chain of activity, which comprises production, packing, promotion, pricing, distribution and then the selling. Consumer needs become the guiding force behind all these activities. Profits are not ignored but they are built up on a long run basis. Mind share is more important than market share in Marketing.

According to Prof. Theodore Levitt 'The difference between selling and marketing is more than semantic. A truly marketing minded firm tries to create value satisfying goods and services which the consumers will want to buy. What is offers for sale is determined not by the seller but by the buyers. The seller takes his cues from the buyer and the product becomes the consequence of the marketing effort, not vice versa. Selling merely concerns itself with the tricks and techniques of getting the customers to exchange their cash for the company's products, it does not bother about the value satisfaction that the exchange is all about. On the contrary, marketing views the entire business as consisting of a tightly integrated effort to discover, create, arouse ad satisfy customer needs'.

The typical goal of marketing is to generate interest in the product and create leads or prospects. Marketing activities include:

1. Consumer research to identify the needs of the customers

2. Product development – designing innovative products to meet existing or latent needs
3. Advertising the products to raise awareness and build the brand.
4. Pricing products and services to maximize long-term revenue.

On the other hand, sales activities are focused on converting prospects to actual paying customers. Sales involves directly interacting with the prospects to persuade them to purchase the product.

Marketing thus tends to focus on the general population (or, in any case, a large set of people) whereas sales tends to focus on individuals or a small group of prospects. Following are the major differences between Selling and Marketing.

SELLING	**MARKETING**
1 Emphasis is on the product	1 Emphasis on consumer needs wants.
2 Company Manufactures the product first.	2 Company first determines customers' needs and wants and then decides out how to deliver a product to satisfy these wants.
3 Management is sales volume oriented.	3 Management is profit oriented.
4 Planning is short-run-oriented in terms of today's products and markets.	4 Planning is long-run-oriented in today's products and terms of new products, tomorrow's markets and future growth.
5 Stresses needs of seller.	5 Stresses needs and wants of buyers.
6 Views business as a good producing process.	6 Views business as consumer producing process satisfying process.
7 Emphasis on staying with existing technology and reducing costs.	7 Emphasis on innovation on every existing technology and reducing every sphere, on providing better costs value to the customer by adopting a superior technology.
8 Different departments work as in a highly separate water tight compartments.	8 All departments of the business integrated manner, the sole purpose being generation of consumer satisfaction.
9 Cost determines Price.	9. Consumer determine price, price determines cost.
10 Selling views customer as a last link in business.	10. Marketing views the customer last link in business as the very purpose of the business.

INTERFACE OF MARKETING WITH OTHER DEPARTMENTS

There are various types of organizations in existence. Functional organization, geographical area organization, product based organization, customer segment based organization and some form of hybrids can be observed.

Functional marketing organization: The important functional areas can be marketing research, new product marketing, advertising and sales promotion, sales management, physical distribution (marketing logistics), and marketing administration. As organizations become big more specialized functions within marketing can be organized as independent sections.

Geographical Area Based Organization: Companies selling across the nation generally set up branch sales offices and regional sales offices.

Product Based Organization (Brand Management): In product based organization each product or brand has a manager who looks after its marketing activities. The sales staff can be common staff and they report to a sales manager.

Coordination between marketing and other departments

Kotler highlighted the fact that each business function has a potential impact on customer satisfaction. All departments need to think of customer satisfaction and work together to fulfil customer needs and expectations. The chief marketing man in the organization has two tasks: One is to manage the marketing department and other is to coordinate marketing specialist activities with marketing related activities of operations, finance, and other functions in the organization.

If we accept that marketing has a communicator role between the company and the outside world and that it is focused on customers in order to give them what they want, we can see how a systemic interaction with other department is fundamental to the attainment of the organisational goals. The most important business functions which marketing can assist are:

1. **Finance/Management**: marketing plans should include financial information for both new and existing products. In this sense, marketing can be a means supporting management when taking investment decisions. Marketing can also give inputs on sales forecasts under different marketing strategies scenario. Management can be supported by financial inputs provided by marketing but also to other data such as market actual (or expected) response to a product/service

2. **Production/operational department**: marketing can assist these departments in estimating the number and the type of products and services to be produced/provided. Marketing strategies can also try to stimulate a certain response of markets in order to influence the demand of goods/services in terms of level and/or timing. This can be useful to match the production/operational constraints of the organisation
3. **R&D**: marketing can assist R&D throughout from the idea of new product/services to its implementation. Marketing researches can provide inputs to understand what kind of products/services are likely to be the most marketable and/or understand what kind of features customers would like to have
4. **Sales**: sales department cultivates relationships with clients and marketing can offer inputs to make it more profitable

CUSTOMER LIFE TIME VALUE

● Customer lifetime value (CLV) is a business metric that measures how much a business can plan to earn from the average customer over the course of the relationship. Differences in products, costs, purchase frequencies and purchase volumes can make customer lifetime value calculations complex.

● The lifetime value of a customer, or customer lifetime value (CLV), represents the total amount of money a customer is expected to spend in your business, or on your products, during their lifetime.

● In other words, Customer lifetime value (CLV) is a measure of the total income a business can expect to bring in from a typical customer for as long as that person or account remains a client.

● Why important? This is an important figure to know because it helps you make decisions about how much money to invest in acquiring new customers and retaining existing ones.

In marketing, customer lifetime value (CLV) is a metric that represents the total net profit a company makes from any given customer. CLV is a projection to estimate a customer's monetary worth to a business after factoring in the value of the relationship with a customer over time. CLV is an important metric for determining how much money a company wants to spend on acquiring new customers and how much repeat business a company can expect from certain consumers.

Customer data analytics can reap significant financial rewards for your organization’s sales, marketing and customer service departments. With so much data to contend with, companies often struggle with making sense of information from customers, public records and external databases. Luckily, we evaluate the newest sales and marketing tools making the process easier for IT managers and sales executives.

CLV is different from customer profitability (CP), which measures the customer's worth over a specific period of time, in that the metric predicts the future whereas CP measures the past.

CLV is calculated by subtracting the cost of acquiring and serving a customer from the revenue gained from the customer and takes into account statistics such as customer expenditures per visit, the total number of visits and then can be broken down to figure out the average customer value by week, year, etc.

But the process is more nuanced than that. By concentrating on what a customer has previously spent, companies neglect how their marketing or advertising practices have changed over time, resulting in new customers who behave differently than old ones. CLV should never be determined by dividing the total revenue by the number of total customers, since this is too simple a calculation and does not factor into how long some customers have had a relationship with the company. Changes to any of these strategies, as well as any shifts in a company's customer base as a whole, in the future will prevent companies from depending on past CLVs to predict upcoming ones.

Customer Lifetime Value Examples

The best way to understand CLV is through examples. Here are examples from three very different industries to better demonstrate how customer lifetime value may impact your company:

Coffee shop: A coffee shop is a perfect starting example for CLV, as it is easy to understand even if you don't have an extensive business background. Let's say a local coffee chain with three locations has an average sale of $4. The typical customer is a local worker who visits two times per week, 50 weeks per year, over an average of five years.

CLV = $4 (average sale) x 100 (annual visits) x 5 (years) **= $2,000**

Car dealership: A car dealership has a much higher average sale amount with a lower purchase volume. In this example, we'll assume someone buys a new car every five years for $30,000. Customers are loyal to this brand and tend to keep buying from it for 15 years.

CLV = $30,000 (average sale) x .2 (annual purchases) x 15 (years) **= $90,000**

Common ways of calculating a company's CLV include the following:

1. **Average revenue per user**: Determine the average revenue per customer per month (total revenue ÷ number of months since the customer joined) and multiply that value by 12 or 24 to get a one- or two-year CLV. This approach is simple to calculate but does not take customer behavior into account or changes over time, either in customers' preferences or company strategy.
2. **Cohort analysis**. A cohort is a group of customers that share a characteristic or set of characteristics. By examining cohorts instead of individual users, companies can get a picture of the variations that exist over the course of an entire relationship with groups of customers. Factors such as market changes, seasonality and the introduction of new products, competitors or promotions could skew cohort analysis.
3. **Individualized CLV**. Companies not interested in broadly calculating CLV often focus on determining the total value of customers by source, channel, campaign or other mediums such as coupons or landing pages on a company website. This could mean comparing CLVs

as obtained through social media advertising against those from other digital marketing tactics, for example, with a focus on whether company resources are being efficiently spent.

The CLV can affect many different areas of the business since it is not focused on acquiring many customers or how cheaply those customers can be obtained but, instead, emphasizing efficient spending to maximize customer acquisition and retention practices. Customer segmentation can affect CLV in that some groups of customers might be more highly valued than others.

Customer lifetime value has intuitive appeal as a marketing concept, because in theory it represents exactly how much each customer is worth in monetary terms, and therefore exactly how much a marketing department should be willing to spend to acquire each customer, especially in direct response marketing.

Uses and advantages

Lifetime value is typically used to judge the appropriateness of the costs of acquisition of a customer. For example, if a new customer costs $50 to acquire (COCA, or cost of customer acquisition), and their lifetime value is $60, then the customer is judged to be profitable, and acquisition of additional similar customers is acceptable. Additionally, CLV is used to calculate customer equity. Advantages of CLV:

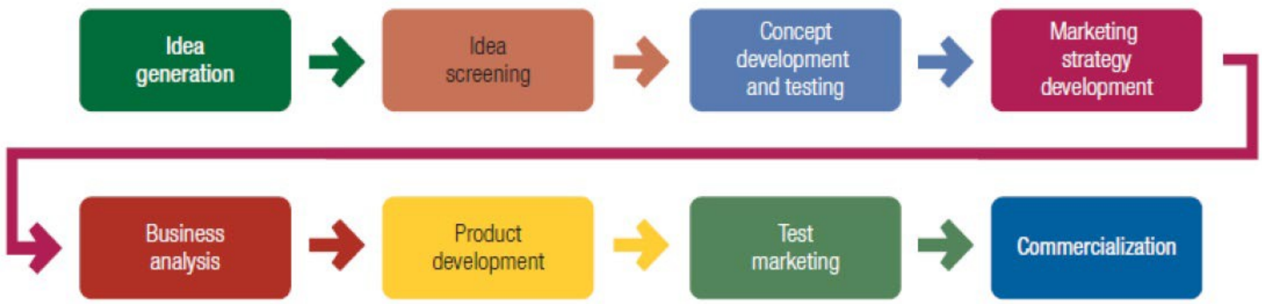
1. Management of customer relationship as an asset.
2. Monitoring the impact of management strategies and marketing investments on the value of customer assets, e.g.: Marketing Mix Modelling simulators can use a multi-year CLV model to show the true value (versus acquisition cost) of an additional customer, reduced churn rate, product up-sell.
3. Determination of the optimal level of investments in marketing and sales activities.
4. Encourages marketers to focus on the long-term value of customers instead of investing resources in acquiring "cheap" customers with low total revenue value.
5. Implementation of sensitivity analysis in order to determinate getting impact by spending extra money on each customer.
6. Optimal allocation of limited resources for ongoing marketing activities in order to achieve a maximum return.

7. A good basis for selecting customers and for decision making regarding customer specific communication strategies.
8. A natural decision criterion to use in automation of customer relationship management systems.
9. Measurement of customer loyalty (proportion of purchase, probability of purchase and repurchase, purchase frequency and sequence etc.).

The Disadvantages of CLV do not generally stem from CLV modelling per se, but from its incorrect application.

NEW PRODUCT DEVELOPMENT

New product development is a task taken by the company to introduce newer products in the market. Regularly there will arise a need in the business for new product development. Your existing products may be technologically outdated, you have different segments to target or you want to cannibalize an existing product. In such cases, New product development is the answer for the company. There are 8 stages of new product development and they are as follows.



1. **Idea generation** – in this you are basically involved in the systematic search for new product Ideas. A company has to generate many ideas in order to find one that is worth pursuing. The Major sources of new product ideas include internal sources, customers, competitors, distributors and suppliers. Almost 55% of all new product ideas come from internal sources according to one study. Companies like 3M and Toyota have put in special incentive programs or their employees to come up with workable ideas. Almost 28% of new product ideas come from watching and listening to customers. Customers even create new products on their own, and companies can benefit by finding these products and putting them on the market like Pillsbury gets promising new products from its annual Bake-off.

One of Pillsbury's four cake mix lines and several variations of another came directly from Bake-Off winners' recipes. A relatively new approach to idea generation that some companies are employing today is crowdsourcing—inviting broad communities of people such as customers, employees, independent scientists and researchers, and even the public at large into the new-product innovation process. For example, rather than relying only on its own R&D labs to produce all the new-product innovations needed to support growth, Procter & Gamble developed its Connect + Develop crowdsourcing process.

2. **Idea Screening** - The second step in new product development is Idea screening. The purpose of idea generation is to create a large pool of ideas. The purpose of this stage is to pare these down to those that are genuinely worth pursuing. Companies have different methods for doing this from product review committees to formal market research. It, is helpful at this stage to have a checklist that can be used to rate each idea based on the factors required for successfully launching the product in the marketplace and their relative importance. Against these, management can assess how well the idea fits with the company's marketing skills and experience and other capabilities. Finally, the management can obtain an overall rating of the company's ability to launch the product successfully.
3. **Concept Development and Testing** – The third step in New product development is Concept Development and Testing. An attractive idea has to be developed into a Product concept. As opposed to a product idea that is an idea for a product that the company can see itself marketing to customers, a product concept is a detailed version of the idea stated in meaningful consumer terms. This is different again from a product image, which is the consumers' perception of an actual or potential product. Once the concepts are developed, these need to be tested with consumers either symbolically or physically. For some concept tests, a word or a picture may be sufficient, however, a physical presentation will increase the reliability of the concept test. After being exposed to the concept, consumers are asked to respond to it by answering a set of questions designed to help the company decide which concept has the strongest appeal. The company can then project these findings to the full market to estimate sales volume.

   Whereas a product idea is an idea for a possible product that the company can potentially offer to the market, a product concept is a detailed description, drawing, or prototype of that idea that can be shown to potential customers. That product concept must then be developed and tested; that is, the new product idea is developed in various alternative forms, and tested with a group of potential customers.

   Every year automobile marketers promote their latest "concept cars" at auto shows.

Concept cars are real cars that can be driven; however, they are not yet in production, which means they are not yet available to the public. Concept cars are displayed at auto shows so that the automobile marketers can gauge the market's response to their product concept. Automobile marketers may also let journalists from magazines like Motor Trend and Car and Driver drive and review their concept cars in hopes that a good review will result in enough market interest to justify a fullscale development and release of the new car.

4. **Marketing Strategy Development** – This is the next step in new product development. The strategy statement consists of three parts: the first part describes the target market, the planned product positioning and the sales, market share and profit goals for the first few years. The second part outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and the marketing mix strategy.
5. **Business Analysis** – Once the management has decided on the marketing strategy, it can evaluate the attractiveness of the business proposal. Business analysis involves the review of projected sales, costs and profits to find out whether they satisfy a company's objectives. If they do, the product can move to the product development stage. It can then estimate minimum and maximum sales to assess the range of risk. After preparing the sales forecast, management can estimate the expected costs and profits for the product, including marketing, R&D, operations, accounting, and finance costs. The company then uses the sales and costs figures to analyze the new product's financial attractiveness.
6. **Product Development** – So far, for many new-product concepts, the product may have existed only as a word description, a drawing, or perhaps a crude mock-up. If the product concept passes the business test, it moves into product development. Here, R&D or engineering develops the product concept into a physical product. The product development step, however, now calls for a large jump in investment. It will show whether the product idea can be turned into a workable product.

Developing the new product—that is, turning the new product idea into a workable, mass-produced market offering—takes months, even years. During the development process the new product will undergo rigorous testing to make sure that it works the way it is supposed to work, and that customers will be able to use it safely and effectively.

Marketers often involve actual customers in product testing. For example, Patagonia selects tried-and-true customers—called Patagonia Ambassadors—to work closely with its design department to field-test and refine its products under harsh conditions. Patagonia even created a website for the ambassadors to showcase their feats!

7. **Test Marketing** – If the product passes concept and product tests, the next step is test marketing, the stage at which the product and marketing program are introduced into realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. It lets the company test the product and its entire marketing program—targeting and positioning strategy, advertising, distribution, pricing, branding and packaging, and budget levels.
8. **Commercialization** – The final step in new product development is Commercialization. The final step in the new-product development process is commercialization, or the full-scale introduction of the product into the market. If the company goes ahead with this stage, it will invest heavily in advertising and promotion. Introducing the product to the market-it will face high costs for manufacturing and advertising and promotion. The company will have to decide on the timing of the launch (seasonality) and the location (whether regional, national or international). This depends a lot on the ability of the company to bear risk and the reach of its distribution network. Today, in order to increase speed to market, many companies are dropping this sequential approach to development and are adopting the faster, more flexible, simultaneous development approach. Under this approach, many company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

UNETHICAL ISSUES IN MARKETING

Whether you are playing the salesman role for your own business or you are hired to market an employer's products or services, you need to understand the thin line between ethical and unethical marketing practices.

Ethical marketing entails making honest claims and satisfying the needs of potential and existing customers. It boosts credibility and trust, develops brand loyalty, increases customer retention, and prompts customers to spread word about the products or services you're marketing.

Unethical marketing, on the other hand, can send wrong signals about your products and services, destroy your brand's reputation, and possibly lead to legal problems. This explains why you should avoid them like a plague.

Your first step towards ensuring that you avoid unethical marketing practices is to recognize those practices. Of course, you can only avoid something when you can identify it. Many business owners and sales personnel have erroneously engaged in unethical marketing practices just because they never knew what these practices are in the first place. Here are ten common examples of unethical marketing practices that you must always avoid when promoting your products or services. Following are the examples of Unethical Marketing Practices

1. Making false, exaggerated, or unverified claims - In a desperate bid to compel potential and existing customers to buy their products or services, some marketers use false statements, exaggerated benefits, or make unverifiable claims about their offers. This is common in the weight loss industry, where marketers convince potential buyers that a particular product can help them shed so-and-so pounds within two weeks without exercise or dieting!

2. Distortion of facts to mislead or confuse potential buyers - This is another common unethical marketing practice. A typical example is when a food processing company claims that its products are sugar-free or calorie-free when indeed they contain sugar or calories. Such a company is only trying to mislead potential buyers, since they are unlikely to buy the products if it is made known that they contain sugar or calories.

3. Concealing dark sides or side effects of products or services - This unethical marketing practice is rife in the natural remedies industry, where most manufacturers deceive potential buyers that their products have no side effects because they are "*made from natural products*". But in reality, most of these products have been found to have side effects, especially when used over a long period. In fact, there's no product without side effects—it's just that the side effects might be unknown. It's better to say, "*There are no known side effects*" than to say "*there are no side effects*".

4. Bad-mouthing rival products - Emphasizing the dark sides of your rival's products in a bid to turn potential customers towards your own products is another common but unethical marketing practice. Rather than resort to this bad strategy, you should emphasize on those aspects that make your offer stand out from the rest of the pack. That's professional and ethical.

5. Using women as sex symbols for advertising - The rate at which even reputable brands are resorting to this unethical marketing practice is quite alarming. If you observe TV, billboard, and magazine adverts, there's something common to most of them; a half-naked lady is used to attract attention to the product or service being advertised. While it might be intuitive to use models in adverts for beauty products and cosmetics, having half-naked models in adverts for generators, heavy machinery, smartphones, and other products not strongly related to women is both nonsensical and unethical.

5. Using fear tactics - This is another common unethical marketing practice among snake oil salespersons. You will hear them saying something like: *"This price is a limited-time offer. If you don't buy now, you might have to pay much more to buy it later because the offer will end up in two days time, and the price will go up."* The only motive behind those statements is to prompt the potential buyer to make a decision on the spot. And that's wrong. *Why subject someone to undue pressure because you want to make money off him or her*?

7. Plagiarism of marketing messages - Though uncommon, some business owners and salespersons engage in using the exact marketing messages of their competitors to market their own products or services. Creativity is a huge part of marketing, and using other businesses' marketing messages just passes you off as being creatively bankrupt and fraudulent.

8. Exploitation - This is charging for much more than the actual value of a product or service. For marketing efforts to remain with ethical limits; the prices of your offers must be equal to or less than the value they give the buyer. If the value is less than the cost, it's unethical.

9. Demeaning references to races, age, sex, or religion - Ethical marketing must be devoid of all forms of discrimination. If your marketing messages contain lines that place people of certain age range, sex, religion, nationality, or race at a higher level than others, then you are crossing the bounds of ethical marketing.

10. Spamming - Spamming is when you send unsolicited emails to potential customers, encouraging them to buy your products or services. This is the commonest unethical marketing practice done online. The number of time you send such emails doesn't matter. Whether you send them once, or on occasions, or frequently, you remain a spammer.

Unethical Issues in Marketing

1. False, Exaggerated, or Unverified Claims

- **Example**: **Sensa Weight-Loss Powder (2014)**
  Sensa, a weight-loss product, claimed that users could "shake, eat, and lose weight" without changing their diet or exercising. These claims were unverified and exaggerated, leading to the company being fined $26.5 million by the Federal Trade Commission (FTC) for false advertising and misleading consumers.

2. Distortion of Facts to Mislead or Confuse Buyers

- **Example**: **VitaminWater (2010)**
  Coca-Cola's VitaminWater was marketed as a healthy beverage with phrases like "nutrient-enhanced water beverage." However, it contained large amounts of sugar, leading to accusations that it was misleading customers. The Center for Science in the Public Interest filed a lawsuit, claiming Coca-Cola had misrepresented the health benefits of VitaminWater, and the company eventually agreed to change its labeling.

3. Concealing Dark Sides or Side Effects of Products

- **Example**: **OxyContin (2007)** Purdue Pharma marketed OxyContin as a safer, less addictive painkiller, concealing its potential for abuse and addiction. The company pled guilty to misleading regulators, doctors, and patients about the drug's risk of addiction, paying $600 million in fines. The opioid epidemic that followed claimed numerous lives and led to multiple lawsuits against Purdue Pharma.

4. Bad-Mouthing Rival Products

- **Example**: **Apple vs. Samsung (2010s)** During the height of their rivalry, Apple and Samsung both engaged in negative advertising campaigns. Samsung's "The Next Big Thing is Already Here" ads mocked iPhone users, suggesting they were followers who stood in line for an inferior product. While clever, this tactic was viewed by some as a direct attack on competitors rather than highlighting Samsung's own product strengths.

5. Using Women as Sex Symbols for Advertising

- **Example**: **Carl's Jr. (2015)** Fast food chain Carl's Jr. became infamous for its ads featuring scantily clad women eating burgers. The sexualized portrayal of women, including celebrities like Paris Hilton and models, drew heavy criticism for being irrelevant to the product and objectifying women in order to grab attention.

6. Using Fear Tactics

- **Example**: **Emergency Survival Kits (2012)** Many companies selling survival kits and emergency supplies used fear tactics, especially around 2012 when there were widespread (though unfounded) fears about the "Mayan apocalypse." These companies urged customers to buy their expensive survival products by suggesting that failure to prepare could lead to life-threatening consequences. While no apocalypse occurred, the fear-driven marketing led many to make panic purchases.

7. Plagiarism of Marketing Messages

- **Example**: **Walmart Copying Web Copy (2000s)** In 2006, Walmart was accused of copying the website content of an outdoor gear company, Patagonia, word-for-word. This plagiarism involved product descriptions, which Walmart lifted directly from Patagonia's site. Patagonia filed a legal complaint, and Walmart eventually removed the plagiarized content from its site.

8. Exploitation

- **Example**: **Martin Shkreli and Daraprim Price Hike (2015)** Martin Shkreli, the CEO of Turing Pharmaceuticals, raised the price of the life-saving drug Daraprim from $13.50 to $750 per pill overnight, exploiting those dependent on the medication. This massive markup far exceeded the value of the drug and led to outrage, earning him the nickname "Pharma Bro." The incident sparked debates on drug pricing ethics.

9. Demeaning References to Race, Age, Sex, or Religion

- **Example**: **Dove "Real Beauty" Ad (2017)** Dove faced backlash for a Facebook ad that showed a Black woman removing her shirt and transforming into a white woman. Critics argued that the ad suggested lighter skin was more beautiful or clean, which was viewed as racially insensitive. Dove apologized and pulled the ad after widespread criticism.

10. Spamming

- **Example**: **Uber's Email Spam (2015)** Uber was accused of sending unsolicited emails to users who had already opted out of marketing communications. The company used aggressive email marketing tactics to promote Uber rides, leading to a class-action lawsuit where Uber agreed to pay $20 million to settle allegations of spamming and violating consumer privacy preferences.

1. Volkswagen Emissions Scandal (2015)

- **Issue**: Volkswagen falsely advertised its diesel cars as "clean diesel" and environmentally friendly. In reality, the cars were equipped with software to cheat emissions tests, emitting nitrogen oxides up to 40 times above legal limits.
- **Outcome**: Volkswagen faced billions in fines and compensation claims, and the scandal severely damaged the company's reputation.

2. Pepsi's Kendall Jenner Ad (2017)

- **Issue**: Pepsi ran an advertisement featuring Kendall Jenner that trivialized social justice movements. The ad depicted Jenner handing a Pepsi to a police officer during

a protest, implying that a soda could solve serious societal issues like racial inequality.
- **Outcome**: The ad was pulled after widespread backlash, with critics accusing Pepsi of exploiting and trivializing the Black Lives Matter movement for commercial gain.

3. Nestlé Infant Formula Controversy (1970s–Present)

- **Issue**: Nestlé aggressively marketed infant formula to mothers in developing countries, implying it was superior to breastfeeding. The campaign targeted vulnerable populations, often leading to malnutrition due to lack of clean water to mix the formula or inadequate education on proper use.
- **Outcome**: Nestlé faced a global boycott, and the controversy remains a dark chapter in corporate marketing history, raising questions about corporate responsibility in developing countries.

4. L'Oréal's False Anti-Wrinkle Claims (2014)

- **Issue**: L'Oréal claimed that its products, such as Lancôme Génifique and L'Oréal Paris Youth Code, could "boost the activity of genes" and "make skin act younger." The U.S. Federal Trade Commission (FTC) ruled that these claims were scientifically unfounded.
- **Outcome**: L'Oréal agreed to stop making these claims in its advertisements without providing any compensation to customers, but the brand's reputation took a hit.

5. Uber's "Greyball" Program (2017)

- **Issue**: Uber used a software tool called "Greyball" to deceive regulators in cities where the service was not authorized. The tool would display a fake version of the app to enforcement officers to avoid being caught operating illegally.
- **Outcome**: Uber admitted to the program and faced significant regulatory scrutiny, resulting in damage to the company's credibility and trust with both users and authorities.

6. Facebook and Cambridge Analytica Scandal (2018)

- **Issue**: Facebook allowed Cambridge Analytica to harvest personal data from millions of users without their consent. This data was used for targeted political advertising, raising concerns about user privacy and the manipulation of political outcomes.
- **Outcome**: Facebook faced a massive global backlash, investigations, and fines. The scandal led to increased scrutiny of data privacy practices across the tech industry.

7. H&M's Cultural Appropriation (2018)

- **Issue**: H&M sparked outrage by selling a hoodie featuring a Black child wearing a slogan "Coolest Monkey in the Jungle." The ad was criticized for being racially insensitive and for perpetuating harmful stereotypes.
- **Outcome**: H&M quickly apologized, pulled the ad, and made efforts to repair its image, but the incident highlighted the issue of cultural insensitivity in marketing.

8. Fyre Festival (2017)

- **Issue**: Fyre Festival was promoted as a luxury music festival in the Bahamas, featuring high-end accommodations and celebrity performers. Influencers, including Kendall Jenner and Bella Hadid, advertised the event. However, when attendees arrived, they found dismal conditions, no food, and no performances.
- **Outcome**: The festival became a disaster, with organizers being sued for fraud. The event's promoter, Billy McFarland, was sentenced to six years in prison, and the festival became synonymous with false advertising.

9. McDonald's "Hot Coffee" Case (1992)

- **Issue**: McDonald's served coffee at dangerously high temperatures, leading to severe burns for a customer, Stella Liebeck. Although it wasn't directly a marketing issue, the company was criticized for not properly informing customers of the risks.
- **Outcome**: Liebeck was awarded $2.86 million in damages (later reduced), and the case raised awareness about product safety and corporate accountability.

10. Amazon's "Prime Day" Deceptive Pricing (2019)

- **Issue**: During its annual Prime Day event, Amazon was accused of inflating prices on certain items before offering "discounts." The company was found to have listed higher "original prices" to make discounts seem more significant.
- **Outcome**: This led to negative publicity and increased scrutiny over Amazon's pricing practices, though no significant legal action was taken.