Marketing Management

Basic Concepts

What is Marketing?

- Marketing is a social & managerial process by which individuals & groups obtain what they need & want through creating, offering & exchanging products of value with others

Needs, Wants, & Demands

- Needs:

A human need is a state of deprivation of some basic satisfaction. People require food, clothing, shelter, safety, belonging & esteem. These are not created by society or marketers. They exist in the very texture of human biology & condition.

Wants

- Desires for specific satisfiers of needs. Although needs are few, wants are many & are continually shaped & reshaped by social forces & institutions.

Demands

- Wants for specific products that are backed by an ability & willingness to buy them. Wants become demand when supported by purchasing power.

Products

- Goods
- Services
- Ideas

"A product is anything that can be offered to satisfy a need or a want"

A marketer's job is to sell the benefits or services built into physical products.

Markets

- Consist of all the potential customers sharing a particular need or want who might be willing & able to engage in exchange to satisfy the need or want.

Marketing

- Is a social & managerial process by which individuals & groups obtain what they need & want through creating, offering, & exchanging products of value with others.

- Marketing Management is the process of planning & executing the conception, pricing, promotion & distribution of ideas, goods, & services to create exchanges that satisfy individual & organizational goals.

Relationship Marketing

- The practice of building long-term satisfying relations with key parties – customers, suppliers, distributors – in order to retain their long-term preference & business.

Marketing Concept

- Holds that the key to achieving organizational goals consists of being more effective than competitors in integrating marketing activities toward determining & satisfying the needs & wants of target markets.

Selling vs. Marketing

- Selling focuses on the needs of the seller, marketing on the needs of the buyer.
- Selling is preoccupied with the seller's need to convert his product into cash, marketing with the idea of satisfying the needs of the customer by means of the product & the whole cluster of things associated with creating, delivering & finally consuming it.
- Selling is "push", Marketing is "pull".

Societal Marketing

- Societal Marketing Concept holds that the organization’s task is to determine the needs, wants & interests of target markets & to deliver the desired satisfactions more effectively & efficiently than competitors in a way that preserves or enhances the consumer’s & society’s well-being.

Marketing Mix

- Set of marketing tools that the firm uses to pursue its marketing objectives in the target market:

2. Product
3. Price
4. Promotion
5. Place

Also known as the **4 P's of Marketing**

Product

- Variety
- Quality
- Design
- Features
- Brand name
- Packaging
- Sizes
- Warranties

Price

- List price
- Discounts
- Allowances
- Payment period
- Credit terms

Promotion

- Sales promotion
- Advertising
- Sales force
- PR
- DM

Place

- Channels
- Coverage
- Assortments
- Locations
- Inventory
- Transport

4 P's vs. 4 C's

- Product – Customer needs/wants
- Price – Cost to customer
- Place – Convenience
- Promotion - Communication

Strategic Business Unit (SBU)

- It is a single business or collection of related businesses that can be planned separately from the rest of the company.
- It has its own set of competitors.
- It has a manger who is responsible for strategic planning & profit performance & who controls most of the factors affecting profit.

BCG Model

- Growth-share matrix
- Market growth rate on the vertical axis indicates the annual growth rate of the market in which the business operates.
- Relative market share (horizontal axis) refers to the SBU's market share relative to that of its largest competitor.
- Growth-share matrix is divided into 4 cells, each indicating a different type of business.

BCG Model

- Question marks:

Businesses that operate in high-growth markets but have low relative market shares. Most businesses start off as question marks as the company tries to enter a high-growth market in which there is already a market leader. A question mark requires a lot of cash because a company has to spend a lot of money on overtaking the leader (& has to think hard before doing so).

BCG Model

- <u>Stars</u>:

  If the question mark business is successful, it becomes a star. A star is the market leader in a high-growth market. A star does not necessarily produce a positive cash flow for the company. The company must spend substantial funds to keep up with the high market growth & fight off competitors' attacks.

BCG Model

- Cash cows:

When a market's annual growth rate falls to less than 10%, the star becomes a cash cow if it still has the largest relative market share. A cash cow produces a lot of cash for the company. The company does not have to finance a lot of capacity expansion because the market's growth rate has slowed down. Since the business is the market leader, it enjoys economy of scale & higher profit margins. Company uses cash cows to pay bills & support other businesses.

BCG Model

- Dogs:

  Businesses that have weak market shares in low-growth markets. They typically generate low profits or losses, although they may generate some cash. Dogs often consume more management time than they are worth & need to be phased down or out

SBU Strategies

- Build:

  Objective is to increase the SBU's market share, even forgoing short-term earnings. Appropriate for question marks whose market shares must grow if they are to become stars.

  Hold:

  Objective is to preserve SBU's market share. Appropriate for strong cash cows if they are to continue yielding a large positive cash flow.

SBU Strategies

- Harvest:

  Objective is to increase the SBU's short-term cash flow regardless of long-term effect. Involves a decision to eventually withdraw from a business by implementing a program of continuous cost retrenchment. Company plans to milk its business. Hope is to reduce costs at a faster rate than any potential drop in sales thus increasing company's cash flow. Appropriate for weak cash cows.

SBU Strategies

- Divest:

  Here the objective is to sell or liquidate the business because resources can be better used elsewhere. Appropriate for dogs & question marks that are dragging down company's profits.

  SBUs start as question marks, become stars, then cash cows & finally dogs.

GE Model

- Each business is rated in terms of market attractiveness & business strength. Companies are successful to the extent that they enter attractive markets & possess the required business strengths to succeed in those markets. If 1 of the factors is missing, the business will not produce outstanding results (strong company in unattractive market or weak company in attractive market will not do well).

SWOT Analysis

- S – Strength
- W – Weakness
- O – Opportunities
- T – Threats
- Remember - SW are internal, OT are external

Strengths/Weaknesses

- <u>Marketing</u>:

2. Company reputation
3. Market share
4. Product/service quality
5. Pricing/distribution/promotion/sales force effectiveness
6. Geographical coverage

"Core competencies"

Finance

1. Deep pockets
2. Cash flow
3. Financial stability

<u>Manufacturing</u>:

6. Economies of scale
7. Latest technology
8. Dedicated work force

Organization

3. Visionary capable leadership
4. Dedicated employees
5. Entrepreneurial orientation
6. Flexible/responsive

Opportunities

- A marketing opportunity is an area of buyer need in which a company can perform profitably.
- Opportunities can be classified according to attractiveness & success probability.
- Company's success probability depends on whether its business strengths not only match key success requirements for operating in target market but also exceed those of competitors.

Threats

- A challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit.
- Threats should be classified according to their seriousness & probability of occurrence.

Porter's generic strategies

3 game plans

Porter's generic strategies

- Overall cost leadership – business works hard to achieve lowest production & distribution costs so that it can price lower than competition & win a large market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing & physical distribution (they need less marketing skills). Problem is competition operating with even lower costs (e.g. the Chinese Dragon!).

Porter's generic strategies

- Differentiation – business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. So the firm seeking quality leadership must make products with best components, put them together expertly etc. (It's a Sony!).

- Intel inside, idiot outside!

Porter's generic strategies

- Focus – business focuses on 1 or more narrow market segments, gets to know these segments intimately & pursues either cost leadership or differentiation within the target segment (niche marketing).

Marketing Plan

- Executive summary & table of contents – presents a brief overview of the proposed plan
- Current marketing situation – presents relevant background data on the market, product, competition, distribution & macro-environment
- Opportunity & issue analysis – SWOT
- Objectives – defines the plan's financial & marketing goals in terms of sales volume, market share & profits

Marketing Plan

- Marketing strategy – presents the broad marketing approach that will be used to achieve the plan's objectives
- Action programs – presents the special marketing programs designed to achieve the business objectives
- Projected PL statement – forecasts the plan's expected financial outcomes
- Controls – plan monitoring

Marketing Information System (MIS)

- MIS consists of people, equipment, & procedures to gather, sort, analyze, evaluate & distribute needed, timely & accurate information to marketing decision makers.
- Internal Records System:
- Order-to-Payment Cycle – heart of internal records system; Salespeople, dealers & customers dispatch orders to firm. Order dept. prepares invoices & sends copies to various departments. Shipped items are accompanied by shipping & billing documents etc.

Marketing Information System (MIS)

- Sales Reporting Systems - marketing managers need up-to-date reports of their current sales. Sales reps now have immediate access to information about prospects/customers & can give their companies immediate feedback & sales reports.

Marketing Information System (MIS)

- Marketing Intelligence System:

  Set of procedures & sources used by managers to obtain their everyday information about pertinent developments in the marketing environment. Reading books, newspapers, trade publications, talking to customers, suppliers, distributors, talking with other managers & personnel within the company etc. are some methods used to gather intelligence. Company trains sales-force, motivates channel, purchases info & uses staff for this purpose.

Marketing Information System (MIS)

- Marketing Research System:

  Systematic design, collection, analysis & reporting of data & findings relevant to a specific marketing situation facing the company.

Marketing Research Process

- Define the problem & research objectives:

3. Exploratory – to gather preliminary data to shed light on the real nature of the problem & suggest possible solutions/new ideas
4. Descriptive – to ascertain certain magnitudes
5. Causal – to test a cause-and-effect relationship

Developing the Research Plan

- Calls for decisions on data sources, research approaches, research instruments, sampling plan, & contact methods.

2. Data sources – can be primary (gathered for specific project) or secondary (already existing).
3. Research approaches:

- Observational research – gathered by observing relevant sample & settings.

Developing the Research Plan

- Focus-group research – focus group is a gathering of 6-10 people who are invited to spend a few hours with a skilled moderator to discuss a product, service etc. It is a useful exploratory step to take before designing a large-scale survey.
- Survey research – best suited for descriptive research, to learn about people's knowledge, beliefs, preferences etc.

Developing the Research Plan

- Experimental research – most scientifically valid research. Best suited for causal research, calls for selecting matched groups of subjects, subjecting them to different treatments, controlling extraneous variables & checking whether observed response differences are statistically significant.

Developing the Research Plan

1. Research instruments:

- Questionnaires – Open-end questions allow respondents to answer in their own words, while close-end questions prespecify all possible answers & respondents make a choice among them. Open-end questions reveal more while close-end questions provide answers that are easier to interpret & tabulate.

Developing the Research Plan

- Mechanical instruments – galvanometers measure arousal/interest by exposure to specific ad/picture, tachistoscope flashes an ad repeatedly to measure recall/specific points of interest, audiometer is attached to TV sets to record channel viewing (to calculate TRPs).

Developing the Research Plan

1. Sampling Plan:

- Sampling unit – target population that will be sampled. Once sampling unit is determined, a sampling frame must be developed so that everyone in the target population has an equal chance of being sampled.
- Sampling procedure – to obtain a representative sample, a probability sample of the population should be drawn. This allows calculation of confidence limits for sampling error.

Probability & Nonprobability Samples

- Probability Sample:

2. Simple random sample – every member has an = chance of selection
3. Stratified random sample – population divided into mutually exclusive groups (age etc.) & random samples drawn from each
4. Cluster sample – 2 + sample groups drawn for interview

Nonprobability Sample

1. Convenience sample – select most accessible population
2. Judgment sample – good prospects for accurate information
3. Quota sample – prescribed no. of people in each of several categories

Developing the Research Plan

- Contact methods:
  - Mail questionnaire
  - Telephone interviewing
  - Personal interviewing – arranged & intercept. Most versatile method, since interviewer can study body language too. But this is also the most expensive & is also subject to interviewer bias or distortion.

Collect the information

- Respondents may not be at home, may refuse to cooperate, may give biased/dishonest answers & even some interviewers may be biased or dishonest. Technology has helped in making this task easier (thanks to computers & telecom).

Analyze the information

- Researcher tabulates the data & develops frequency distributions. Averages & measures of dispersion are calculated for major variables. Advanced statistical techniques are applied to extract pertinent findings from the collected data.

Present the findings

- Researcher should not overwhelm management with lots of numbers & fancy statistical techniques, but should present major findings that are pertinent to the major marketing decisions facing management.

Characteristics of good MR

- Scientific method
- Research creativity
- Multiple methods
- Interdependence of models & data
- Value & cost of information
- Healthy skepticism
- Ethical marketing

Market Demand

- Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program.
- Market Forecast – only one level of industry expenditure will actually occur. The market demand corresponding to this level is market forecast.

Market Potential

- The limit approached by market demand as industry marketing expenditures approach infinity, for a given environment.
- Company Demand – the company's estimated share of market demand at alternative levels of company marketing effort.
- Company Sales Forecast – expected level of company sales based on a chosen marketing plan & an assumed marketing environment.

Company Sales Potential

- The sales limit approached by the company demand as company marketing effort increases relative to competitors. The absolute limit of company demand is the market potential. The 2 would = if company achieved 100% market share.
- Sales Quota – sales goal (target) set for a product line, division, or SE.
- Sales Budget – estimate of expected sales volume, used for purchase, production etc.

Estimating Demand

- Survey of buyers' intentions – surveys measure purchase probability by asking buyers questions like:

  Do you intend to buy an automobile within the next 6 months?

  These surveys also inquire into the consumers' present & future personal finances etc.

  These data are then combined to arrive at a purchase probability scale.

Estimating Demand

- Composite of sales force opinions – each sales rep estimates how much each current & prospective customer will buy of each of company's products. Management then uses its judgment to make the necessary modifications. Sales force should be trained & incentivised for this purpose.
- Expert opinion – obtaining forecasts from experts like dealers, suppliers, consultants, trade associations etc.

Estimating Demand

- Market test method – where buyers do not plan their purchases carefully or experts are not available/reliable, direct market test is advisable (esp. in forecasting new-product sales). This method is also known as test marketing.

PEST Analysis

- Analysis of macro-environment, of external factors usually beyond firm's control (sometimes threats). Usually performed for countries.
- <u>Political Analysis</u>
- Political stability
- Risk of invasion
- Legal framework for contract enforcement

PEST Analysis

- IPR protection
- Trade regulations & tariffs
- Anti-trust laws
- Pricing regulations
- Taxation policy
- Wage legislation
- Mandatory employee benefits
- Industrial safety regulations

PEST Analysis

1. Economic Analysis

- Economic system
- Govt. intervention
- Comparative advantages
- Exchange rate & stability of currency
- Infrastructure quality
- Workforce skill level

PEST Analysis

- Labor costs
- Economic growth rate
- Discretionary income
- Unemployment rate
- Inflation rate
- Interest rates
- Business cycle stage (prosperity, recession etc.)

PEST Analysis

1. <u>Social Analysis</u>

- Demographics
- Class structure
- Education
- Culture
- Attitudes
- Leisure interests

PEST Analysis

1. <u>Technological Analysis</u>

- Recent techno development
- Technology impact
- Impact on cost structure
- Rate of techno diffusion (spread of technology)

VALS System

- Divides US adults into 8 groups:
- High resources
- Actualizers – Successful, sophisticated, active, take-charge. Favor upscale/niche products.
- Fulfilleds – Mature, satisfied, comfortable. Favor durability, value.
- Achievers – Successful, career & work oriented. Favor established, prestige products.
- Experiencers – Young, vital, enthusiastic, rebellious. Spend on clothing, fast food, music, movies.

VALS System

- <u>Lower resources</u>
- Believers – Conservative, traditional. Favor familiar products, established brands.
- Strivers – Uncertain, insecure, resource-constrained. Favor stylish products to emulate superiors.

VALS System

1. Makers – Practical, self-sufficient, family-oriented. Favor practical, functional products (tools etc.)
2. Strugglers – Elderly, resigned, passive. Loyal to favorite brands

Maslow's Hierarchy of Needs

- Physiological needs (roti/kapda/makaan)
- Safety needs (security)
- Social needs (belonging, love)
- Esteem needs (recognition, status)
- Self actualization (realization/moksha)

Herzberg's Theory

- Dissatisfiers – factors that cause dissatisfaction
- Satisfiers – factors that cause satisfaction
- Absence of dissatisfiers is not enough, satisfiers must be actively present to motivate a purchase

Buying Decision Process

- Buying roles:
2. Initiator – person who first suggests the idea
3. Influencer – person whose advice influences the decision
4. Decider – person who decides on any component of buying decision
5. Buyer – person who makes actual purchase
6. User – person who uses or consumes

Stages

1. Problem recognition
2. Information search
3. Evaluation of alternatives
4. Purchase decision
5. Post-purchase behavior

Business markets & business buying behavior

- Participants in business buying:

2. Initiators – those who request purchase (users or others)
3. Users – those who will use product
4. Influencers – influence buying decision, define specs, etc. (technical persons)
5. Deciders – those who decide on product requirements/suppliers

Business markets & business buying behavior

1. Approvers – those who authorize proposed actions of buyers
2. Buyers – people with formal authority to select supplier & arrange purchase terms (Purchase Managers)
3. Gatekeepers – those who have the power to prevent sellers/info from reaching buyers (receptionists)

Business markets & business buying behavior

- Cultural factors:
- France – apologize for not speaking French!
- Germany – sticklers for titles
- Japan – flexible agenda
- Korea – sensitive about their Japanese connection
- Latin America – Use liaison agents

Business markets & business buying behavior

- Types of purchasing processes:

2. Routine products – office supplies
3. Leverage products – high value but low risk (pistons)
4. Strategic products – high value & high risk (mainframes)
5. Bottleneck products – low value but some risk (spares)

Business markets & business buying behavior

- Stages in purchasing process:

2. Problem recognition
3. Product specs
4. Supplier search
5. Proposal solicitation
6. Supplier selection
7. Order-routine specs
8. Performance review (suppliers)

Institutional/Govt. Markets

1. Schools
2. Hospitals
3. Prisons
4. Hotels
5. Corporate bodies
6. Govt. organizations
7. Etc.

Dealing with competition

- Porter's Model:

2. Threat of intense segment rivalry – segment unattractive if it contains numerous strong & aggressive competitors
3. Threat of new entrants – most attractive segment has high entry & low exit barriers

Porter's Model

1. Threat of substitute products – segment unattractive when there are actual/potential substitutes for product (placing limit on prices)
2. Threat of buyers' growing bargaining power – segment unattractive if buyers possess strong bargaining power
3. Threat of suppliers' growing bargaining power

Dealing with competition - market leader

- Expanding total market –
2. New users – market penetration, new-market segment, geographical expansion
3. New uses – soap/cream
4. More usage - shampoo

Dealing with competition - market leader

- Defending market share –

2. Position defense – make the brand impregnable (Heinz)
3. Flank defense – P&G (Tide)
4. Preemptive defense – Seiko with 2300 watch models, has left nothing to chance!
5. Counteroffensive defense – Frontal, flank or pincer

Dealing with competition - market leader

1. Mobile defense – through a) broadening (Reliance from petrochemicals to petrol, LPG etc) & b) diversification into unrelated industries (Tata)
2. Contraction defense – Withdrawing from non core areas (HLL from agrovet etc.)

Dealing with competition - market leader

- Expanding market share – Best example is P&G, thru:

2. Customer knowledge
3. Product innovation
4. Quality
5. Line/Brand extension/Multibrand
6. Heavy advertising/sales promo
7. Aggressive sales force etc

Dealing with competition – market challenger

1. Frontal attack
2. Flank attack
3. Encirclement attack – grand offensive on several fronts
4. Bypass attack – diversifying into unrelated products/new markets/new technologies
5. Guerilla warfare - Shivaji

Market follower

1. Counterfeiter – sells fake look-alikes
2. Cloner – emulates with slight variations
3. Imitator – Copies with slight variations
4. Adapter – adapts from leader & improves

Market nicher

- Before you look for a niche in the market, make sure there is a market in the niche.
- Instead of being a follower in a large market, it is sometimes better to be a leader in a small market
- Example – Logitech has become the king of niche markets by making every variation of computer mouse!

Segmentation

- Market segment is a group of customers sharing a similar set of wants. To be useful, a segment must be:

2. Measurable - in terms of size, purchasing power etc.
3. Substantial – large/profitable
4. Accessible – can be effectively reached & served
5. Differentiable/Actionable

Segmentation

- Steps:

2. Needs-based segmentation – group customers on similar needs
3. Segment identification – which demographics, lifestyles & usage behavior make segment actionable
4. Segment attractiveness – market growth, access

Segmentation

1. Segment profitability – determine
2. Segment positioning – create a value proposition
3. Segment Acid Test – to test positioning efficacy
4. Marketing-Mix – 4 P’s

Segmentation

- Geographic:
  - Nation
  - State
  - Region
  - City
  - Climate
  - Density (urban/rural)

Demographic

1. Age/Family size/Life cycle
2. Education
3. Income
4. Religion/Race/Generation
5. Nationality/Social class
6. Gender
7. Occupation

Demographic

- Baby Boomers – 1946-1965
- Gen X – 1966-1976
- Gen Y – 1977-1999
- Yuppies
- Puppies
- DINKS
- SINKS
- SILKS

Psychographic

2. Lifestyle – culture, sports, outdoor, Page 3 etc

4. Personality – introvert, extrovert, compulsive, ambitious, authoritarian etc

Behavioral

1. Occasions – regular, special
2. Benefits
3. User status – non user, regular
4. Usage rate – light, heavy
5. Loyalty status – medium, strong
6. Readiness stage – unaware, aware
7. Attitude toward product – positive, indifferent

Business Market Segmentation

1. Demographic – industry, company size, location
2. Operating Variables – technology, user/nonuser/customer capability
3. Purchasing Approaches – purchasing style, power structure, existing relationships
4. Situational Factors – urgency, specific application, order size
5. Personal Characteristics – loyalty etc

Targeting

- Single segment concentration – small car only
- Selective specialization – FM channel targeting all age groups with different programs
- Product specialization – one product selling to different segments (paint)
- Market specialization – many needs of 1 group – selling only to schools
- Full market coverage - Coke

Positioning

- Presentation on Ries & Trout

PLC

- Introduction
- Growth
- Maturity
- Decline

Marketing Strategies

- Introduction stage:

2. The pioneer advantage
3. The competitive cycle –

- Sole supplier
- Competitive penetration
- Share stability
- Commodity competition
- Withdrawal of competition

Marketing Strategies

- Growth stage:

3. Improve product quality
4. Add new products
5. Enter new segments
6. Increase coverage
7. Lower price

Marketing Strategies

- <u>Maturity stage</u>:

Most products are in maturity stage!

3. Convert nonusers
4. Enter new segments
5. Win customers from competition
6. Modify product (quality/features)
7. Modify the 4 P's (price cut, new outlets, sales promo, services etc)

Marketing Strategies

- Decline stage:
2. Increase the firm's investment
3. Maintain investment level
4. Decrease the investment
5. Harvesting (milking)
6. Divesting

New product development

- Idea generation – is the idea worth considering?
- Idea screening – is the product idea compatible with company objectives, strategies & resources?
- Concept development & testing – can we find a good concept for the product that consumers would try?

New product development

- <u>Conjoint Analysis</u>:

  A method for deriving utility values that consumers attach to varying levels of a product's attributes. Respondents are shown various hypothetical offers formed by combining varying levels of attributes & are asked to rank them to identify most appealing offer.

New product development

- Marketing strategy development – can we find a cost-effective, affordable marketing strategy?
- Business analysis – will this product meet our profit goals?
- Product development – have we developed a technically & commercially sound product?

New product development

- Market testing – have product sales met expectations?
- Commercialization – are product sales meeting expectations?

Market testing

- Sales wave research – consumers who initially try the product at no cost are reoffered the product at slightly reduced prices (3 to 5 times) to check their level of satisfaction
- Simulated test marketing – 30-40 qualified shoppers are found & questioned about brand familiarity & preferences in a particular product category (to check ad effectiveness)

Market testing

- Controlled test marketing – allows company to test impact of in-store factors & limited advertising on buying behavior by putting products in test stores.
- Test markets – how many cities, which cities, length of test, what info, what action?

Consumer adoption process

- Stages:

2. Awareness
3. Interest
4. Evaluation
5. Trial
6. Adoption

Adopter categorization

1. Innovators – venturesome (2.5%)
2. Early adopters – opinion leaders (13.5%)
3. Early majority – deliberate (34%)

- After average person:

6. Late majority – skeptical (34%)
7. Laggards – traditional (16%)

Global market offerings

- The world is fast becoming a global village!
- “Glocal” is the new buzzword – think global, act local!
- So many mega corps bit the dust, because they forgot this rule!
- There are some golden rules for competing globally!

Global market offerings

- 5 modes of entry:

2. Indirect & direct export
3. Licensing – management contracts, contract manufacturing (job work), franchising (Big Mac)
4. JV – DCM Benetton
5. Direct investment – Direct ownership of a foreign company (bought or built)

The 4 P's

- Product – straight extension, product adaptation, product invention
- Promotion – adaptation is the key!
- Price – set uniform price everywhere, set market-based price, set cost-based price
- Place – MNC prefers to work with local companies first, but eventually opt for own channel

Global market offerings

- Organization of effort –

2. Export department
3. International division
4. Global organization

PRODUCT MIX

P & G

DETERGENTS

- IVORY SNOW
- DREFT
- TIDE
- CHEER
- OXYDOL
- DASH
- BOLD
- GAIN
- ERA

TOOTHPASTE

- GLEEM
- CREST

SOAP

- IVORY
- KIRK'S
- LAVA
- CAMAY
- ZEST
- SAFEGUARD
- COAST
- OIL OF OLAY

DIAPERS

- PAMPERS
- LUVS

PAPER TISSUE

- CHARMIN
- PUFFS
- BANNER
- SUMMIT

WIDTH

- How many different product lines the company carries
- in the case of P&G, we just saw 5 such lines. P&G produces many more lines, in fact.

LENGTH

- Refers to the total no. of items in the mix. In the P&G case, there are 25 in all.

- Average length = total length/no. of lines.
- For P&G it is 5 (in this case)

DEPTH

- How many variants are offered of each product in the line.

- In the case of Crest (say):
- 2 flavors * 3 sizes
- = 6 SKUs
- So depth = 6

CONSISTENCY

- How closely related the product lines are in end use, production, distribution etc.
- For P&G, consistency is high, since it operates in the FMCG segment.

PRODUCT LINE DECISIONS

- Product line analysis

1. Sales & profits (80/20 rule)

2. Market profile (positioning)

4 TYPES OF PRODUCTS IN PCs

- Core : basic pc
- Staples : CPU
- Specialties : on site training
- Convenience items : printers

PRODUCT-LINE LENGTH

- Line stretching

1. Down-market stretch

- Introducing a lower priced line:

*Sony did it with Vega Trinitron, to take on LG golden eye

UPMARKET STRETCH

- Entering the high end of the market for more growth, higher margins or simply to plug the full line

*E.g. Maruti

2 WAY STRETCH

- Stretching the line in both directions

*E.g. Marriott

1. economy 2. comfort 3. luxury

LINE FILLING

- Extending product line by adding more items within present range - for incremental profits, to satisfy dealers, to utilize extra capacity etc.

*E.g. ice creams (more flavors, same price)

WHAT IS A BRAND?

Name, term, sign, symbol, design, or a combination intended to identify & differentiate

6 levels of meaning

- MERCEDES

1. Attributes (Expensive)
2. Benefits (Durability)
3. Values (Prestige)
4. Culture (German)
5. Personality (Lion)
6. User (Top Exec.)

Building brand identity

- Name, Logo, Colors, Tagline, Symbol

*Example: Name: Sony
Logo: Nike
Colors: Coke
Tagline/Punchline: Nokia
Symbol/Mascot: Asian Paints

Brand bonding

- Occurs when customers experience the company as delivering on its benefit promise. Advertising alone does not build brands, the brand experience does. Advertising may create recognition, recall or even preference, but ultimately the brand has to deliver.

Brand Equity

*Brand Loyalty:

- Customer will change brand for price – no loyalty
- Customer is satisfied, may not change
- Customer is satisfied & feels there would be cost incurred on change
- Customer values brand & sees it as a friend
- Customer is devoted to brand

Brand Equity

- Apart from loyalty, it is also the degree of brand-name recognition, perceived brand quality, strong mental & emotional associations & other assets such as patents, trademarks & channel relationships.

Advantages of Brand Equity

- More trade leverage
- Higher price
- Extensions
- Defense against competition (in terms of price etc.)

Most valuable brands (2001)

1. Coke
2. Microsoft
3. IBM
4. GE
5. Nokia
6. Intel
7. Disney
8. Ford
9. McDonald's
10. AT & T

Branding Decisions

- Brand or not to brand?
- Most will brand, exception could be:
- Carrefours, the French hypermarket pioneer sells a line of unbranded common products like spaghetti, paper towels, canned peaches etc. @ 20-40% lower prices.

Brand Sponsor Decision

1. Manufacturer/National brand

   (Kellogg/Benetton)

2. Distributor/Reseller brand

   (Whirlpool – Sears Kenmore)

3. Licensed brand

   (Hart, Schaffner & Marx sell clothes under the Pierre Cardin & Christian Dior names)

Brand name decision

Individual names

e.g. HLL/P&G

Blanket family names

- Heinz
- G E

Separate family names for all products

- Sears – Kenmore (for appliances)

& Craftsman (for tools)

*Tata would be an Indian example

Corporate name combined with individual product names

- Kellogg
- Dabur

Desirable qualities of a brand name

- Should suggest something about product benefit (Friendly Wash)
- Should suggest product/service category
 (Business Today)
- Should suggest "high imagery" (Mercedes)

Desirable qualities of a brand name

- Should be easy to spell, pronounce, recognize & remember (Tide)
- Should be distinctive (Kodak)
- Should not carry negative connotations (Nova/ car in Spanish means “doesn’t go”)

Brand building tools

- Public relations & press releases
- Sponsorships
- Clubs
- Factory visits
- Trade shows
- Event marketing

Brand building tools (Cont.)

- Public facilities
- Social cause marketing
- High value for the money
- Celebrity endorsement
- Telemarketing

Brand strategy decision

- Line Extensions

Introducing additional items in the same product category under the same brand name (Cadbury)

Brand Extensions

- Company can use its existing brand name to launch new products in other categories:

E.g. Nike

- Shoes
- Clothing
- Sports equipment
- Watches

Multibrand

- Titan

2. Titan regular
3. Fast Track
4. Tanishq

* Cannibalization risk

Co-Brand

- Also called dual branding -

  2 or more well known brands are combined in an offer

e.g. Maruti using Ceat tyres, Reliance using Nokia

Each hopes to gain from associating with the other brand

Packaging

- All activities of designing & producing the container for a product. Many call it the 5th P, due to its importance.

- Best example: Tetra Pak

Labeling

- Identifies product or brand
- Describes product
- Promotes product

- Labels may become outdated & so need to be freshened up once in a while.

Services

Any act or performance that is essentially intangible & does not result in ownership of anything. Its production may or may not be tied to a physical product.

Categories

- Pure tangible good: soap, toothpaste
- Tangible good with accompanying services: cars, computers
- Hybrid: Equal parts of goods & services: Restaurants
- Major service with accompanying minor goods & services: airlines
- Pure service: psychotherapy, massage

Characteristics

- Intangibility:

3. Cannot be seen, tested, felt, heard or smelled before they are bought

* Challenge: to tangibilize the intangible by adding physical evidence & imagery

(e.g. McDonald's)

Inseparability

- Provider is part of service

e.g.

*In the field of entertainment, if ShahRukh is indisposed, can you replace him with Saif, to provide the same service as an actor?

Variability

- Unlike a standard toothpaste or soap, you do not have standard doctors. The reputation decides the no. of prospective patients, based on the doctor’s skills. This varies from doctor to doctor.

Perishability

- Services cannot be stored. When demand fluctuates, there is a problem.

  *e.g.

  When there is peak demand, staff utilization is optimum. When demand slumps, the same staff become excessive.

The 7 P's

- Product:

3. Physical good features
4. Quality level
5. Accessories
6. Packaging
7. Warranties
8. Product lines
9. Branding

Place

2. Channel type
3. Exposure
4. Intermediaries
5. Outlet locations
6. Transportation
7. Storage
8. Managing channels

Promotion

2. Promotion blend

2. Salespeople

- Number
- Selection
- Training
- Incentives

Cont.

3. Advertising

- Targets
- Media types
- Types of ads
- Copy thrust

4. Sales Promotion

5. Publicity

Price

2. Flexibility
3. Price level
4. Terms
5. Differentiation
6. Discounts
7. Allowances

People

2. Employees
   - Recruiting
   - Training
   - Motivation
   - Rewards
   - Teamwork
8. Customers
   - Education/Training

Physical Evidence

2. Facility design
3. Equipment
4. Signage
5. Employee dress
6. Other tangibles

- Reports
- Business cards
- Statements
- Guarantees

Process

2. Flow of activities
   - Standardized
   - Customized
5. Number of steps
   - Simple
   - Complex
3. Customer involvement

Services Triangle

- Company
- Providers
- Customers

- External Marketing - making promises
- Interactive Marketing – keeping promises
- Internal Marketing – enabling promises

Moments of truth

- From customer’s point of view most vivid impression of service occurs in the service encounter or “moment of truth” when the customer interacts with the service firm. It is in these encounters that customers receive a snapshot of the organization’s service quality & each encounter contributes to customer’s overall satisfaction & willingness to do business with organization again.

Managing demand & capacity

- Excess demand – demand exceeds max. capacity, resulting in lost business/poor service
- Demand exceeds optimum capacity – no lost business, but service quality will suffer due to overuse etc
- Demand & supply are balanced at optimum capacity – ideal situation
- Excess capacity – demand is below optimum capacity, leading to underutilization of resources

Strategies for matching capacity & demand

- Vary the service offering – airlines change configuration of their plane seating to match demand from different market segments (no first class seats on some routes, more such seats on trunk routes etc.).

Communicate with customers

- Signs in post offices that let customers know their busiest hours & busiest days of week can serve as warning allowing customers to shift their demand to another time if possible.

Modify time & location of service delivery

- Some banks (HDFC etc) open early & work late to accommodate customer schedules. Some even work on Sundays & holidays to provide convenience of service.

Differentiate on price

- Hotels discount prices during the off season to utilize idle capacity & tackle slow demand. Only problem is that customers may expect similar deals even during peak season!

Managing with limited resources

- Stretch existing capacity:

3. Extend hours of service
4. Work longer & harder
5. Expand facilities (add equipment)

Cont.

- Align capacity with demand fluctuations:

3. Use part-time employees
4. Outsourcing
5. Rent/share facilities (church with school)
6. Cross-train employees (job rotation)

1. OFFERING

- Primary service package – what customer expects
- Secondary service package – what provider can add

EXAMPLE

- Airlines include movies, merchandise for sale, air-to ground telephone service etc.
- Hotels offer state-of- the-art fully equipped business centers

2. FASTER & BETTER DELIVERY

1. Reliability
2. Resilience: Better handling of emergencies, product recalls, inquiries
3. Innovativeness: Better MIS, bar coding etc.

3. IMAGE

- The American Express example

*The equity is such that people the world over know the name & respect the institution.

MANAGING SERVICE QUALITY

- Reliability
- Responsiveness
- Assurance
- Empathy
- Tangibles

GAPS!

- Between consumer expectation & mgmt. perception
- Between mgmt. perception & service-quality specification
- Between service-quality specification & service delivery
- Between service delivery & external communication
- Between perceived & expected service

MANAGING PRODUCTIVITY

- Hiring more skilful workers
- Quality-quantity trade off
- Standardization (Big Mac again)
- Invent product solution (ATM, so that there is less pressure on bank staff)
- More effective service
- Incentivise customers to do their own work (gas stations in USA)
- Technology (Internet)

MANAGING PRODUCT SUPPORT SERVICES

- Equipments are becoming more reliable & more easily fixable
- Customers want unbundling – separate prices for each element & right to select element they want.
- All services under one roof
- AMC
- Little profit on after sale services
- Quality of call centers

PRICING

One of the fundamental P's

SETTING THE PRICE

Segment	Example
Ultimate	Rolls Royce
Gold Standard	Mercedes
Luxury	Audi
Special Needs	Volvo
Middle	Buick
Ease	Ford Escort
Me too, but cheaper	Hyundai
Price Alone	Maruti 800

SELECTING THE PRICING OBJECTIVE

- **SURVIVAL**

Due to problems of overcapacity, intense competition, changing consumer wants etc. This is a short run objective. Covers variable cost & a part of fixed cost.

2. <u>MAXIMUM CURRENT PROFIT</u>

- To choose price that produces maximum current profit, cash flow or ROI.

3. <u>MAXIMUM MARKET SHARE</u>

- To set lowest price, assuming market is price-sensitive, in the belief that higher sales volume will lead to lower unit cost & higher long-run profit. Also, called market-penetration pricing.

4. MAXIMUM MARKET SKIMMING

- Companies unveiling a new technology, set high prices to "skim" the market. Sony & Dupont practice this. Done when:

2. Sufficient buyers have a high current demand.
3. Unit cost of small volume is more than offset by the price the traffic will bear.
4. High initial price does not attract more competition.
5. High price communicates superior product.

5. PRODUCT-QUALITY LEADER

- Company sells higher to competition, by positioning itself as the best in terms of quality & VFM

e.g. Chivas Regal

DETERMINING THE DEMAND

- Price Sensitivity:

  Customers are more price sensitive to products that cost a lot or are bought frequently & less to low-cost items bought infrequently. Cos. like customers who are less price sensitive.

CONTINUED

- Estimating Demand Curves:

3. Historical analysis
4. Price experiments
5. Ask buyers

CONTINUED

- Price elasticity of demand:

If demand hardly changes with a small change in price, it is inelastic.

If it changes considerably, it is elastic. Sellers will consider lowering price.

*Band of indifference

ESTIMATING COSTS

- Fixed Cost:

  Do not vary with production or sales revenue
- Variable Cost:

  Vary directly with production level
- Total Cost:

  Sum of FC+VC for any given production level
- Average Cost:

  Cost per unit at that production level

CONTINUED

- Accumulated production:
- Learning Curve

Decline in average cost with accumulated production experience

This is often used by seasoned players to price aggressively. But this may give product cheap image.

DIFFERENTIATED MARKETING OFFERS

- ABC or Activity-based-cost accounting

Tries to identify the real costs associated with serving each customer. Both VC & FC must be tagged back to each customer, to avoid misallocation of marketing effort.

TARGET COSTING

- MR is used to establish new product's desired functions. Then price at which it will sell is determined. The desired profit margin is deducted from this price, leaving the target cost. If final cost can be brought within this range, they proceed, else the product is scrapped.

PRICING METHODS

- Markup Pricing:

  Suppose the unit cost of a shirt is Rs. 500

  You want a markup of 20%

  Markup price = unit cost/(1-desired profit)

  = 500/(1-0.2)

  = 500/0.8

  = 625

CONTINUED

2. Target-return pricing:

Price that yields desired ROI

ROI = Return on *investment*

= *Profit/Investment * 100*

So target-return price =

*(unit cost) + ROI * investment/unit sales*

In the earlier e.g., if investment = 10 lacs

*You want 20% ROI on expected sales of 5000 shirts. Then price = (500) + .20*1000000/5000*

= 500 + 40 = 540

CONTINUED

- B.E volume = FC/(price-VC)
- e.g.:

VC per unit = 10/-

FC = 100000/-

Price = 15/- per unit

B.E point = 100000/(15-10) = 20000 units

CONTINUED

3. Perceived-value pricing:

***DUPONT**

Price buyers, value buyers & loyal buyers.

4. For first, strip to basics
5. For second, innovate
6. For third, reward through relationships

Key is to deliver>competition & demonstrate this to prospects

CONTINUED

4. Value pricing:

- Wal-Mart:

  Winning loyal customers by charging a fairly low price for a high-quality offering

- P&G

  Did it a few years ago, by reducing prices on a few power brands to offer value prices.

CONTINUED

- Value pricing is not just a matter of setting lower prices. It involves reengineering of company’s operations to become a low-cost producer without sacrificing quality.
- EDLP: Every day low pricing:

Takes place at retail level. Retailer charges a constant low price with negligible price promos/special sales. Works because constant promos have eroded credibility

CONTINUED

5. Going-rate pricing:

Firm bases its price largely on competitors' prices. The firm may charge same, more or less than major competitor(s).

This method is popular because it is thought to reflect the industry's collective wisdom.

CONTINUED

6. Auction-type pricing:

*English auction (ascending bids)

*Dutch auction (descending bids)

*Sealed bid auction

CONTINUED

7. Group pricing:

Internet is facilitating a method whereby consumers & business buyers can join groups to buy at a lower price. “Pool price” is a function of no. of orders received & may fall further if more orders come in.

SELECTING THE FINAL PRICE

- Psychological pricing:

Price is often used as indicator of quality. Image pricing is specially effective with ego-sensitive products like perfumes/cars, which are usually perceived to be higher priced than they actually are. Buyers carry reference prices based on current/past prices or buying context. Sellers use this to put dresses etc. in expensive sections of dept. stores.

CONTINUED

2. Gain-and-risk sharing pricing:

Buyers may resist a proposition because of a high perceived level of risk.

Seller has option of absorbing all/part of risk, if he does not deliver full promised value.

e.g.: “satisfaction guaranteed or your money back”

CONTINUED

3. Influence of other mktg. mix elements:

Final price must take into account the brand's quality & advertising, relative to competition.

- Consumers are willing to pay more for known product (advtg. matters).
- High relative quality & high relative advtg. fetches higher prices (quality counts).
- High price/high advtg. correlate more +ly towards later stages of PLC

CONTINUED

4. Company pricing policies:

Price must be consistent with Company pricing policies.

5. Impact of price on other parties:

E.g. distributors/retailers/sales force/competition/suppliers/govt. etc.

PRICE ADAPTION

- Geographical pricing:

  How to price products to different customers in different locations & countries.

- Price discounts:

  Need to be given carefully or value perceptions of offerings will be undermined.

CONTINUED

- Promotional pricing:

2. Loss-leader – Price drop on well known brands.
3. Special event – Diwali discount etc.
4. Cash rebates – Auto companies.
5. Low interest finance – 0% financing.
6. Longer payment terms – EMI.
7. Warranties.
8. Psychological – First raise, then drop price.

CONTINUED

- Discriminatory pricing:

2. Customer-segment – students charged lower prices.
3. Product-form – Different versions of product are priced differently, but not proportionately e.g. sachets.
4. Image – Same perfume can be put in 2 different bottles & sold at 2 different prices, based on image.
5. Channel pricing – Coke is priced differently at different channel points.

CONTINUED

5. Location pricing - e.g. pricing in cinema halls.
6. Time pricing - e.g. happy hour pricing.

CONTINUED

- Product-mix pricing:

2. Product line – e.g. 3 different price points for shirts.
3. Optional-feature – e.g. power steering.
4. Captive product – e.g. high price of razor blade, but low price of system.
5. Two-part – e.g. cellular service – rental + call charges.

CONTINUED

5. By-product – e.g. petrochemical by products may be priced on their value, depending on need.
6. Product-bundling – e.g. Mahesh Bhatt & Vishesh Films.

PRICE CHANGES

- Price cuts (traps):

2. Consumers will assume low quality.
3. Low price buys market share, not loyalty, so people will shift again.
4. Competitors with deeper pockets may cut to drive you out of the market

CONTINUED

- Price increases:

  Good strategy, but it is better to go for gradual increases, instead of sharp, one-time hikes. Sudden hikes are viewed unfavorably. Companies can avoid price hikes, by reducing quantity or removing some features.

COMPETITOR PRICE CHANGE REACTIONS

1. Maintain price
2. Maintain price & add value
3. Reduce price
4. Increase price & improve quality
5. Launch a low-price fighter brand

Marketing Channels

The 3rd P

Marketing Channels

- Sets of interdependent organizations involved in the process of making a product/service available for use/consumption. Every other P is affected by channel decisions. Today, companies are using multiple channels in a bid to woo customers.

Channel functions

- To gather information about potential & current customers, competitors, etc.
- To develop & disseminate persuasive communications to stimulate purchasing.
- To reach agreement on price & other terms so that transfer of ownership can be effected.
- To place orders with manufacturers.
- To finance inventories at different levels.
- To provide storage/movement.
- To ensure payments.

Channel Levels

- 0 level – Direct marketing
- 1 level – One intermediary (retailer)
- 2 level – Two intermediaries (wholesaler/retailer)
- 3 level – Three intermediaries (stockist/wholesaler/retailer)

Channel Design

- Analyzing customer needs:

3. Lot size – 1 or many units
4. Waiting time – customers want speed
5. Spatial convenience – degree of ease of purchasing (shopping malls)
6. Product variety
7. Service backup

Channel Design

- Establishing channel objectives:

  Channel objectives vary with product characteristics. Perishable products require shorter channels while bulky products need channels that minimize channel distance & handling. Non-standardized products (specialized machinery) are sold directly by Company reps etc. etc.

Channel Design

- Identifying major channel alternatives:

2. Types of intermediaries – credit card companies use DM, DSAs, their sales reps etc. to sell their product.
3. No. of intermediaries needed:

- Exclusive distribution - automobiles
- Selective distribution – fashion
- Intensive distribution - FMCG

Channel Design

- Terms:
  - Price policy – producer must establish a price list & a schedule of discounts.
  - Conditions of sale – producer's payment terms (credit/discounts)/guarantees (for distributors).
  - Territories – producer defines distributors' territories & terms of appointing other distributors.

Channel Design

- Evaluating major channel alternatives:

2. Economic criteria – choosing between different levels of sales & costs. HDFC/ICICI encourage customers to use ATMs/Internet, because cost is minimum (customers visiting the bank cost much more to service).
3. Control & adaptive criteria – to decide whether company should sell directly (to ensure greater control) or through agents (& risk lesser control).

Channel Management

- Selecting channel members – financials, market reputation, servicing ability
- Training channel members – esp. dealer salesmen
- Motivating channel members – carrot/stick
- Evaluating channel members – target achievement, market servicing, cooperation
- Modifying channel arrangements – effecting changes when necessary

Channel Dynamics

- Vertical marketing Systems (VMS)

  Comprises producer, wholesaler & retailer acting as a unified system. One channel member (captain) owns the others or franchises them or has so much power that all others cooperate. Captain can be producer (Coke), wholesaler (FMCG) or retailer (superstores like Wal-Mart). VMS achieves economies through size, bargaining power & elimination of duplication (dominant in US).

Channel Dynamics

- Types of VMS:

2. Corporate & Administered – combines successive stages of production & distribution under single ownership. Sears obtains 50% of the goods it sells through companies that it partly or wholly owns. P&G, Kodak, Gillette etc. are able to command high levels of cooperation from retailers due to their clout.

Channel Dynamics

1. Contractual – consists of independent firms at different levels of production & distribution integrating their programs on a contractual basis to obtain economies or sales impact. They are of 3 types:

- Wholesaler-sponsored voluntary chains – to compete with superstores – Sadar Bazaar (Delhi)
- Retailer cooperatives – Apna Bazaar (Mumbai) & Super Bazaar (Delhi)
- Franchising – McDonalds etc.

Channel Dynamics

- Horizontal Marketing Systems (HMS)

2 or more unrelated companies put together resources or programs to exploit an emerging market opportunity. Best example is car manufacturers tying up with finance/insurance companies or airlines tying up with credit card companies. Superstores also offer a host of services by tying up with banks etc. to offer in-house ATM service etc.

Channel Dynamics

- Multichannel Marketing Systems

  Occurs when a single firm uses 2 or more marketing channels to reach one or more customer segments. Credit card companies use DM, DSA etc. to target potential customers. Banks use their in-house staff, ATM & the Net. Important benefits include:

3. Increased market coverage
4. Lower channel cost
5. More customized selling

Channel Conflict

- Types of conflict:
- VMS conflict – conflict between different levels within same channel e.g. Coke conflicting with its bottlers
- HMS conflict – conflict between members at same level in the channel e.g stockists complaining of **undercutting/infiltration**
- Multichannel conflict – when multiple channels come into conflict (e.g. targeting the same customer)

Channel Conflict

- Causes:

3. Goal incompatibility – company's aims vs. dealer interests
4. Unclear roles & rights – stockist territories ambiguously defined
5. Differences in perception – manufacturer & dealers may differ on market outlook

Channel Conflict

Adoption of superordinate goal – survival, market share etc.

2. Exchanging persons between 2 or more channel levels – dealer salesman may work as company officer & vice versa to understand the other side of the coin.
3. Cooptation – including leaders of other organizations on advisory panels, board of directors etc.
4. Joint membership in & between trade associations.

Channel Conflict

- When conflict is acute, there are 3 solutions:

2. Diplomacy – each side sends a person/group to meet with its counterpart to resolve conflict
3. Mediation – resorting to a neutral third party who is skilled in conciliating their interests
4. Arbitration – when 2 parties agree to present their arguments to 1 or more arbitrators & accept their decision as final & binding.

Legal/Ethical Issues

- Exclusive dealing involves exclusive territorial agreements wherein dealer will not carry competing lines & will get sole selling rights to a particular area. Producers are free to appoint dealers, but terminating the dealerships could involve legal issues. Dealers too need to be ethical in their approach by avoiding undercutting & infiltration, while producers need to respect their territorial rights.

Retailing

All activities involved in selling goods or services directly to final customers for personal, non-business use. Any organization selling to final customers is retailing.

Types of retailers

1. Specialty Stores

   Narrow product lines with deep assortment (Body Shop)

2. Department Store

   Several product lines, with each line operated as a separate department.

3. Supermarket

   Relatively large, low-cost, low-margin, high-volume, self-service operation

Cont.

1. Convenience Store

   Relatively small store located near residential area, open long hours, 7 days a week & carrying a limited line of high-turnover convenience products at slightly higher prices with take-out sandwiches, coffee, soft drinks (7/11)

5. Discount Store

   Standard merchandise sold at lower prices with lower margins & higher volumes (Wal-Mart)

Cont.

- Off price Retailer

  Factory outlets etc. which sell at prices lower than regular outlets & include sales of seconds etc.

3. Superstore

   About 35000 sq. ft of retailing space aimed at meeting consumer's total need for routine items + services such as laundry, shoe repair, check cashing etc (e.g. hypermarket)

Cont.

- Hypermarkets

  Range between 80000 & 220000 sq. ft & combine supermarket, discount & warehouse retailing. Assortment includes furniture, appliances, clothing etc. There is bulk display & minimum handling by store personnel, with discounts for customers willing to carry heavy items out of the store. Concept originated in France (Carrefour).

Catalog showroom

- Broad selection of high-markup, fast-moving, brand-name goods at discount prices. You order through a catalog & then pick up the goods at a merchandise pickup area in the store

- Best example : Burlington’s

Non-store retailing

- Growing faster than store retailing
2. Direct selling – Amway
3. Direct marketing – Telemarketing, Asian Sky Shop, Amazon.com
4. Automatic vending – Coffee machines
5. Buying service – storeless retailer selling to specific clientele through membership discounts from a list of retailers

Franchising

- Franchiser owns a trade or service mark & licenses it to franchisees in return for royalty payments.
- Franchisee pays for the right to be part of the system.
- Franchiser provides franchisees with a system for doing business.

* Best example – Big Mac

Wal-Mart

- Started by Sam Walton
- Operates 2363 discount stores in US, including 454 supermarkets
- Annual sales exceed $165 billion
- Largest US private employer
- World's largest retailer
- Movement of goods – 474000 pairs of shoes, 279000 boxes of diapers & 208000 undergarments a day!

4 P's of Retailing
*Product assortment & procurement

1. Feature exclusive national brands not available with competition – Saks
2. Feature mostly private branded merchandise – Benetton
3. Feature blockbuster distinctive merchandise events – Bloomingdale's "India" sale
4. Feature surprise or ever-changing merchandise - Benetton

Cont.

5. Feature latest/newest merchandise first
6. Offer merchandise customizing services – Harrods
7. Offer a highly targeted/specific assortment – Lane Bryant stocks lingerie for larger women

Price

- Most retailers fall into 2 groups:

2. High-markup, lower-volume group (fine specialty stores)
3. Low-markup, higher-volume group (mass-merchandisers & discount stores)

- Most retailers put a low price on some products to ensure high footfall
- They run “sales”
- They give discounts on slow-moving items

Promotion

- Ads
- Discount coupons
- Reward programs
- In-shop campaigns
- Etc.

Place

- General business districts
- Regional shopping centers
- Community shopping centers
- Strip malls – “walk the mall”
- Location within a larger store – “shop within a shop”

Retailing trends

1. New retail forms & combinations: e.g. Bancafe, Cha – bar etc.
2. Growth of intertype competition: different types of stores all competing for the same customer by stocking the same type of merchandise.
3. Growth of giant retailers: K-Mart, Wal-Mart etc. are crowding out smaller retailers. In India Shopper's Stop, Westside, Pantaloons are annihilating the standalone smaller stores.

Cont.

4. Growing investment in technology.
5. Global presence of major retailers: Marks & Spencer, Benetton, Carrefour etc.
6. Selling an experience, not just goods: adding fun to the shopping experience through in-house coffee shops, music, contests, rock shows, celebrity appearances etc.
7. Competition between store-based & non store-based retailing.

Wholesaling

- Includes all activities involved in selling goods/services to those who buy for resale or business use. Excludes manufacturers, farmers, retailers. Different from retail, because:

2. They deal with business customers (not final customers).
3. Transactions are larger in volume & area.
4. Taxes/legalities differ in the 2 cases.

Why Wholesalers?

1. More contacts/rapport
2. More assortment
3. Customer benefits from bulk sales/buying
4. Warehousing
5. Transportation
6. Financing (through market credit)
7. Risk sharing/bearing
8. Market information
9. Counseling retailers/industrial customers

Major wholesaler types

- Merchant wholesalers: Independently owned businesses that take title to the merchandise they handle (distributors). 2 types are:

2. Full service wholesalers (stockist)
3. Limited service wholesalers

Both sell to retailers, but style/scope of operation is different.

Cont.

- Brokers & agents: Do not take title to goods & perform only a few functions. Facilitate buying/selling for which they earn a commission on the transaction amount.

2. Brokers bring buyer & seller together & assist in negotiations. Do not carry inventory or get involved in financing etc. (real estate).
3. Agents represent either buyer or seller on more permanent basis. Formal agreement with producers for selling, purchasing in toto or on part/commission basis.

Cont.

- Manufacturer/retailer branch/office: Wholesaling conducted by seller/buyer themselves & not through independent wholesalers.
- Compaq setting up own branch offices to sell direct to end-user/customer.

- Miscellaneous wholesalers: Agricultural wholesalers, auction companies etc.

4 P's of wholesaling

- Product:

  It is basically their "assortment".

- Price:

  Their profit margin is usually in the 2-3% range because they operate on high turnover & low margin basis.

Cont.

- Promotion:

  Rely primarily on their salespeople/staff. Need to develop overall promotion strategy in terms of advertising, sales promotion & publicity.

- Place:

  Were usually located in low rent commercial areas but are becoming more up-market now with computerized operations.

Market Logistics (SCM)

1. Deciding on company's value proposition to customers.
2. Deciding on best channel design/network to reach customers.
3. Operational excellence in sales forecasting, warehouse management, transportation & materials management.
4. Implementing solution with best MIS, equipment, policies & procedures.

Objectives

- $M = T + FW + VW + S$

M = total market logistics cost of system
T = total fright cost of system
FW = total fixed warehouse cost
VW = total variable warehouse cost
S = total cost of lost sales due to delays/glitches

Objective = minimize M

Market logistics decisions

- Order processing:

Most companies try to shorten the order-to-payment cycle

* GE case – operates an info system that checks customer's credit standing upon receipt of order & determines stock availability. Computer issues an order to ship, bills the customer, updates inventory records, sends production order for new stock & relays message back to sales rep that customer's order is on the way – all in 15 seconds!

Cont.

- Warehousing:

  Company must decide on no. of inventory stocking locations. To reduce warehousing & inventory duplication costs the company may centralize its inventory in one place & use fast transportation to fulfill orders. Some inventory is kept at/near plant & rest is located in warehouses in other locations. Trend is "automated" warehousing where computers handle everything from moving goods to loading docks & issuing invoices!

Cont.

- Inventory:

2. When to order (reorder point)
3. How much to order
4. Inventory carrying cost
5. Optimal order qty. or EOQ – determined by observing how order-processing costs & inventory-carrying costs sum up at different reorder levels, to arrive at the lowest point.
6. JIT

Cont.

- Transportation:

  5 types – rail, air, truck, waterway, pipeline.

  Criteria – speed, frequency, dependability, capability, availability, traceability, cost.

* Using combi-transportation modes (containers)

5. Piggyback – use of rail & trucks
6. Fishyback – water & trucks
7. Trainship – water & rail
8. Airtruck – air & truck

Golden rules

1. Appoint a senior logistics person to be single window for all logistical elements.
2. This person must hold periodic review sessions with sales & operations.
3. New software & systems are the key to competitive logistical benefits.

Integrated Marketing Communication

The 4th P

Integrated Marketing Communication

A & SP
PR
Personal Selling
Direct Marketing

A & SP

- Print & broadcast ads
- Packaging – outer
- Packaging inserts
- Motion pictures
- Brochures/booklets
- Posters/leaflets
- Directories
- Reprint of ads

Cont.

- Billboards
- Display signs
- POP displays
- A/V
- Symbols & logos
- Videos

Sales Promotion

- Contests & Games
- Premiums & Gifts
- Sampling
- Fairs & trade shows
- Exhibits
- Demos
- Coupons

Cont.

- Rebates
- Low-interest financing
- Entertainment
- Trade-in allowances
- Continuity programs
- Tie-ins

PR

- Press kits
- Speeches
- Seminars
- Annual reports
- Charitable donations
- Sponsorships
- Publications

Cont.

- Community relations
- Lobbying
- Identity media
- Company magazine
- Events

Personal Selling

- Sales presentations
- Sales meetings
- Incentive programs
- Samples
- Fairs & Trade Shows

Direct Marketing

- Catalogs
- Mailings
- Telemarketing
- Electronic Shopping
- TV Shopping
- Fax mail
- E-mail
- Voice mail

8 steps in communication

- Identify the target audience:
- Image Analysis
- Major part of audience analysis is assessing current image of company, its products & its competitors. Image is the set of beliefs, ideas & impressions a person holds regarding an object (peoples' attitudes/actions toward object are highly conditioned by its image).
- To measure target audience's knowledge, we use the familiarity scale.

Image Analysis

- If most respondents say:

2. Never heard of
3. Heard of only

*Then the challenge is to build greater awareness.

- Favorability scale:

6. Very unfavorable
7. Somewhat unfavorable
8. Indifferent
9. Somewhat favorable
10. Very favorable

Image Analysis

- Again, if most choose 1 or 2

  * Then the organization must overcome a negative image problem

** The familiarity & favorability scales can be combined to develop insight into nature of communication challenge.

Image Analysis

- **Exercise**

- What comes to mind when you think of:

5. Shahrukh
6. Aishwarya
7. Sachin

Determine the communication objective

- Cognitive: put something into consumer’s mind
- Affective: change an attitude
- Behavioral: get consumer to act

- Low vs. High Cognition

Hierarchy-of-effects model

- Awareness: if most of target audience is unaware, communicator’s task is to build awareness, with simple messages repeating the product name.
- Knowledge: target audience might have product awareness but not know much more, so product knowledge becomes the communication objective.
- Liking: if target members know the product, then how do they feel about it? +ve or –ve?

Cont.

- Preference: target audience may like product, but may not prefer it to others, so communicator must try to build consumer preference by promoting quality, value, performance etc.
- Conviction: target audience may prefer a particular product but not develop a conviction about buying it, so the communicator has to build conviction.
- Purchase: some target members may have conviction but may not get around to making the purchase, so communicator must induce the final step by offering some incentive.

Design the message

- AIDA Model:
2. A – gain attention
3. I – hold interest
4. D – arouse desire
5. A – elicit action

Effective messages are like ---------

Cont.

- Message content:

  Rational appeal – USP

  Emotional appeal – ESP

  Moral appeal – e.g. AIDS campaign

* Helene Curtis hair care ad campaign:

- British women wash hair frequently
- Spanish women seldom do so
- Japanese women fall in between

** So Helene Curtis adjusts its ad message

Cont.

- Message structure:

  Best ads ask questions & allow readers/viewers to form their own conclusions. Two-sided messages are more appropriate, esp. if some negative association must be overcome.

  “Listerine tastes bad twice a day”

  Order of presentation of argument is also important – for one-sided message presenting strongest argument first is important, for two-sided, play “devil’s advocate”.

Cont.

- Message source:
2. Celebrity endorsement
3. Doctors' testimony
- Expertise, trustworthiness, likeability are important for source credibility.
- "Principle of congruity" implies that communicators can use their good image to reduce some negative feelings toward a brand but might lose self-esteem in the process. AB & Dabur is a good example.

Select the communication channels

- Personal channels:

2. Identify influential individuals/companies & devote extra effort to them
3. Create opinion leaders by supplying some people with product on attractive terms
4. Work through community influentials
5. Use testimonial advertising
6. Develop ads with high conversation value e.g "cheetah bhi peeta hai"

Cont.

1. Develop WOM referral
2. Establish electronic forum
3. Use viral marketing

Nonpersonal channels

1. Media
2. Atmospheres (Environment/Ambience)
3. Events

- "Cliques"

  Small groups whose members interact frequently, are similar & their closeness facilitates effective communication, but also insulates them from new ideas.

Establish total marketing communications budget

- Affordable method:

  Set promotion budget at what they think company can afford.
- % of sales method:

  Drawbacks are – does not allow for flexibility in terms of what is actually required by the brand(s), since % is pre-decided.
- Competitive-parity method:

  To achieve SOV parity with competition.

Cont.

- Objective –and-task method:

2. Establish market-share goal
3. Determine % of market that should be reached by advertising
4. Determine % of aware prospects that should be persuaded to try brand
5. Determine % trial rate desired

Deciding on the marketing communications mix

1. As brands move to the more mature phase of PLC, managers allocate less to advertising
2. When brand is well differentiated from competition, managers allocate more to advertising
3. When managers are rewarded on short-term results, they allocate less to advertising
4. As retailers gain more power, managers allocate less to advertising
5. As managers gain experience they tend to allocate proportionatey

Promotional tools

- Advertising:

3. Public presentation
4. Pervasiveness
5. Amplified expressiveness
6. Impersonality

Cont.

- Sales Promotion:

3. Communication
4. Incentive
5. Invitation

Cont.

- PR & Publicity:

3. High credibility
4. Ability to catch buyers off guard
5. Dramatization

Cont.

- Personal Selling:

3. Personal confrontation
4. Cultivation
5. Response

Cont.

- Direct Marketing:

3. Nonpublic
4. Customized
5. Up-to-date
6. Interactive

Factors in mktg. communication mix

- Type of product market:

  Consumer marketers spend more on sales promotion, advertising, personal selling & PR (in this order). Business marketers spend more on personal selling, sales promotion, advertising & PR (in this order).
- Buyer readiness stage:

  Advertising & publicity help awareness, comprehension is affected by advertising & personal selling, conviction is influenced by personal selling, closing sale by personal selling & sales promotion etc.

Cont.

- PLC stage:

In the intro stage, advertising & publicity are most cost effective. In growth stage WOM plays a critical role. In the maturity stage, SP, advertising & personal selling all become important (in this order). In the decline stage, SP continues strongly, advertising & publicity are reduced & salespeople give the product minimal attention.

A & SP, PR & DM

A & SP

Advertising

- Any paid form of nonpersonal presentation & promotion of ideas, goods, services by an identified sponsor
- 5 M's:

3. Mission – sales goals/advtg. objectives
4. Money – how much to spend?
5. Message – what message?
6. Media – what media to use
7. Measurement – how to evaluate results?

Cont.

- Setting advtg. objectives:

3. Informative – awareness/knowledge
4. Persuasive – liking/preference/conviction/ purchase
5. Reminder – stimulate repurchase
6. Reinforcement – reinforce choice

“yehi hai right choice, baby”

Cont.

- Deciding advtg. budget:

2. Stage in PLC – new products receive more budget, established brands get less.
3. Market share & consumer base – High market share brands require less money & low market share brands require more.
4. Competition & clutter – More the clutter, more the budget reqd.
5. Advertising frequency – More the frequency reqd., more the budget.
6. Product substitutability – Commodities need more budget.

Cont.

- Choosing the advtg. message:

2. Message generation – how many alternative ad themes should the advertiser create before making a choice? There is always a trade off between creativity & cost.
3. Message evaluation & selection – a good ad normally focuses on 1 core selling proposition. Research indicates which appeal will work best. Then advertiser prepares a creative brief.

Cont.

- Creative Brief:

Typically covers 1 or 2 pages. Is an elaboration of the positioning statement & includes:

3. Key message
4. Target audience
5. Communication objectives
6. Benefits/promises
7. Media choice

Cont.

- Message execution:

Communicator must choose appropriate tone for ad. Memorable & attention-getting words must be found. Some ads aim for rational & others for emotional positioning.

Book – Man Woman & Child

Positioning – "tugs wonderfully at your heartstrings"

Cont.

- Some more examples :

2. 7 up is not a cola – the un-cola
3. Our technology can help you do almost anything – where do you want to go today? (Microsoft)
4. We don't rent as many cars – we try harder (Avis)

Deciding on media

- Reach, frequency & impact:

2. Reach – No. of different persons or households exposed to a particular media schedule at least once during a specified time period.
3. Frequency – No. of times within the specified time period that an average person or household is exposed to the message.
4. Impact – Qualitative value of an exposure through a given medium (Revlon in Cosmo)

Cont.

- Media selection is finding the most cost-effective media to deliver the desired no. & type of exposures to target audience. The effect of exposures on audience awareness depends on reach, frequency & impact.

Relationship between R, F & I

- Total no. of exposures (E) = R X F

  This is called GRP (gross rating point).

  Example:

  If a given media schedule reaches 80% of homes with average exposure frequency of 3, it is said to have a GRP of 240

  Weighted no. of exposures (WE) = R X F X I

Cont.

- Media planner has to figure out most cost-effective combination of reach, frequency & impact. Reach is most important when launching new products, flanker brands, extensions of well-known brands, or infrequently purchased brands. Frequency is most important when there are strong competitors, complex story, high consumer resistance or frequent-purchase cycle.

Choosing media types

- Newspapers:

  Pros – flexibility, timeliness, good local market coverage, broad acceptance, high credibility

  Cons – short life, poor reproduction quality, small "pass-along" audience

- TV:

  Pros – combines sight, sound & motion, appealing to senses, high reach/attention

Cont.

Cons – high absolute cost, high clutter, fleeting exposure, less audience selectivity

- Direct mail:

Pros – audience selectivity, flexibility, no ad competition within same medium, personalization

Cons – relatively high cost, “junk mail” image

Cont.

- Radio:

  Pros – mass use, high geographic & demographic selectivity, low cost

  Cons – audio only, lower attention than TV, nonstandardized rate structure, fleeting exposure

Cont.

- Magazines:

  Pros – high geographic & demographic selectivity, credibility & prestige, high-quality reproduction, long life, good “pass-along” readership

  Cons – long ad purchase lead time, waste circulation, no guarantee of position

Cont.

- Outdoor:

  Pros – flexibility, high repeat exposure, low cost, low competition

  Cons – limited audience selectivity, creative limitations
- Yellow Pages:

  Pros – excellent local coverage, high credibility, wide reach, low cost

  Cons – high competition, long ad purchase lead time, creative limitations

Cont.

- Newsletters:

  Pros – very high selectivity, full control, interactive opportunities, relative low costs

  Cons – costs could run away

- Brochures:

  Pros – flexibility, full control, can dramatize messages

  Cons – overproduction can lead to runaway costs

Cont.

- Telephone:

  Pros – many users, opportunity to give a personal touch

  Cons – relative high cost unless volunteers are used

- Net:

  Pros – high selectivity, interactive possibilities, relatively low cost

  Cons – new media, low no. of users

Advertorials & Infomercials

- Advertorial:

  Print ads that offer editorial content & are difficult to distinguish from newspaper or magazine contents.

- Infomercials:

  TV commercials that appear to be 30 minute TV shows but are product ads.

Selecting specific media vehicles

- Circulation:

  No. of physical units carrying the ad
- Audience:

  No. of people exposed to vehicle
- Effective audience:

  No. of people with target audience characteristics exposed to vehicle
- Effective ad-exposed audience:

  Effective audience which actually saw ad.

Costing of media vehicle

- Media planners calculate cost per thousand persons reached by a vehicle. If a full page color ad in India Today costs 5 lacs & its estimated readership is 15 lacs, then cost of exposing ad to 1000 persons is approx. Rs. 333/-. If it costs 4 lacs in Outlook, with 13 lac readership, cost per 1000 people will work out to Rs. 300/-. So media guy may choose Outlook as more cost effective.

Media timing

- Timing pattern should consider 3 factors:

2. Buyer turnover is rate at which new buyers enter market – higher the rate more the advtg. reqd.
3. Purchase frequency is no. of times during period that average buyer buys product – higher the freq., higher the advtg. reqd.
4. Forgetting rate is rate at which buyer forgets brand – higher the rate, higher the advtg. reqd.

For new product launches

- Continuity: achieved by scheduling exposures evenly throughout a given period.
- Concentration: spending all ad money in a single period.
- Flighting: advertising for some period, followed by a hiatus with no advertising, followed by a second period of advertising activity.
- Pulsing: continuous advertising at low-weight levels, reinforced periodically by waves of heavier activity.

Evaluating advertising effectiveness

- Consumer feedback method
- Portfolio test
- Laboratory test

 * SOV (share of voice):

 Share of advertising expenditures produces a share of voice (% of company advertising of that product to all advertising of that product) that earns a share of consumers' minds & hearts & a share of market.

Sales Promotion

- Consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or trade. Advertising offers “reason” to buy whereas sales promotion offers “incentive” to buy. Includes consumer promotion, trade promotion & business & sales force promotion. Earlier a to sp ratio was 60:40, now in many cases it is 30:70!

Purpose

- Stimulates trial
- Increases repurchase
- Rewards loyal customers
- Promotes greater consumer awareness of prices
- Leads to blips in sales volumes
- Leads to consumer satisfaction

*Warning: excessive use may dilute brand equity!

Major consumer promotion tools

- Samples: free amount delivered D-T-D, sent in mail, picked up in store, attached to another product or featured in advertising offer
- Coupons: certificates entitling bearer to stated saving on purchase of specific product: mailed, enclosed in other products, inserted in newspapers/magazine ads
- Rebates: consumer sends “proof of purchase” to manufacturer who refunds part of purchase price by mail (not at retail shop).

Cont.

- Price-packs: offers to consumers of savings off regular price of product, flagged on label or package (2 for 1, banded pack i.e. toothbrush free with toothpaste etc.)
- Premiums (gifts): merchandise offered at relatively low cost or even free as an incentive to purchase a particular product
- Frequency programs: frequent flyer, loyalty programs etc.

Cont.

- Prizes (contests, sweepstakes, games): sweepstakes is a lucky draw
- Free trials: inviting prospective purchasers to try product without cost, as incentive to purchase
- Product warranties
- Tie-in promos: 2 or more brands/companies tie up on offers
- Cross promo: using one brand to promote another non-competing brand
- POP

Major trade promotion tools

- Price-off – straight discount on invoice/list price. Also known as primary scheme in India.
- Allowance – Window displays, in-shop campaign etc.
- Free goods – Incentive for meeting targets or target-linked schemes.

Major business & sales-force promos

- Trade shows & conventions
- Sales contests
- Specialty advertising – Ballpoint pens, calendars, key chains, torches, writing pads, tote bags etc.

Major SP decisions

- Establishing objectives:

2. For consumers – trial, purchase of bigger units, attracting switchers etc.
3. For trade – to carry new items & higher levels of inventory, encourage off-season buying & stocking of related items, offsetting competitive promos, building loyalty & gaining entry into new outlets.
4. For sales force – driving sales.

Cont.

- Selecting consumer promo tools:

  Some tools are consumer-franchise building tools, which reinforce brand preference (free samples, coupons & other freebies related to product). Others like price-off packs, premiums, sweepstakes, etc. do not build franchise.

Selecting trade promo tools

- More of the promo pie goes to trade & less to consumers! This is due to the increased clout of trade & the necessity of their support. Sales force argue that trade needs to be incentivised more than consumers, whereas brand managers feel that the reverse applies. But policing trade promos is never easy given the widespread ramping. So it is usually a nightmare for manufacturers!

Developing program

- Key parameters:
- Size of incentive
- Conditions
- Duration
- Distribution vehicle
- Timing
- Total budget

Pretesting, implementing, control & evaluation

- Lead time
- Sell-in time – begins with launch & ends when roughly 95% of merchandise is in hands of consumers
- Consumer surveys
- Sales data
- Experiments

PR

- Involves a variety of programs designed to promote or protect a company's image or individual products. Consists of:

2. Press relations
3. Product publicity
4. Corporate communication
5. Lobbying
6. Counseling – advising mgmt during crisis etc.

MPR

- Assisting in new product launches
- Assisting in repositioning
- Building interest in product category
- Influencing specific target groups
- Defending products in crisis
- Building favorable corporate image

Major MPR decisions

- Establish the objective:

3. Awareness
4. Credibility
5. Enthusiasm (trade/sales force)
6. Decrease in promo cost

Choose message & vehicles

1. Publications
2. Events
3. Sponsorships
4. News
5. Speeches
6. Public service

Implement plan & evaluate

1. No. of exposures (we do not know unduplicated exposures)
2. Change in product awareness, comprehension, attitude resulting from MPR campaign (better than 1)
3. Sales & profit impact (best method)

DM

- Use of consumer-direct (CD) channels to reach & deliver goods/services to customers without marketing middlemen. Includes:

2. Direct mail
3. Catalogs
4. Telemarketing
5. Interactive TV
6. Kiosks
7. Websites
8. Mobile

Major DM Channels

- Face-to-face selling – Amway, Avon, Insurance companies etc.
- Direct mail – fax mail, e-mail, voice mail

  Carpet bombing – mass mailing

  Database marketing – datamining to identify high interest prospects

  Interactive marketing – telephone no., website etc. included & recipients can contact company with questions

Constructing a DM campaign

- Objectives:

  Most aim to receive orders from prospects. An order-response rate of 2% is normally considered good.

- Target market:

  R-F-M formula – recency (time lapse since last purchase), frequency (how many times they have purchased), monetary amount (how much they have spent after becoming a customer).

Cont.

Other factors are age, sex, income, education, previous purchases, occasions, lifestyle

- Offer elements:

  Product, offer, medium, distribution method & creative strategy

  Outside envelope, sales letter, circular, reply form, reply envelope

Cont.

- Testing elements:

To derive a comprehensive estimate of promo impact, some companies are measuring DM impact on awareness, intention to buy & WOM

- Measuring campaign success:

Returned merchandize causes need to be analyzed

Catalog marketing

- $100 billion business in US.
- Success depends on company's ability to manage its customer lists so as to avoid duplication, bad debts, control inventory, offer quality merchandize & project a distinctive image.
- Internet increasingly used for CM.

Telemarketing/m-commerce

- Inbound – call centers
- Outbound – initiating calls

* 4 types:

4. Telesales – taking orders from catalogs, ads & doing outbound calling
5. Telecoverage – calling customers to nurture key accounts
6. Teleprospecting – generating new leads for closure by another channel
7. Customer service – handling queries

E-marketing

- Internet today functions as information source, entertainment source, communication channel, transaction channel & even a distribution channel. Provides marketers with interaction & individualization. Guidelines include:

2. Reason to respond
3. Personalization
4. Unique offers
5. Easy “unsubscribe” facilities

Managing the sales force

Designing the sales force

Sales force objectives & strategy

- Objectives:

2. Prospecting
3. Targeting
4. Communicating
5. Selling
6. Servicing
7. Information gathering
8. Allocating

Sales force structure

- Territorial:

  Each sales rep is assigned an exclusive territory. Territories can be designed to provide equal sales potential or equal workload.

- Product:

  Sales force is structured along product lines, esp. where products are technically complex.

Cont.

- Market:

Separate sales force can be set up for different industries & even customers.

- Complex:

Motorola has 4 types of sales force:

5. Strategic market sales force of technical, applications & quality engineers & service personnel assigned to major accounts.

Cont.

1. Geographic sales force calling on thousands of customers in different territories.
2. Distributor sales force calling on & coaching Motorola distributors.
3. Inside sales force doing telemarketing & taking orders via phone & fax.

Sales force size

1. Customers are grouped into size classes according to annual sales volume
2. Desirable call frequencies are established for each class
3. No. of a/cs in each size class x corresponding call frequency to arrive at total workload (sales calls per year)
4. Average no. of calls a sales rep can make per year is determined
5. No. of sales reps needed is determined by dividing total annual calls reqd. by avg. annual calls made by a sales rep.

Sales force compensation

- Fixed amount (salary for stability)
- Variable amount (incentives/bonus)
- Expense allowance (TA/DA)
- Benefits (LTA/Medical)

*Most companies use a combination of fixed & variable compensation, though % of fixed vs. variable may vary from company to company. So a mix of stability & incentive is required.

Managing sales force

- Recruitment & selection:

Desirable traits include:

3. High energy level
4. Self confidence
5. Ambition
6. Problem solving bent
7. Care for customer
8. Planning skills
9. Decision making skills
10. Empathy

Training sales reps

1. Need to know & identify with company
2. Need to know company's products
3. Need to know customer & competitor characteristics
4. Need to know how to make effective presentations
5. Need to understand field procedures & responsibilities

Norms for customer calls

- `Prospect calls: At least 25% prospecting & stop calling after 3 unsuccessful calls
- Using sales time efficiently:

3. Preparation
4. Travel
5. Food & breaks
6. Selling
7. Admin.

Inside Sales Force

- Technical support people
- Sales assistants
- Telemarketers

* Inside sales force frees outside reps to spend more time on selling activities.

*Another breakthrough is use of technology, resulting in time saving.

Motivating sales reps

- Sales Quotas:

Called sales targets in India. Developed from annual marketing plan. First sales forecast is prepared. This becomes basis for planning production, workforce size & financial requirements. Then targets are prepared for regions/territories (usually greater than forecast). Targets are usually greater than forecast so that salespeople perform at their best levels (under pressure) & forecast is achieved.

Cont.

- NSM sets targets for RSM. RSM sets targets for ASM. ASM sets targets for Sales Rep. 3 types of target setting:

2. High quota – higher than what most reps will achieve, but attainable
3. Modest quota – majority can achieve
4. Variable quota – high for some, modest for others, depending on individual ability

Cont.

- General view:

  Salesperson’s quota should at least be = the person’s last year ‘s sales + some growth over last year. % of growth fraction should be higher for people who deliver better under pressure.

Pros & cons of quotas

- Quota is a useful tool, but there are some cons:

2. If company underestimates sales potential, sales reps will easily achieve their quotas, indicating that company has overpaid its reps.
3. If sales rep sells 50 products, should he concentrate on a few important products or sell everything in the bag?
4. Reps are unlikely to achieve quotas when company is launching several new products at the same time, because new products need more selling effort.

Supplementary motivators

- Sales meetings:

  Important for education, communication & motivation.

- Sales contests:

  Used to spur sales force to a special selling effort above what is normally expected. Should present reasonable opportunity for enough salespeople to win. Contest period should not be intimated in advance (will lead to deferred sales). Reward should be commensurate with achievement.

Evaluating sales reps

- Sources of information:

  Most important source is sales reports, apart from personal observation, customer letters & complaints, customer surveys & conversations with other sales reps.

- PJP
- Annual territory marketing plan consisting of program for developing new a/cs & developing business from existing a/cs.

Key performance indicators

- Average no. of sales calls per person per day
- Average sales call time per contact
- Average revenue per sales call
- Average cost per sales call
- Entertainment cost per sales call
- % of orders per 100 sales calls
- No. of new customers per period
- No. of lost customers per period
- Sales-force cost as % of total sales

Formal Evaluation

- Quarterly appraisals
- Annual appraisal

*Parameters include:

**Performance obviously, but also:

5. Knowledge of company, products, customers, competitors, territory & responsibilities
6. Personality characteristics like general appearance, attitude, speech, temperament etc.
7. Integrity, ethics etc.

Personal Selling

- Very Important Concept:
- SPIN selling

Developed by Neil Rackham

Follows the customer-oriented approach to selling

*4 questions to prospects:

6. Situation 2. Problem

3. Implication 4. Need-payoff

Cont.

- Situation questions:

  These ask about facts or explore the buyer's present situation.

"What system are you using to invoice your customers?"

- Problem questions:

  These deal with problems, difficulties & dissatisfactions.

"What parts of the system create errors"?

Cont.

- Implication questions:

  These ask about the consequences or effects of a buyer’s problems, difficulties or dissatisfactions.

“How does this problem affect your peoples’ productivity?”

- Need-payoff questions:

  These ask about the value or usefulness of a proposed solution.

“How much would you save if the errors were reduced by 80%?”

Major steps in effective selling

- Prospecting & qualifying: Leads can be qualified by assessing their level of interest & financial capacity. They can then be categorized as hot, warm or cool prospects, with hot prospects turned over to salespeople & warm ones to telemarketing unit.
- Preapproach: Salesperson needs to learn max. possible about prospect company & its buyers.

Cont.

3. Approach: Salesperson should know how to get the buyer relationship off to a good start. So appearance, courtesy, attention, empathy, positive approach etc. are important traits.
4. Presentation & Demo: Salesman tells the product story to the buyer, following the AIDA formula & uses the FABV approach (features, advantages, benefits & value)

Cont.

- 3 different styles of sales presentations:
- Canned approach: based on stimulus-response thinking i.e. the buyer is passive & can be moved to purchase by use of right words, pictures, terms & actions.
- Formulated approach: Also based on stimulus-response, but first identifies buyer's needs & buying style & then uses formulated approach.

Cont.

3. Need-satisfaction approach:

Starts with search for customer's real needs by encouraging customer to do most of the talking. Salesperson becomes a "consultant".

*Technology plays an important role in sales presentations.

Cont.

5. Overcoming objections: Customers pose objections during presentation or when asking for order. Salesperson handles these by maintaining a positive approach, asking buyer to clarify, denying validity of objection or turning objection into reason for buying.
6. Closing: Toughest part. Salesperson needs to study body language & look for clues. May ask for order, recapitulate points, ask whether buyer wants A or B option etc.
7. Follow up & maintenance: For customer satisfaction & repeat business.

Negotiation

1. Acting crazy – get emotional to show your commitment
2. Big pot – make high demands at the start, so that you still end up with large gains, even after making concessions
3. Get a prestigious ally
4. Well is dry – tell the opponent you have no more concessions to make
5. Limited authority – when you are ready to sign deal, say you have to check with your boss

Cont.

6. Whipsaw/Auction – let several competitors know you are negotiating with them at the same time
7. Divide & conquer – sell one member of the team on your proposals, he will sell it to the others
8. Get lost – leave the nego completely for a while & then come back to renegotiate
9. Be patient

Cont.

10. Wet noodle – give no verbal or emotional response & sit with a “poker face”
11. Let’s split the difference – person first suggesting this has the least to lose
12. Trial balloon – release your possible decision through a so called reliable source to test the reaction before actually deciding.
13. Surprises

Managing total marketing effort

Recent corporate trends

Trends in company organization

- Reengineering
- Outsourcing
- Benchmarking
- Supplier partnering
- Customer partnering
- M & A
- Globalizing
- Flattening
- Focusing
- Empowering

Marketing organization

- Evolution:

2. Simple sales department – only a VP (Sales)
3. Sales department with ancillary marketing functions – VP (Sales) hires a MR Manager or a Marketing Director to manage marketing functions
4. Separate marketing department – CEO appoints a VP (Marketing) - so VP (Sales) & VP (Marketing) both report to CEO
5. Modern marketing department/marketing organization – VP (Marketing & Sales) heads both sales & marketing departments to reduce friction between Marketing & Sales. Reports to CEO

Organizing Marketing Dept.

- Functional organization:

  Functional specialists reporting to a Marketing VP, who coordinates their activities. Specialists will include:

3. Marketing admin. Manager
4. A & SP Manager
5. Sales Manager
6. MR Manager
7. Product Manager

Cont.

- Geographic organization:

  NSM will have 4 RSM, who in turn will have ASM reporting to them. Sales reps will report to ASM. Most common form in India. There could be some Regional Marketing Managers too, to provide local marketing expertise.

Brand Management Organization

- Tasks of Brand Managers:

2. Developing long range/competitive strategy for products
3. Preparing annual marketing plan & sales forecast
4. Working with ad agencies
5. Stimulating product support amongst sales force & distributors
6. Gathering market intelligence
7. Initiating product improvements

"Ye mera India"

- Indian structure is an amalgam.

CEO

VP(Sales & Marktg.)   VP(Finance) VP(Ops) VP(HR)

NSM   GM(Mktg.)

RSM   GPM

ASM   PM

SE   PE

Marketing interfaces with all other departments on various aspects. Cannot function in isolation.

Marketing Controls

- Sales Analysis:

  Measuring & evaluating actual sales in relation to goals

- Market-share analysis:

  Overall market share =

  Customer penetration X Customer loyalty X Customer selectivity X Price selectivity

  *Penetration = % of all customers who buy from company

  *Loyalty = purchases from your company as % of total from suppliers of same products

Cont.

*Customer selectivity = size of avg. customer purchase from your company as % from avg. company

*Price selectivity = avg. price charged by company as % of avg. price charged by all companies

- Marketing expense to sales ratio:

4. Sales force to sales
5. Advtg. to sales
6. Sales admin. to sales

Cont.

- Financial analysis:

  ROI
- Market-based scorecard:

4. % of new customers
5. % of lost customers
6. % of customers with brand awareness/recall
7. Average perception of company's product quality
8. Average perception of company's service

Profitability Control

- Marketing –profitability analysis:

2. Identifying functional expenses
3. Assigning functional expenses
4. Preparing P/L Statement for each channel

Efficiency Control

- Sales force efficiency
- Advertising efficiency:

3. Cost per 1000 target buyers reached by media
4. % of exposure
5. Opinion polls on ad effectiveness
6. No. of inquiries stimulated by ad

- Sales promotion efficiency:

8. % of sales sold on promo
9. Cost per sales rupee
10. Inquiries resulting from demos

- Distribution efficiency

Strategic Control

- Marketing Audit: a) Environment Audit
- Macro-environment

  PEST analysis
- Task Environment

5. Markets
6. Customers
7. Competitors
8. Distribution
9. Suppliers
10. Facilitators/Service providers
11. Public

Cont.

b) Strategy Audit:

2. Business mission
3. Marketing goals
4. Strategy

c) Organization Audit:

6. Formal structure
7. Functional efficiency
8. Interface efficiency

Cont.

d) Systems Audit:

2. MIS
3. Marketing planning systems
4. Marketing control systems
5. New product development systems

e) Productivity Audit:

7. Profitability analysis
8. Cost effectiveness analysis

Cont.

- Function Audits:

2. Products
3. Price
4. Distribution
5. IMC
6. Sales force