Chapter 4: Marketing

What Is Marketing?

When you consider the functional areas of business—accounting, finance, management, marketing, and operations—marketing is the one you probably know the most about. After all, as a consumer and target of all sorts of advertising messages, you've been on the receiving end of marketing initiatives for most of your life. What you probably don't appreciate, however, is the extent to which marketing focuses on providing value to the customer. According to the American Marketing Association, "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

In other words, marketing isn't just advertising and selling. It includes everything that organizations do to satisfy customer needs:

- Coming up with a product and defining its features and benefits
- Setting its price
- Identifying its target market
- Making potential customers aware of it
- Getting people to buy it
- Delivering it to people who buy it
- Managing relationships with customers after it has been delivered

The Marketing Concept

This basic philosophy—satisfying customer needs while meeting organizational goals—is called the marketing concept, and when it's effectively applied, it guides all of an organization's marketing activities

1. Find out what customers or potential customers need.

2. Develop products to meet those needs.

3. Engage the entire organization in efforts to satisfy customers

Selecting a Target Market

Businesses earn profits by selling goods or providing services. It would be nice if everybody in the marketplace was interested in your product, but if you tried to sell it to everybody, you'd probably spread your resources too thin. You need to identify a specific group of consumers who should be particularly interested in your product, who would have access to it, and who have the means to buy it. This group represents your target market, and you need to aim your marketing efforts at its members.

Identifying Your Market

How do marketers identify target markets? First, they usually identify the overall market for their product—the individuals or organizations that need a product and are able to buy it. This market can include either or both of two groups:

1) A consumer market—buyers who want the product for personal use

2) An industrial market—buyers who want the product for use in making other products

Segmenting the Market

The next step in identifying a target market is to divide the entire market into smaller portions, or market segments—groups of potential customers with common characteristics that influence their buying decisions. You can use a number of characteristics to narrow a market. Let's look at some of the most useful categories in detail.

Demographic Segmentation

Demographic segmentation divides the market into groups based on such variables as age, marital status, gender, ethnic background, income, occupation, and education.

Geographic Segmentation

Geographic segmentation—dividing a market according to such variables as climate, region, and population density (urban, suburban, small-town, or rural)—is also quite common.

Behavioral Segmentation

Dividing consumers by such variables as attitude toward the product, user status, or usage rate is called behavioral segmentation. Companies selling technology-based products might segment the market according to different levels of receptiveness to technology. They could rely on a segmentation scale developed by Forrester Research that divides consumers into two camps: technology optimists, who embrace new technology, and technology pessimists, who are indifferent, anxious, or downright hostile when it comes to technology.

Some companies segment consumers according to user status, distinguishing among nonusers, potential users, first-time users, and regular users of a product. Depending on the product, they can then target specific groups, such as first-time users. Credit-card companies use this approach when they offer frequent flyer miles to potential customers in order to induce them to get their card. Once they start using it, they'll probably be segmented according to usage. "Heavy users" who pay their bills on time will likely get increased credit lines.

Psychographic Segmentation

Psychographic segmentation classifies consumers on the basis of individual lifestyles as they're reflected in people's interests, activities, attitudes, and values. Do you live an active life and love the outdoors? If so, you may be a potential buyer of hiking or camping equipment or apparel. If you're a risk taker, you might catch the attention of a gambling casino. The possibilities are limited only by the imagination.

Clustering Segments

Typically, marketers determine target markets by combining, or "clustering," segmenting criteria. What characteristics does Starbucks look for in marketing its products? Three demographic variables come to mind: age, geography, and income. Buyers are likely to be males and females ranging in age from about twenty-five to forty (although college students, aged eighteen to twenty-four, are moving up in importance). Geography is a factor as customers tend to live or work in cities or upscale suburban areas. Those with relatively high incomes are willing to pay a premium for Starbucks specialty coffee and so income—a socioeconomic factor—is also important.

Buyer Decision Process

Stage 1: Need recognition

In this first stage, the consumer recognizes that he has an unmet need and is driven to action by a need or desire. Unsatisfied needs create discomfort to the consumer, so that he begins to recognize that this need can be met by acquiring or consuming goods and services.

This desire to meet this need over time becomes strong enough to motivate a person to decide to make a purchase. This recognition of a need can arise internally at any time. When you are watching television, you are on the computer, you are on the boring sofa, you are stuck in traffic, etc . Or in another case, the need may be numbed within it until an external stimulus wakes it up, such as an advertisement or the sight of a product or service.

The depletion of a product (the ink in your pen runs out) or dissatisfaction with the product you are currently using can also trigger the decision process.

However, becoming aware of the need is not enough to generate the purchase. As consumers, we have many needs and desires, but finite amounts of time and money. For this reason, there is also competition between our needs. Therefore, the consumer quickly once recognized that he has an unmet need, proceeds to the second stage of the consumer purchase decision process.

Stage 2: Information and Alternatives Search

In this second stage of the consumer buying decision process, the consumer identifies alternative products and brands that are able to meet their needs, and therefore proceeds to gather information about them from different sources. Whether asking acquaintances or searching the internet. Most commonly, alternative products are identified first and then alternative brands. The following factors influence the search for alternatives:

- The amount of information that the consumer already has from experiences and other sources.
- Consumer confidence in that information.
- The expected value of the additional information or, in other words, what other information is considered worth acquiring.

Stage 3: Evaluation of Alternatives

In this third stage of the consumer buying decision process, the consumer ponders the pros and cons of the identified alternatives.

When some satisfactory alternatives have been identified, the consumer proceeds to evaluate them before making a decision. The evaluation may involve a single or several criteria, with which the alternatives are compared. For example, price, quality, ease of use, time, durability or color.

When multiple criteria are involved, it is common that not all criteria have equal preponderance. Ease of use, for example, could be more important than price. As experience is often limited and information from sources such as advertising or friendships can be biased, evaluations may be incorrect from the point of view of the facts.

That is, the consumer may believe that the price of the A brand is more expensive than that of the B brand when in fact it is the opposite.

As business owners or marketers, we must closely observe consumers to determine what criteria of choice they follow, to identify any changes that may occur in their criteria or priorities, and to correct any unfavorable misperceptions related to our product or service.

Stage 4: Purchase Decision

In this 4 stage of the consumer buying decision process, the consumer decides to buy or not buy, and makes other decisions related to the purchase.

After searching and evaluating, the consumer has to decide whether or not to buy. Thus, the first result is the decision to buy or not the alternative evaluated as the most desirable. This part of the process the consumer can make the decision in 1 hour or up to 1 month later. Everything will depend on the type of product or service and how large the investment is to acquire said product or service.

In this part of the process it can happen that the consumer does not make the purchase after finding complicated the way to acquire said product or service. What will make you consider other alternatives?

On the other hand, if the decision is to buy, you have to make a series of related decisions related to the characteristics, where and when to make the actual transaction, how to take possession or receive the delivery, the method of payment and other issues. So the decision to make a purchase is actually the beginning of an entirely new series of decisions that can be as time consuming and as difficult as the initial one.

Once the consumer has made the decision, he proceeds to make the purchase and feel happy for having satisfied an intrinsic desire or need.

Stage 5: Post Purchase Behavior

Finally, at this fifth stage of the consumer buying decision process, the consumer seeks to ensure that the choice he made was correct.

What the consumer learns in his journey through the purchase process has an influence on how he will behave the next time the same need is pressed. Moreover, new opinions and beliefs have been formed and the old ones have been corrected. Therefore, this time, we have a more expert consumer in the field.

Therefore, as business owners and marketers, we must also assess how they behave in consumer after making the purchase. Do you feel happy with the product? Are you dissatisfied with the service? Were your product expectations higher? For this, it is important to carry out market studies or surveys to be able to determine if the product or service we offer meets expectations and meets needs. When not, it is the ideal situation to consider improving our product or service, or making changes in the way we market and promote our product or service.

The Marketing Mix

1) Developing a product that meets the needs of the target market

2) Setting a price for the product

3) Distributing the product—getting it to a place where customers can buy it

4) Promoting the product—informing potential buyers about it

Developing a Product

Conducting Marketing Research

- Who are our potential customers?
- What do they like about the product? What would they change?
- How much are they willing to pay for it?
- Where will they expect to buy it?
- How can we distinguish it from competing products?

- Will enough people buy the product to return a reasonable profit for the company?

Market research seeks two types of data:

1) Marketers generally begin by looking at secondary data—information already collected, whether by the company or by others, that pertains to the target market.

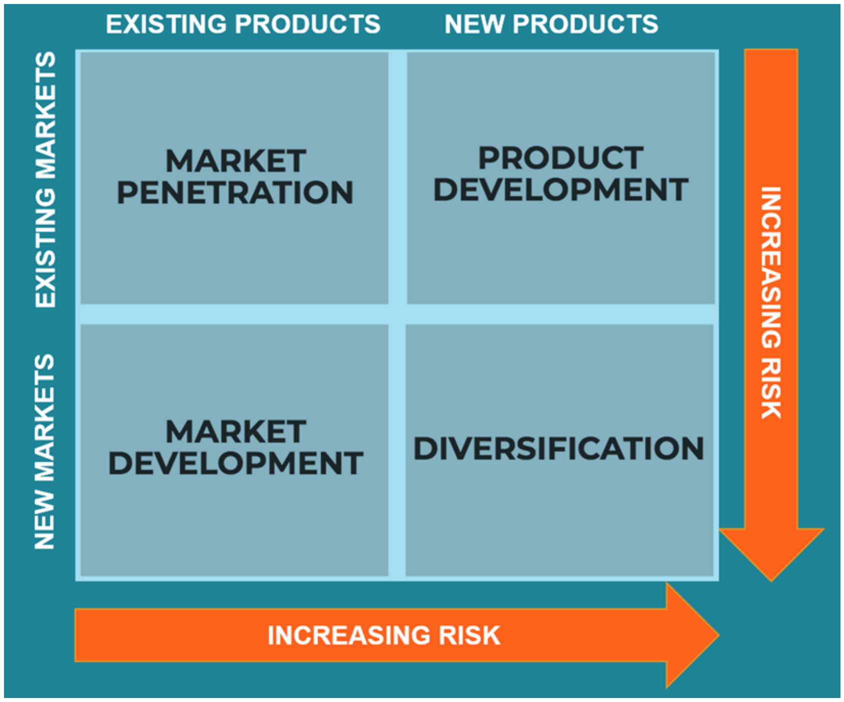
2) With secondary data in hand, they're prepared to collect primary data—newly collected information that addresses specific questions.

To understand the marketing-research process fully, we need to describe the most common of these tools:

- Surveys. Sometimes marketers mail questionnaires to members of the target market. The process is time consuming and the response rate generally low. Online surveys are easier to answer and so get better response rates than other approaches.
- Personal interviews. Though time consuming, personal interviews not only let you talk with real people but also let you demonstrate the product. You can also clarify answers and ask open-ended questions.
- Focus groups. With a focus group, you can bring together a group of individuals (perhaps six to ten) and ask them questions. A trained moderator can explain the purpose of the group and lead the discussion. If sessions are run effectively, you can come away with valuable information about customer responses to both your product and your marketing strategy.

Researching your target market is necessary before you launch a new product, but the benefits of marketing research don't extend merely to brand-new products. Companies also use it when they're deciding whether or not to refine an existing product or develop a new marketing strategy for an existing product.

The Product/Market Expansion Grid



The Ansoff Matrix, also called the Product/Market Expansion Grid, is a tool used by firms to analyze and plan their strategies for growth. The matrix shows four strategies that can be used to help a firm grow and also analyzes the risk associated with each strategy.

The four strategies of the Ansoff Matrix are:

1. Market Penetration: This focuses on increasing sales of existing products to an existing market.
2. Product Development: Focuses on introducing new products to an existing market.
3. Market Development: This strategy focuses on entering a new market using existing products.
4. Diversification: Focuses on entering a new market with the introduction of new products.

Market Penetration

In a market penetration strategy, the firm uses its products in the existing market. In other words, a firm is aiming to increase its market share with a market penetration strategy.

The market penetration strategy can be executed in a number of ways:

- Decreasing prices to attract new customers
- Increasing promotion and distribution efforts
- Acquiring a competitor in the same marketplace

Product Development

In a product development strategy, the firm develops a new product to cater to the existing market. The move typically involves extensive research and development and expansion of the company's product range. The product development strategy is employed when firms have a strong understanding of their current market and are able to provide innovative solutions to meet the needs of the existing market.

This strategy, too, may be implemented in a number of ways:

- Investing in R&D to develop new products to cater to the existing market
- Acquiring a competitor's product and merging resources to create a new product that better meets the need of the existing market
- Forming strategic partnerships with other firms to gain access to each partner's distribution channels or brand

Market Development

In a market development strategy, the firm enters a new market with its existing product(s). In this context, expanding into new markets may mean expanding into new geographic regions, customer segments, etc. The market development strategy is most successful if (1) the firm owns proprietary technology that it can leverage into new markets, (2) potential consumers in the new market are profitable (i.e., they possess disposable income), and (3) consumer behavior in the new markets does not deviate too far from that of consumers in the existing markets.

The market development strategy may involve one of the following approaches:

- Catering to a different customer segment
- Entering into a new domestic market (expanding regionally)
- Entering into a foreign market (expanding internationally)

Diversification

In a diversification strategy, the firm enters a new market with a new product. Although such a strategy is the riskiest, as both market and product development are required, the risk can be mitigated somewhat through related diversification. Also, the diversification strategy may offer the greatest potential for increased revenues, as it opens up an entirely new revenue stream for the company – accesses consumer spending dollars in a market that the company did not previously have any access to.

There are two types of diversification a firm can employ:

- Related diversification: There are potential synergies to be realized between the existing business and the new product/market.
- Unrelated diversification: There are no potential synergies to be realized between the existing business and the new product/market.

Branding

A brand is an identifying symbol, mark, logo, name, word, and/or sentence that companies use to distinguish their product from others. A combination of one or more of those elements can be utilized to create a brand identity. Legal protection given to a brand name is called a trademark.

Understanding Brands

A brand is seen as one of a company's most valuable assets. It represents the face of the company, the recognizable logo, slogan, or mark that the public associates with the company. In fact, the company is often referred to by its brand, and they become one and the same. A company's brand carries with it a monetary value in the stock market (if the company is public), which affects stockholder value as it rises and falls. For these reasons, it's important to uphold the integrity of the brand.

Creating a Brand

When a company decides to settle on a brand to be its public image, it must first determine its brand identity, or how it wants to be viewed. For example, a company logo often incorporates the message, slogan or product that the company offers. The goal is to make the brand memorable and appealing to the consumer. The company usually consults a design firm or design team to come up with ideas for the visual aspects of a brand, such as the logo or symbol. A successful brand accurately portrays the message or feeling the company is trying to get across and results in brand awareness, or the recognition of the brand's existence and what it offers. On the other hand, an ineffective brand often results from miscommunication.

Once a brand has created positive sentiment among its target audience, the firm is said to have built brand equity. Some examples of firms with brand equity—possessing very recognizable brands of products—are Microsoft, Coca-Cola, Ferrari, Apple, and Facebook.

Branding Strategies

Companies can adopt one of three major strategies for branding a product:

1) With private branding (or private labeling), a company makes a product and sells it to a retailer who in turn resells it under its own name. A soft-drink maker, for example, might make cola for Wal-Mart to sell as its Sam's Choice Cola.

2) With generic branding, the maker attaches no branding information to a product except a description of its contents. Customers are often given a choice between a brand-name prescription drug or a cheaper generic drug with the same formula.

3) With manufacturer branding, a company sells one or more products under its own brand names. Adopting a multiproduct-branding approach, it sells all its products under one brand name (generally the company name). Using a multibranding approach, it will assign different brand names to different products covering different segments of the market. Automakers generally use multibranding. For example, the Volkwagen group of brands also includes Audi, Bentley, and even Lamborghini.

Packaging and Labeling

Packaging can influence a consumer's decision to buy a product or pass it up. Packaging gives customers a glimpse of the product, and it should be designed to attract their attention, with consideration given to color choice, style of lettering, and many other details. Labeling not only identifies the product but also provides information on the package contents: who made it and where or what risks are associated with it (such as being unsuitable for small children).

Pricing a Product

New Product Pricing Strategies

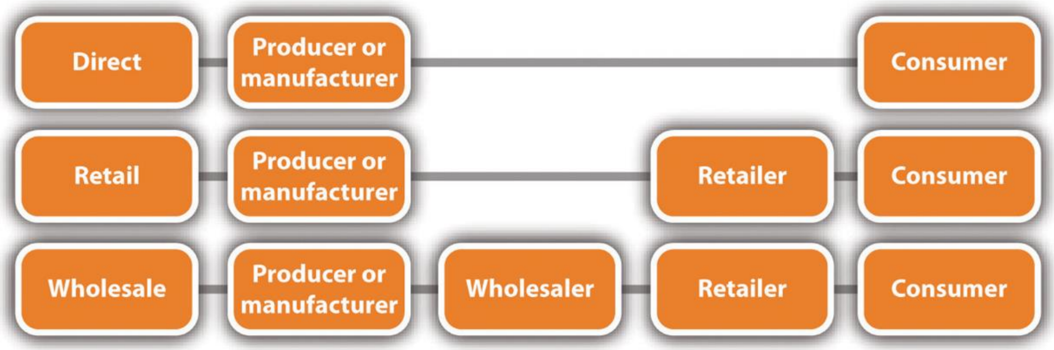
- Cost-Based Pricing: Cost-based pricing involves setting prices based on the costs for producing, distributing and selling the product. Also, the company normally adds a fair rate of return to compensate for its efforts and risks.
- Demand-Based Pricing: Demand Based Pricing is a pricing method based on the customer’s demand and the perceived value of the product. In this method the customer’s responsiveness to purchase the product at different prices is compared and then an acceptable price is set.
- Dynamic Pricing: Dynamic pricing is a pricing strategy in which businesses set flexible prices for products or services based on current market demands. The aim of dynamic pricing is to allow a business that sells goods or services online and/or via mobile apps to adjust selling prices on the fly in response to changing market demand. These "dynamic" pricing changes are done automatically by software agents that gather data and use algorithms to adjust pricing according to business rules. These dynamic pricing rules will often take into account factors such as the customer's location, time of day, day of the week, level of demand, and competitors' pricing.
- Prestige Pricing: Prestige pricing is the practice of pricing you goods or service at a higher level to give off the appearance of a high quality product.
- Odd-Even Pricing: Odd-even pricing is a psychological pricing tactic in which numeric value is utilized to impact the customer’s perceptions of product value. The “odd” part of this tactic refers to a price ending in 1,3,5,7,9—or any number just below an even number. The “even” part refers to a price ending in a whole number in tenths, such as $0.20 or $50.
- Loss Leaders: A loss leader strategy involves selling a product or service at a price that is not profitable but is sold to attract new customers or to sell additional products and services to those customers. Loss leading is a common practice when a business first enters a market. A loss leader introduces new customers to a service or product in the hopes of building a customer base and securing future recurring revenue.
- Bundling: Bundling is when companies package several of their products or services together as a single combined unit, often for a lower price than they would charge customers to buy each item separately. This marketing strategy facilitates the

convenient purchase of several products and/or services from one company. The products and services are usually related, but they can also consist of dissimilar items which appeal to one group of customers.

Distributing the product (Place)

Channels of Distribution

A small business may choose the direct, retail, wholesale, service, or hybrid channels. In general, business-to-business (B2B) distribution channels parallel those of business-to-consumer (B2C) businesses.



Direct Channel

Many small businesses use the direct channel. The direct channel involves selling directly to the final consumer with no intermediaries (retailers and wholesalers, also known as middlemen) in the process. The direct channel provides close contact with the customer and full control of all aspects related to the marketing of a company's products.

Retail Channel

Many small businesses may choose to produce or manufacture products and distribute them to retailers for sale. This is considered an indirect channel because the retailer is an intermediary between the producer or manufacturer and the final consumer. If a small business that makes one-of-a-kind, handcrafted picture frames sells its frames to a picture-framing business that in turn sells the frames to its customers, this would be an example of using the retail channel. An online business that sells products made by several producers or manufacturers would also be using the retail channel—and would be called an e-tailer.

A great deal is involved in getting a product to the place in which it is ultimately sold. If you're a fast food retailer, for example, you'll want your restaurants to be in high-traffic areas to maximize your potential business. If your business is selling beer, you'll want it to be offered in bars, restaurants, grocery stores, convenience stores, and even stadiums. Placing a product in each of these locations requires substantial negotiations with the owners of the space, and often the payment of slotting fees, an allowance paid by the manufacturer to secure space on store shelves.

Retailers are marketing intermediaries that sell products to the eventual consumer. Without retailers, companies would have a much more difficult time selling directly to individual consumers, no doubt at a substantially higher cost.

The Most Common Types of Retailers

Type of Retailer	Description
Category Killer	Sells a wide variety of products of a particular type, selling at a low price due to their large scale
Convenience Store	Offers food, beverages, and other products, typically in individual servings, at a higher price, and geared to fast service
Department Store	Offers a wide assortment of products grouped into different departments (e.g., jewelry, apparel, perfume)
Discount Store	Organized into departments, but offer a range of merchandise generally seen as lower quality and at a much lower price
Specialty Store	Offers goods typically confined to a narrow category; high level of personal service and higher prices than other retailers
Supermarket	Offers mostly consumer staples such as food and other household items
Warehouse Club Stores	Offers a wide variety of products in a warehouse-style setting; sells many products in bulk; usually requires membership fee

Wholesale Channel

Wholesalers are also intermediaries. A wholesaler is "a [large or small] business that sells to retailers, contractors, or other types of businesses (excluding farms), but not to the general public (or at least not in any significant amount)." A small business that chooses to use wholesalers is also using an indirect channel of distribution. Using a wholesaler makes sense when a business makes a product that it wants to sell in many stores that would not be easily or conveniently reachable through the direct channel or the retail channel.

Multichannel Distribution

A small business may choose a multichannel distribution system (or hybrid channel). This channel option uses two or more channels of distribution to reach one or more customer segments, offering customers multiple purchase and communication options.

- Increased market coverage. More customers are able to shop for a company's product in more places, and customers who buy in more than one channel are often more profitable than one-channel customers.
- Lower channel cost. Selling by phone or online is cheaper than selling via personal visits to small customers.
- More customized selling. A technical sales force could be added to sell more complex equipment.

Physical Distribution (Logistics)

Physical distribution (logistics) involves "all the activities involved in the physical flow and storage of materials, semifinished goods, and finished goods to customers in a manner that is efficient and cost effective. Logistics can be performed by the producer or the manufacturer, intermediaries, or the customer. Deciding on the right logistics solution may be the differentiator that puts a company ahead of its competition.

Logistics involve the following four primary functions: transportation, warehousing, inventory control, and order processing.

1. Transportation. The transportation choices for a small business will determine whether products will arrive at their destination in good condition and on time. Transportation costs will increase product price. The choices include truck, rail, air, water, and pipeline. The selection of the best mode or combination of transportation modes depends on a variety of factors, including cost, speed, and appropriateness for the type of good, dependability, and accessibility.

2. Warehousing. Producers and manufacturers must store goods before they are sold because production and consumption rarely match. Some inventory may be kept at or near the point of production or manufacture, but the rest is located in warehouses. Some warehouses also

provide assembly, packaging, and promotional display construction services…all for a fee, of course.

3. Inventory control. Inventory control is about ensuring that goods are where customers want them when they want them. In other words, it is about avoiding the “out of stock” situation that irritates customers. Small-business owners must understand how much inventory will be needed to address their customers’ needs on a timely basis and at the appropriate cost (think pricing strategy). High inventories are undesirable because they may lead to obsolete products, depressed sales of new models, and liquidation prices that may change customer expectations in the future.

4. Order processing. Every small business should want to shorten the elapsed time between an order’s receipt, delivery, and payment. Although there are typically multiple steps involved, the reality is that the longer the cycle, the lower the customer’s satisfaction, the higher the company’s costs, and the lower the company’s profits. Streamlining the process should be a priority.

Promoting a Product

Promotional Tools

Advertising

Advertising is paid, non-personal communication designed to create an awareness of a product or company. Ads are everywhere—in print media (such as newspapers, magazines, the Yellow Pages), on billboards, in broadcast media (radio and TV), and on the Internet. It’s hard to escape the constant barrage of advertising messages; it’s estimated that the average consumer is confronted by about 5,000 ad messages each day (compared with about 500 ads a day in the 1970s).322 For this very reason, ironically, ads aren’t as effective as they used to be. Because we’ve learned to tune them out, companies now have to come up with innovative ways to get through to potential customers.

Personal Selling

Personal selling refers to one-on-one communication with customers or potential customers. This type of interaction is necessary in selling large-ticket items, such as homes, and it's also effective in situations in which personal attention helps to close a sale, such as sales of cars and insurance policies.

Sales Promotion

It's likely that at some point, you have purchased an item with a coupon or because it was advertised as a buy-one-get-one special. If so, you have responded to a sales promotion – one of the many ways that sellers provide incentives for customers to buy. Sales promotion activities include not only those mentioned above but also other forms of discounting, sampling, trade shows, in-store displays, and even sweepstakes. Some promotional activities are targeted directly to consumers and are designed to motivate them to purchase now. You've probably heard advertisers make statements like "limited time only" or "while supplies last". If so, you've encountered a sales promotion directed at consumers. Other forms of sales promotion are directed at dealers and intermediaries.

Publicity and Public Relations

Free publicity—say, getting your company or your product mentioned or pictured in a newspaper or on TV—can often generate more customer interest than a costly ad. Consumer perception of a company is often important to a company's success. Many companies, therefore, manage their public relations in an effort to garner favorable publicity for themselves and their products. When the company does something noteworthy, such as sponsoring a fund-raising event, the public relations department may issue a press release to promote the event.

Social Media Marketing

Social media marketing provides a number of advantages to companies, including enabling them to:

- create brand awareness;
- connect with customers and potential
- customers by engaging them in two-way communication;
- build brand loyalty by providing opportunities for a targeted audience to participate in company-sponsored activities, such as contests;
- offer and publicize incentives, such as special discounts or coupons;
- gather feedback and ideas on how to improve products and marketing initiatives;

- allow customers to interact with each other and spread the word about a company's
- products or marketing initiatives;
- take advantage of low-cost marketing opportunities by being active on free social sites, such as Facebook.