# MM

# MARKETING MANAGEMENT

## ELEVENTH EDITION

*Philip Kotler*

**PowerPoint by**
**Milton M. Pressley**
**Creative Assistance by**
**D. Carter and S. Koger**

# Chapter 1
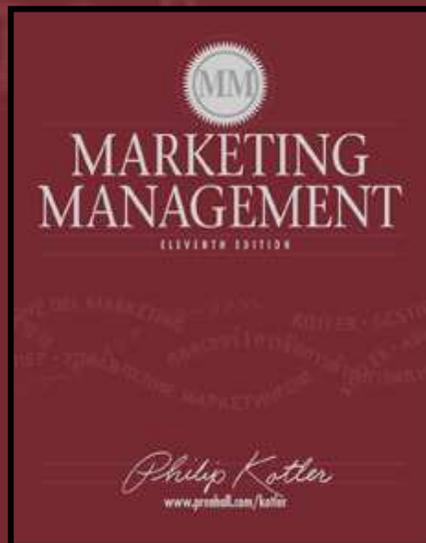# Defining Marketing for the 21ˢᵗ Century

by *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

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# Kotler on Marketing

*The future is not ahead of us. It has already happened. Unfortunately, it is unequally distributed among companies, industries and nations.*

# Chapter Objectives

- **In this chapter we will address the following questions:**
    - **What is the new economy like?**
    - **What are the tasks of marketing?**
    - **What are the major concepts and tools of marketing?**
    - **What orientations do companies exhibit in the marketplace?**
    - **How are companies and marketers responding to the new challenges?**

# The New Economy

- **Substantial increase in buying power**
- **A greater variety of goods and services**
- **A greater amount of information about practically anything**
- **A greater ease in interacting and placing and receiving orders**
- **An ability to compare notes on products and services**

# The New Economy

- **Websites can provide companies with powerful new information and sales channels.**

- **Companies can collect fuller and richer information about markets, customers, prospects and competitors.**

- **Companies can facilitate and speed up communications among employees.**

- **Companies can have 2-way communication with customers and prospects**

# The New Economy

- **Companies can send ads, coupons, samples, information to targeted customers.**

- **Companies can customize offerings and services to individual customers.**

- **The Internet can be used as a communication channel for purchasing, training, and recruiting.**

- **Companies can improve logistics and operations for cost savings while improving accuracy and service quality.**

# Discussion Question

The three major challenges faced by businesses today are globalization, advances in technology, and deregulation. Which of these affords the greatest opportunity for *established* businesses? Which affords the greatest opportunities for *new* businesses? Why?

# Marketing Task

- **Ten rules of radical marketing**
  - **The CEO must own the marketing function.**
  - **Make sure the marketing department starts small and flat and stays small and flat.**
  - **Get face to face with the people who matter most – the customers.**
  - **Use market research cautiously.**
  - **Hire only passionate missionaries.**

# Marketing Task

- Love and respect your customers.
- Create a community of consumers.
- Rethink the marketing mix.
- Celebrate common sense.
- Be true to the brand.
- Three stages of marketing practice
  - Entrepreneurial Marketing
  - Formulated Marketing
  - Intrepreneurial Marketing

# The Scope of Marketing

- **Marketing: typically seen as the task of creating, promoting, and delivering goods and services to consumers and businesses.**

## Table 1.1 Demand States and Marketing Tasks

| 1. Negative demand | A major part of the market dislikes the product and may even pay a price to avoid it—vaccinations, dental work, vasectomies, and gallbladder operations, for instance. Employers have a negative demand for ex-convicts and alcoholics as employees. The marketing task is to analyze why the market dislikes the product and whether a marketing program consisting of product redesign, lower prices, and more positive promotion can change beliefs and attitudes. |
|---|---|
| 2. No demand | Target consumers may be unaware of or uninterested in the product. Farmers may not be interested in a new farming method, and college students may not be interested in foreign-language courses. The marketing task is to find ways to connect the benefits of the product with people's natural needs and interests. |

*See text for complete table*

# The Scope of Marketing

- **Places**
- **Properties**
- **Organizations**
- **Information**
- **Ideas**

- **Goods**
- **Services**
- **Experiences**
- **Events**
- **Persons**

# The Decisions Marketers Make

- **Consumer Markets**
- **Business Markets**
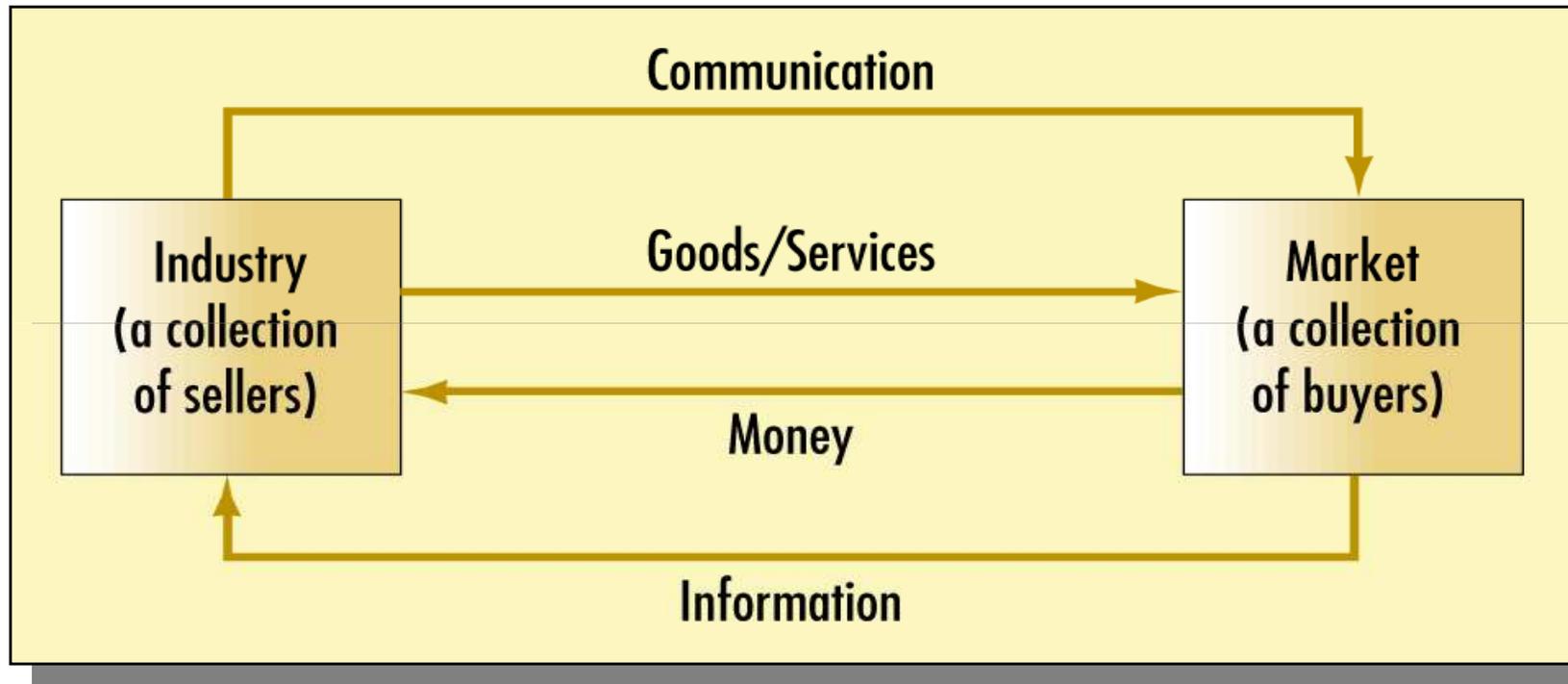- **Global Markets**
- **Nonprofit and Governmental Markets**

# Marketing Concepts and Tools

- **Defining Marketing**
  - **Marketing**
  - **Marketing management**
- **Core Marketing Concepts**
  - **Target Markets and Segmentation**

# Figure 1-1: A Simple Marketing System

# Marketing Concepts and Tools

- **Marketplace, Marketspace, and Metamarket**

# Marketing Concepts and Tools

- **Marketers and Prospects**

- **Needs, Wants, and Demands**

- **Product, Offering, and Brand**

- **Value and Satisfaction**
  - **Customer value triad**
  - **Value**

    Value = Benefits / Costs =

    (Functional benefits + Emotional benefits) /

    (Monetary costs + Time costs + Energy costs + Psychic costs)

# Marketing Concepts and Tools

- **Exchange and Transactions**
  - **Exchange**
  - **Transaction**
  - **Barter**
  - **Transfer**
  - **Behavioral response**

# Marketing Concepts and Tools

- **Relationships and Networks**
  - **Relationship marketing**
  - **Marketing network**
- **Marketing Channels**
- **Supply Chain**
- **Competition**

# Marketing Concepts and Tools

- **Brand competition**
- **Industry competition**
- **Form competition**
- **Generic competition**
- **Marketing environment**
  - **Task environment**
  - **Broad environment**
- **Marketing Program**
  - **Marketing program**
  - **Marketing mix**

# Company Orientations Toward the Marketplace

- **Production Concept**
- **Product concept**
- **Selling Concept**
- **Marketing Concept**

# Company Orientations Toward the Marketplace

- **Target Market**
- **Customer Needs**
  - Stated needs
  - Real needs
  - Unstated needs
  - Delight needs
  - Secret needs

# Company Orientations Toward the Marketplace

- **Integrated Marketing**
  - **External marketing**
  - **Internal marketing**

# Company Orientations Toward the Marketplace

- **Profitability**
  - **Sales decline**
  - **Slow growth**
  - **Changing buying patterns**
  - **Increasing competition**
  - **Increasing marketing expenditures**

# Company Orientations Toward the Marketplace

- **Societal Marketing Concept**
  - **Cause-related marketing**

**Discussion Question**

Can you identify the trends that have made the marketing concept, the customer concept, and the societal marketing concept more attractive models for contemporary marketing managers?

# How Business and Marketing are Changing

- **Customers**
- **Brand manufacturers**
- **Store-based retailers**

# How Business and Marketing are Changing

- **Company responses and adjustments**
  - Reengineering
  - Outsourcing
  - E-commerce
  - Benchmarking
  - Alliances
  - Partner-suppliers
  - Market-centered
  - Global and local
  - Decentralized

# How Business and Marketing are Changing

- **Marketer Responses and Adjustments**
    - Customer relationship marketing
    - Customer lifetime value
    - Customer share
    - Target marketing
    - Customization
    - Customer database
    - Integrated marketing communications
    - Channels as partners
    - Every employee a marketer
    - Model-based decision making

# Chapter 2
# Adapting Marketing To The New Economy

**by** *Philip Kotler*

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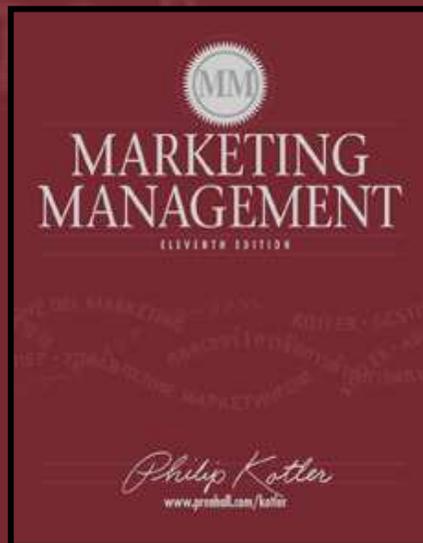
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# Kotler on Marketing

*The Internet will create new winners and bury the laggards.*

# Chapter Objectives

- **In this chapter, we will address the following questions:**
    - **What are the major forces driving the New Economy?**
    - **How are business and marketing practices changing as a result of the New Economy?**
    - **How are marketers using the Internet, customer databases, and customer relationship management in the New Economy?**
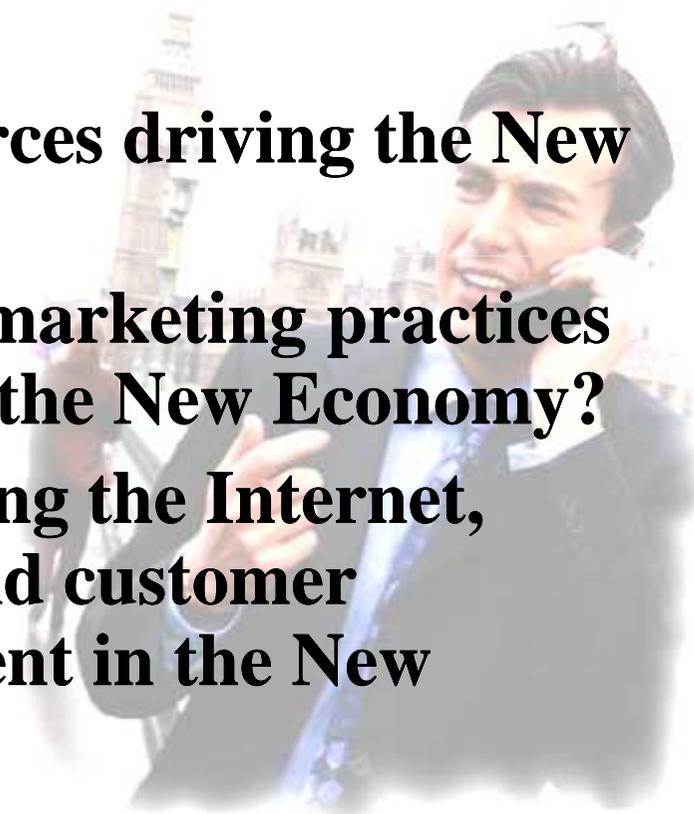
# Adapting Marketing to the New Economy

- **Major Drivers of the New Economy**
  - **Digitization and Connectivity**
  - **Disintermediation and Reintermediation**
  - **Customization and Customerization**

# Procter & Gamble's Reflect.com site allows customers to design their own beauty products
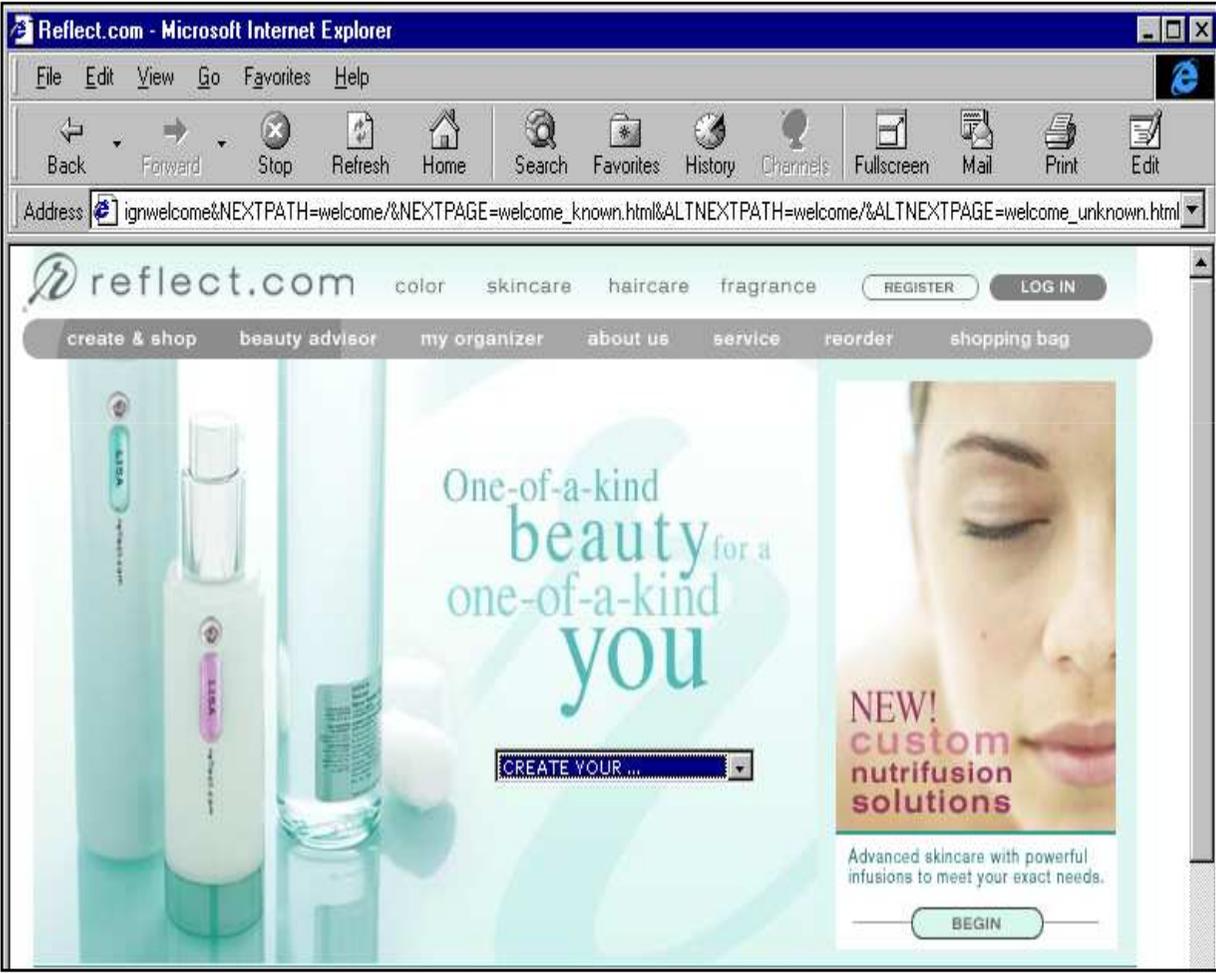
# Adapting Marketing to the New Economy

- **Industry Convergence**

- **How Business Practices are Changing**
  - **Organize by product units to organize by customer segments**
  - **Shift focus from profitable transactions to customer lifetime value**
  - **Shift focus from financial scorecard to also focusing on the marketing scorecard**
  - **Shift focus from shareholders to stakeholders**

# Table 2-1: Old Economy vs. New Economy

| Old Economy | New Economy |
|---|---|
| Organize by product units | Organize by customer segments |
| Focus on profitable transactions | Focus on customer lifetime value |
| Look primarily at financial scorecard | Look also at marketing scorecard |
| Focus on shareholders | Focus on stakeholders |
| Marketing does the marketing | Everyone does the marketing |
| Build brands through advertising | Build brands through behavior |
| Focus on customer acquisition | Focus on customer retention and growth |
| No customer satisfaction measurement | Measure customer satisfaction and retention rate |
| Overpromise, underdeliver | Underpromise, overdeliver |

# Adapting Marketing to the New Economy

- Everyone does the marketing
- Build brands through performance, not just advertising
- Customer retention rather than customer acquisition
- From none to in-depth customer satisfaction measurement
- From over-promise, under-deliver to under-promise, over-deliver
- The New Hybrid

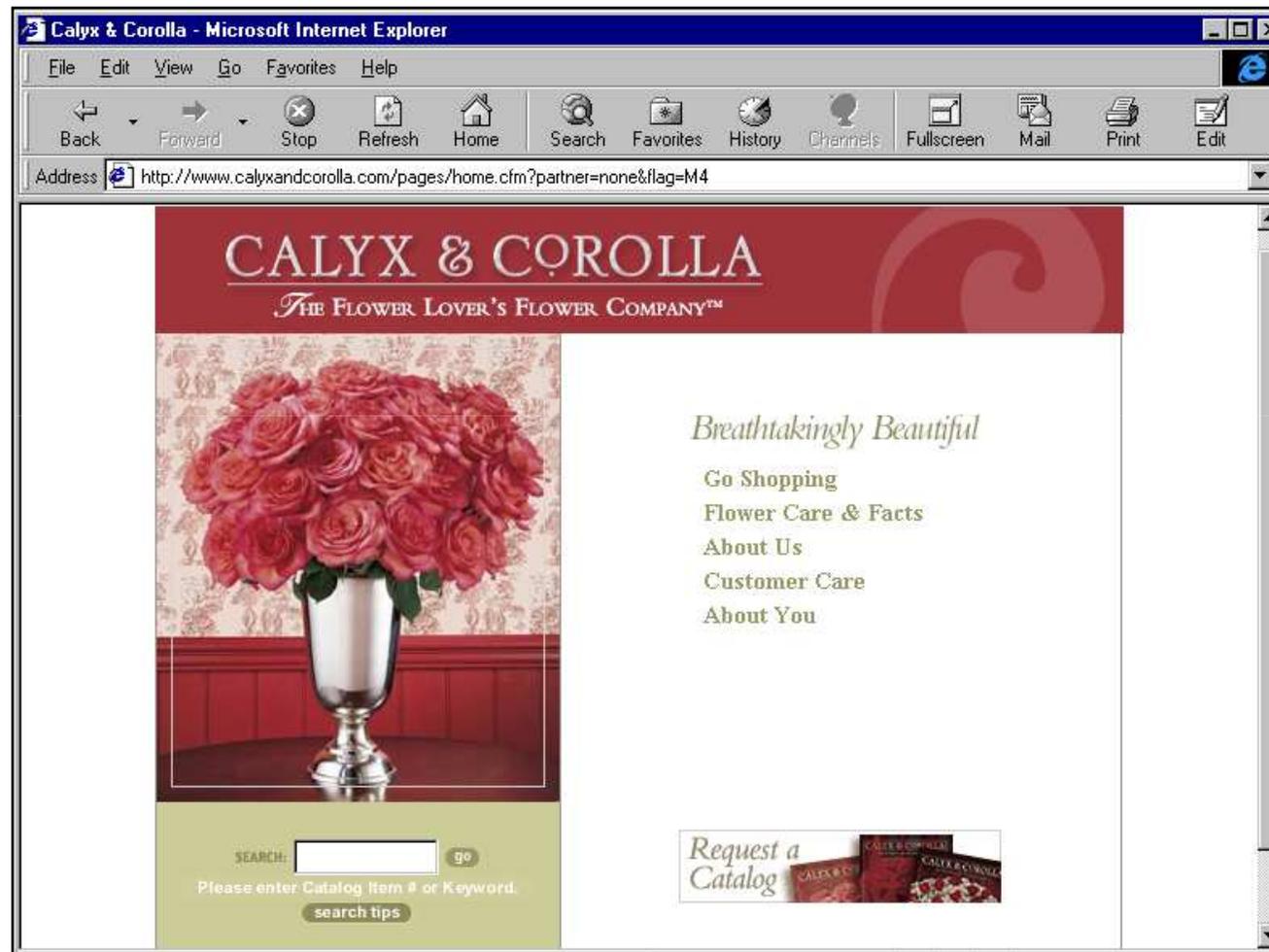# Adapting Marketing to the New Economy

- **How Marketing Practices are Changing: E-Business**
  - **E-business**
  - **E-commerce**
  - **E-purchasing**
  - **E-marketing**
- **Internet Domains: B2C (Business to Customer)**

# Customers can shop online at Calyx and Corolla or ask for a catalog and shop by phone

# Adapting Marketing to the New Economy

- **Internet Domains: B2B (Business to Business)**

# Figure 2-1: The Supplier-Customer Relationship: Traditional and New Economy Structures



**TRADITIONAL STRUCTURE**

Supplier | Customer

Executives — Executive
Marketing — Merchandising
Systems — Systems
Sales — Buyers
Finance — Finance
Manufacturing — Warehousing

SALES | BUYING

(a)

**NEW ECONOMY STRUCTURE**

Supplier | Customer

Executives — Executive
Marketing — Merchandising
Systems — Systems
Sales — Buyers
Finance — Finance
Manufacturing — Warehousing

(b)
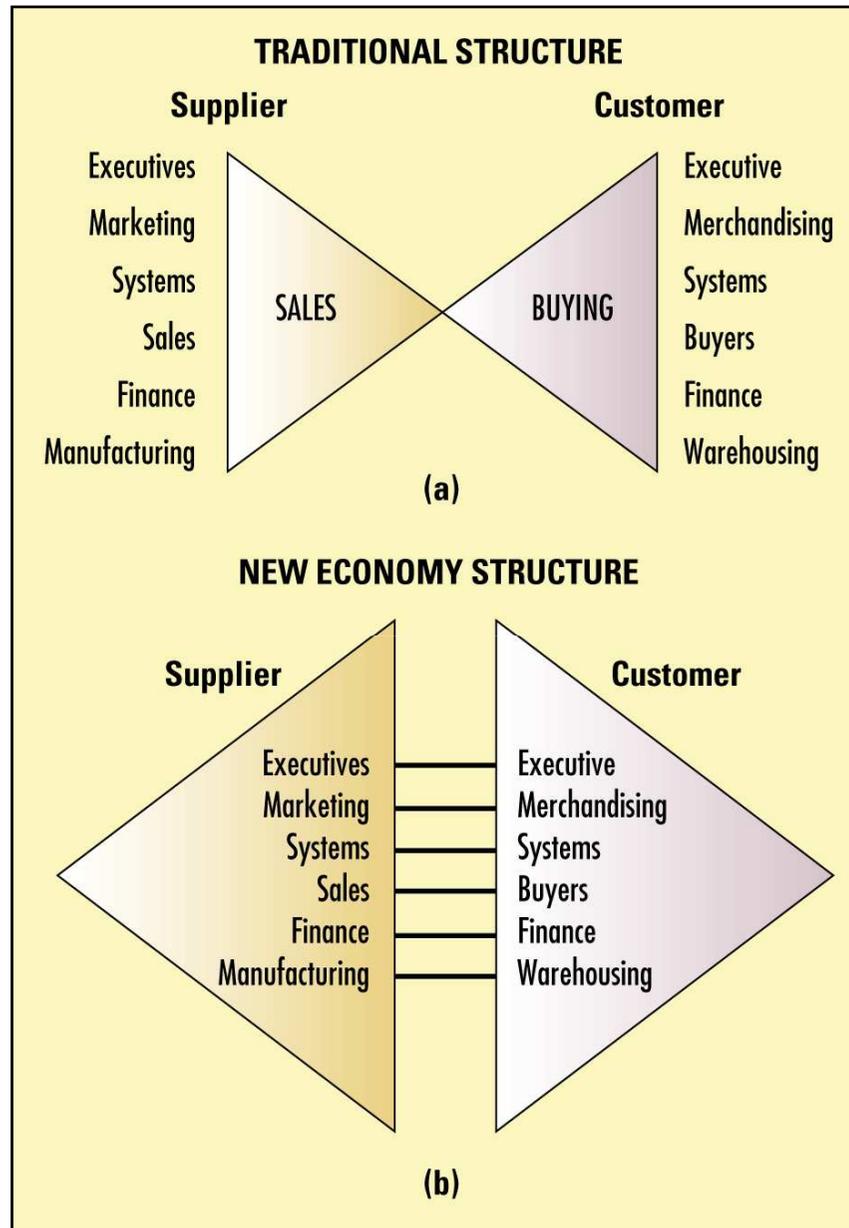
# www.transora.com: global online marketplace for the consumer packaged goods industry

# Adapting Marketing to the New Economy

- **Internet Domains: C2C (Consumer to Consumer)**
- **Internet Domains: C2B (Customer to Business)**
- **Pure Click vs. Brick and Click Companies**
  - **Pure-click companies**

# CarPoint, leading metamediary for car buying, is a pure click company: It exists only on the Web.

# Adapting Marketing to the New Economy

- ▪ **Brick and Click companies**

# Discussion Question

Which is more important for developing an e-presence: the agility of a pure click company, or the well defined and readily identifiable resources of a traditional brick and mortar company?

# Adapting Marketing to the New Economy

- **How Marketing Practices are Changing: Setting Up Web Sites**
  - **Designing an Attractive Website**
    - Seven elements of effective sites
      - Context
      - Content
      - Community
      - Customization
      - Communication
      - Connection
      - Commerce

# Discussion Question

Would you be willing to give up one or more of the seven elements of an effective web site in order to speed the deployment of a new company e-commerce site? What would the expected trade-offs be between an effective site and an early web presence?

## Table 2-2: Setting Up a Dot-com Presence

**Attracting and Keeping Visitors**

How can we get more prospects to know and visit our site?

How can we use marketing to spread word-of-mouth?

How can we convert visitors into repeaters?

How do we make our site more experiential and real?

How can we build a strong relationship with our customers?

How can we build a customer community?

How can we capture and exploit customer data for up-selling and cross-selling?

How much should we spend on building and marketing our site?

**Advertising on the Internet**

What are the various ways that we can advertise on the Internet?

How do we choose the right sites for placing our ads or sponsorship?

*See text for complete table*

# Adapting Marketing to the New Economy

- **Context factors**
- **Content factors**
- **Getting feedback**

# Adapting Marketing to the New Economy

- **Placing Ads and Promotions Online**
  - **Banner ads**
  - **Sponsorships**
  - **Microsite**
  - **Interstitials**
  - **Browser ads**
  - **Alliances and affiliate programs**
  - **Push**

# Infogate.com "pushes" targeted content and ads to those who are interested in a product or product category

# Adapting Marketing to the New Economy

- **Building a Revenue and Profit Model**
  - **Advertising income**
  - **Sponsorship income**
  - **Membership and subscriptions**
  - **Profile income**
  - **Product and service sales**
  - **Transaction commission and fees**
  - **Market research/information**
  - **Referral income**

# Adapting Marketing to the New Economy

- **How Marketing Practices are Changing: Customer Relationship Marketing**
  - **Reduce rate of customer defection**
  - **Increase longevity of customer relationship**
  - **Enhance growth potential through cross-selling and up-selling**
  - **Make low profit customers more profitable or terminate them**

# Adapting Marketing to the New Economy

- **Focus disproportionate effort on high value customers**

# Table 2-3: Mass Marketing vs. One-to-One Marketing

| Mass Marketing | One-to-One Marketing |
|---|---|
| Average customer | Individual customer |
| Customer anonymity | Customer profile |
| Standard product | Customized market offering |
| Mass production | Customized production |
| Mass distribution | Individualized distribution |
| Mass advertising | Individualized message |
| Mass promotion | Individualized incentives |
| One-way message | Two-way messages |
| Economies of scale | Economies of scope |
| Share of market | Share of customer |
| All customers | Profitable customers |
| Customer attraction | Customer retention |

# Adapting Marketing to the New Economy

- **Four steps for One-to-One Marketing**
  - **Don't go after everyone, identify prospects.**
  - **Define customers by their needs and their value to the company.**
  - **Individual interaction with customers builds stronger relationships.**
  - **Customize messages, services, and products for each customer.**

# Adapting Marketing to the New Economy

- **Customer Databases and Database Marketing**
  - **Customer mailing list**
  - **Business database**

# Adapting Marketing to the New Economy

- **Data Warehouses and Data Mining**
  - **Using the database**
    - To identify prospects
    - To determine target market
    - To deepen customer loyalty
    - To reactivate customer purchases
    - To avoid serious customer mistakes
  - **The Downside of Database Marketing**

# Chapter 3
# Building Customer Satisfaction, Value, and Retention

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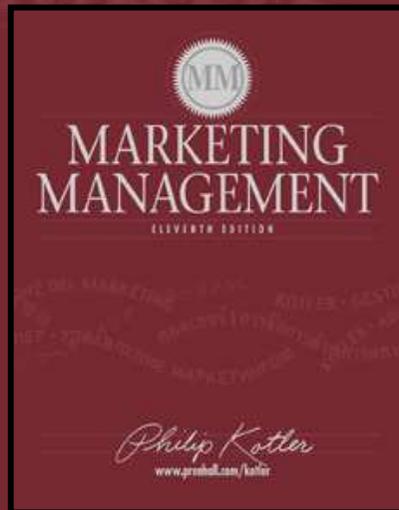
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# Kotler on Marketing

*It is no longer enough to satisfy customers. You must delight them.*

# Chapter Objectives

- **In this chapter, we will address the following questions:**
  - **What are customer value and satisfaction, and how can companies deliver them?**
  - **What makes a high-performance business?**
  - **How can companies both attract and retain customers?**
  - **How can companies improve both customer and company profitability?**
  - **How can companies deliver total quality?**

# Defining Customer Value and Satisfaction

- **Customer Perceived Value (CPV)**
  - **Total customer value**
  - **Total customer cost**
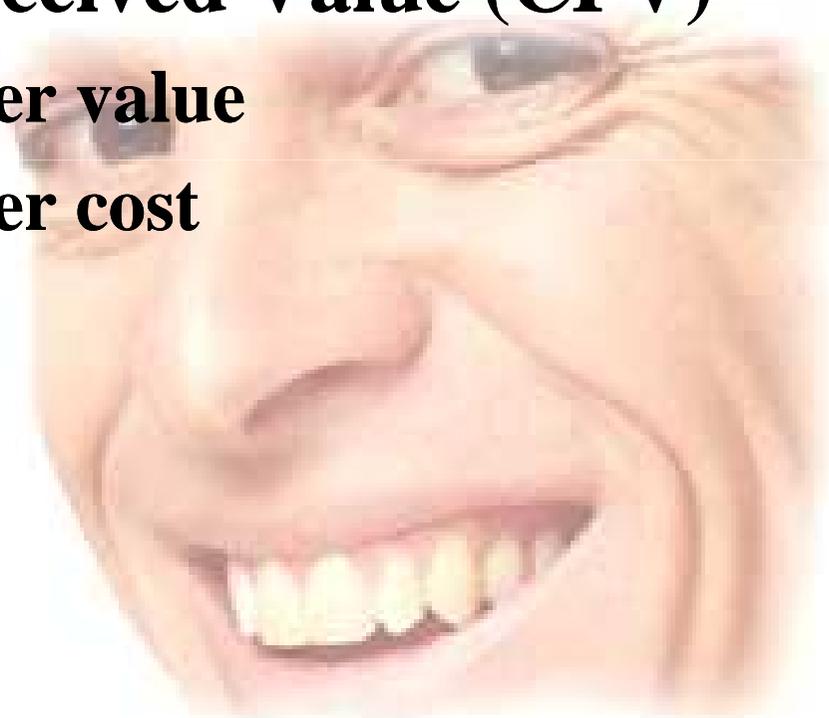
**Figure 3-1: Determinants of Customer Delivered Value**
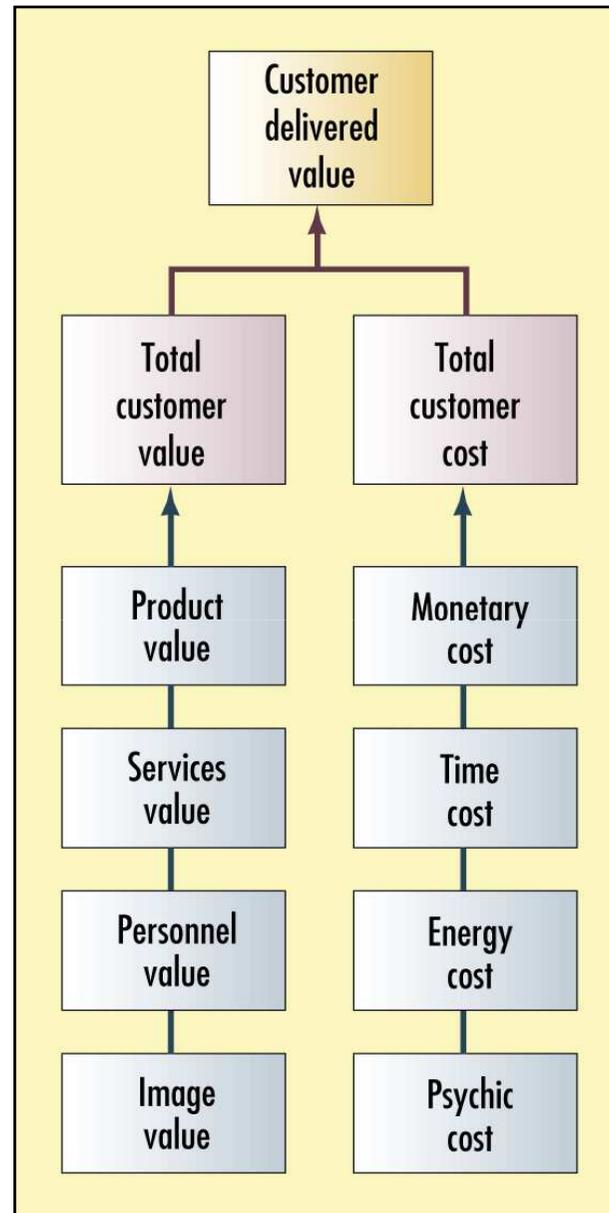
# Defining Customer Value and Satisfaction

- **Total Customer Satisfaction**
  - **Satisfaction**
- **Customer Expectations**
- **Delivering High Customer Value**
  - **Value proposition**
  - **Value-delivery system**
- **Measuring Satisfaction**
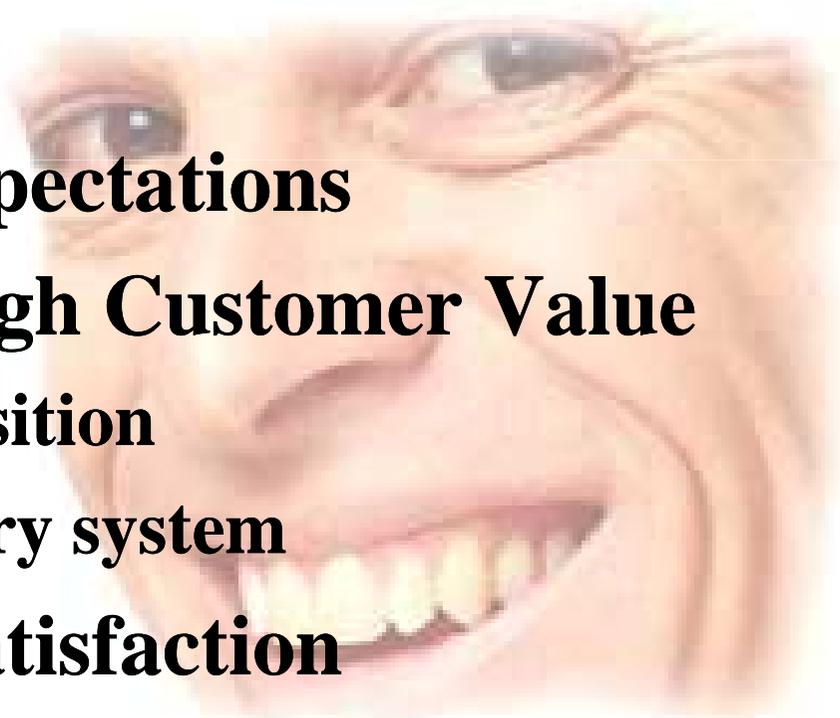
# Table 3-1:  Tools for Tracking and Measuring Customer Satisfaction

| Complaint and suggestion systems: | A customer-centered organization makes it easy for customers to register suggestions and complaints. Some customer-centered companies-P&G, General Electric, Whirlpool—establish hot lines with toll-free numbers. Companies are also using Web sites and e-mail for quick, two-way communication. |
|---|---|
| Customer satisfaction surveys: | Studies show that although customers are dissatisfied with one out of every four purchases, less than 5 percent will complain. Most customers will buy less or switch suppliers. Responsive companies measure customer satisfaction directly by conducting periodic surveys. While collecting customer satisfaction data, it is also useful to ask additional questions to measure repurchase intention and to measure the likelihood or willingness to recommend the company and brand to others. |

*See text for complete table*

# Discussion Question

**Would you feel more brand loyalty for a company that tried to immediately resolve a complaint via E-mail, or a company that had a customer service representative call within two business days to resolve the problem over the phone?**

# Premier Dell.com is a special business-oriented part of the Dell Web site that allows customers to interact with Dell and customize all phases of doing business with Dell.
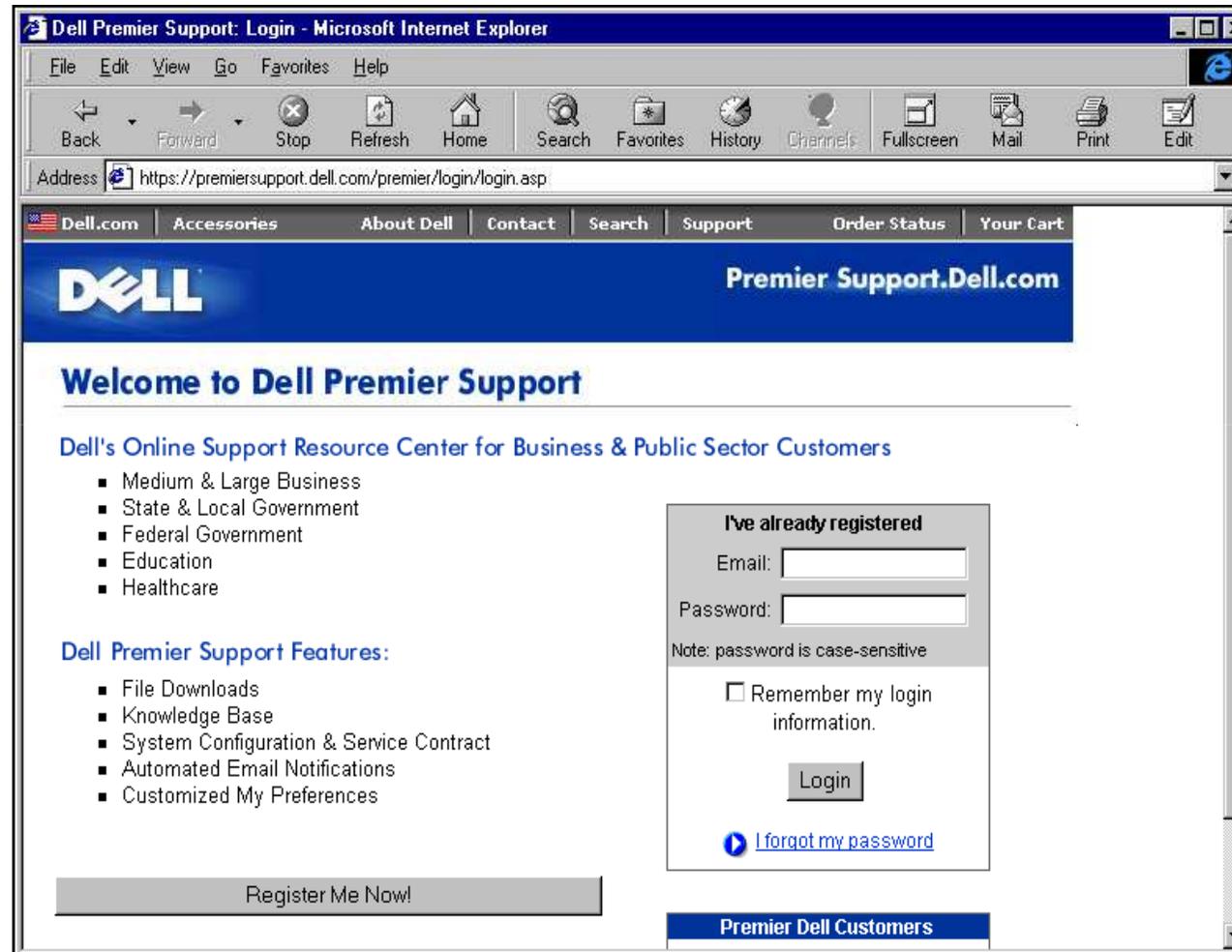
# The Nature of High Performance Business

- **High-performance business**

# Figure 3-2: The High Performance Business

Set strategies to satisfy key stakeholders...

...by improving critical business processes...

...and aligning resources and organization.

**Stakeholders**

**Processes**

**Resources**
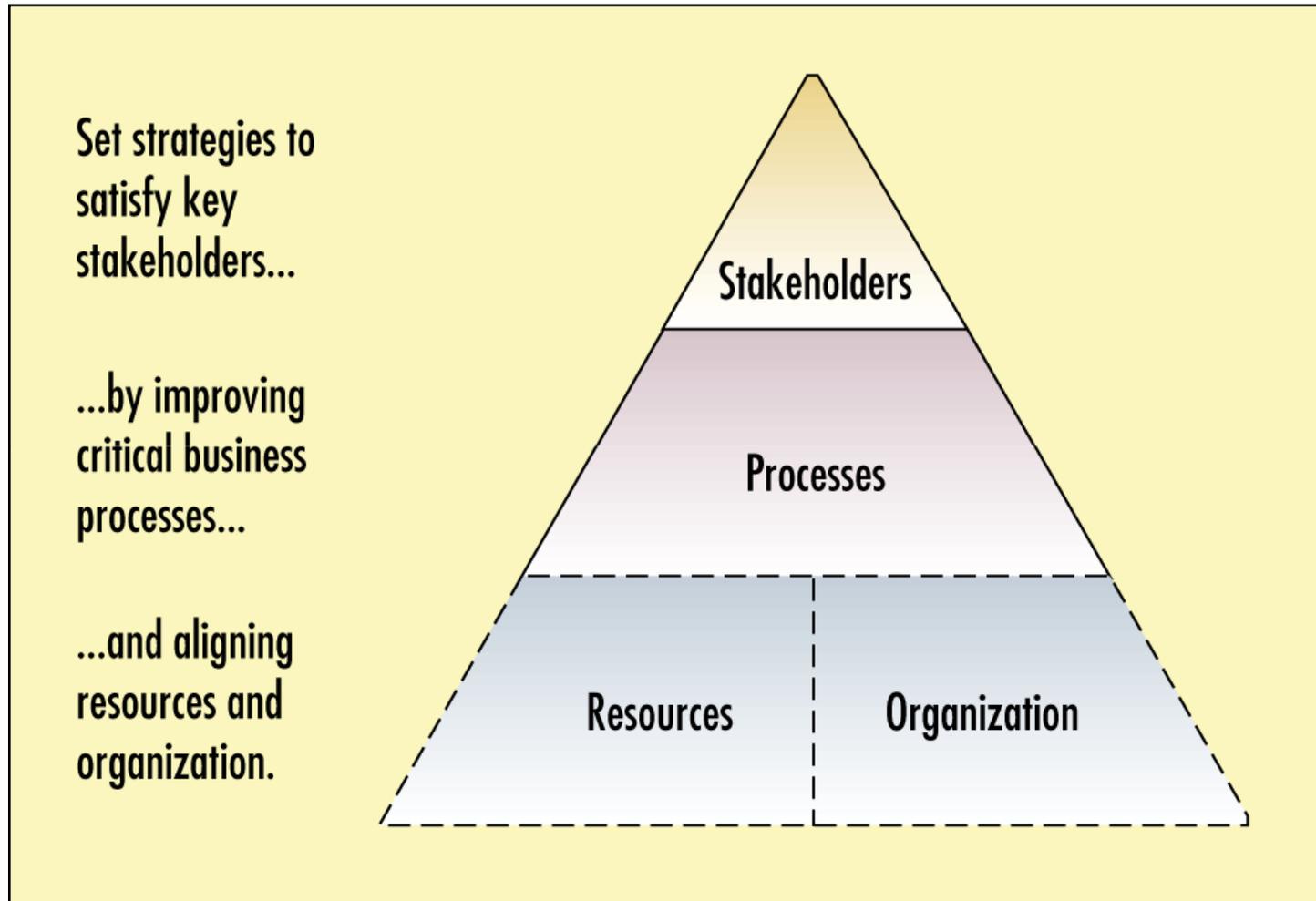
**Organization**

# The Nature of High Performance Business

- **Stakeholders**

- **Processes**

- **Resources**
  - **Core competency**
  - **Distinctive capabilities**

- **Organization and Organizational Culture**
  - **Organization**
  - **Corporate culture**
  - **Scenario analysis**

**Discussion Question**

Can you name a company that has changed the public's perception of their corporate culture? Has this effectively rehabilitated that company's image?

# Delivering Customer Value and Satisfaction

- **Value Chain**
  - **Value chain**

# Figure 3-3:  The Generic Value Chain

| Support Activities | | | | | | |
|---|---|---|---|---|---|---|
| | Firm infrastructure | | | | | |
| | Human resource management | | | | | Margin |
| | Technology development | | | | | |
| | Procurement | | | | | |
| | Inbound logistics | Operations | Outbound logistics | Marketing and sales | Service | Margin |

Primary Activities
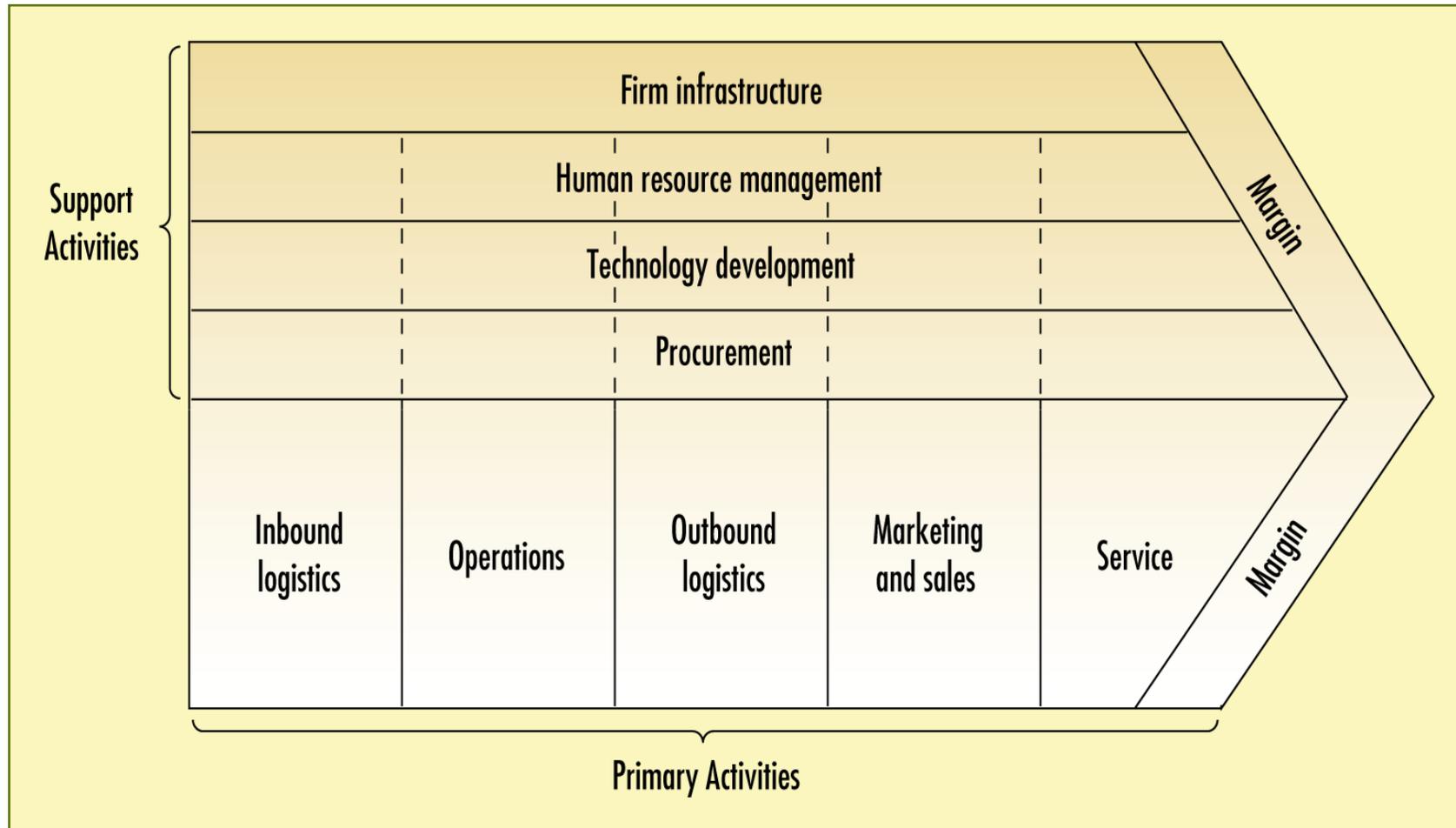
# Delivering Customer Value and Satisfaction

- **Benchmarks**

- **Core Business Processes**
  - **The market sensing process**
  - **The new offering realization process**
  - **The customer acquisition process**
  - **The customer relationship management process**
  - **The fulfillment management process**

# Delivering Customer Value and Satisfaction

- **The Value Delivery Network (Supply Chain)**

**Figure 3-4: Levi Strauss's Value-Delivery Network**



DuPont (Fibers)

Delivery ↓  Order ↑

Milliken (Fabric)

Delivery ↓  Order ↑

Levi's (Apparel)

Delivery ↓  Order ↑

Sears (Retail)

Delivery ↓  Order ↑

Customer

Competition is between *networks*, not companies. The winner is the company with the better network.
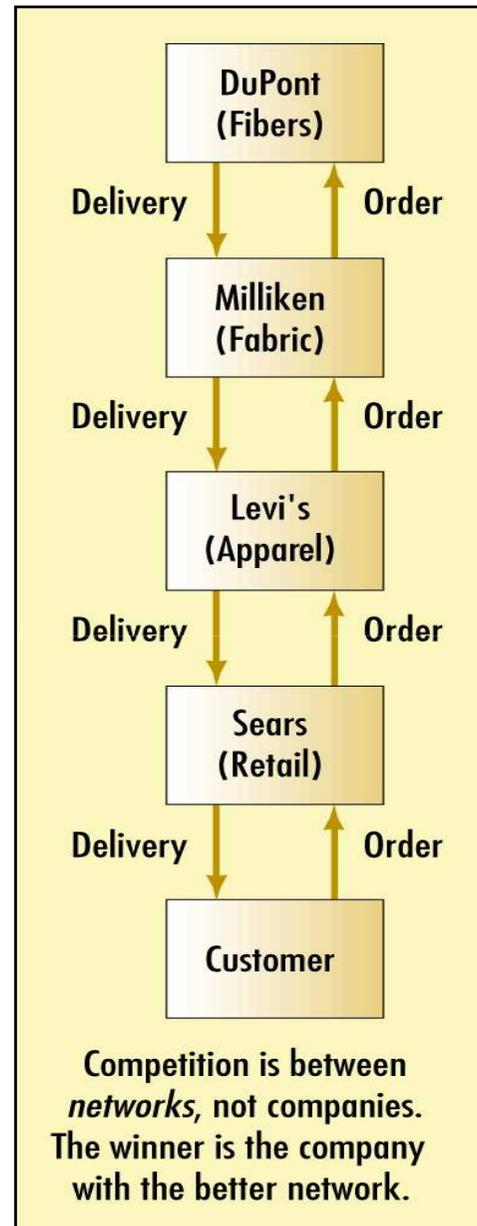
# Attracting and Retaining Customers

- **Partner relationship management (PRM)**

- **Customer relationship management (CRM)**

**Discussion Question**

Saturn has gained a customer loyalty rate of more than 60% by fundamentally changing the buyer-seller relationship. Can you think of another company that has made a change of similar magnitude? Have they had similar results?

# Attracting and Retaining Customers

- **Attracting Customers**
- **Computing the Cost of Lost Customers**
  - **Customer churn**
  - **Lifetime value**

# On the Lands' End Web site, customers can click a button to talk with a customer service representative

# Attracting and Retaining Customers

- **The Need for Customer Retention**
- **Measuring Customer Lifetime Value (CLV)**
- **Customer Relationship Management (CRM): The Key**
  - **Customer equity**
  - **Three drivers of customer equity**
    - **Value equity**
    - **Brand equity**
    - **Relationship equity**

**Figure 3-5: The Customer-Development Process**
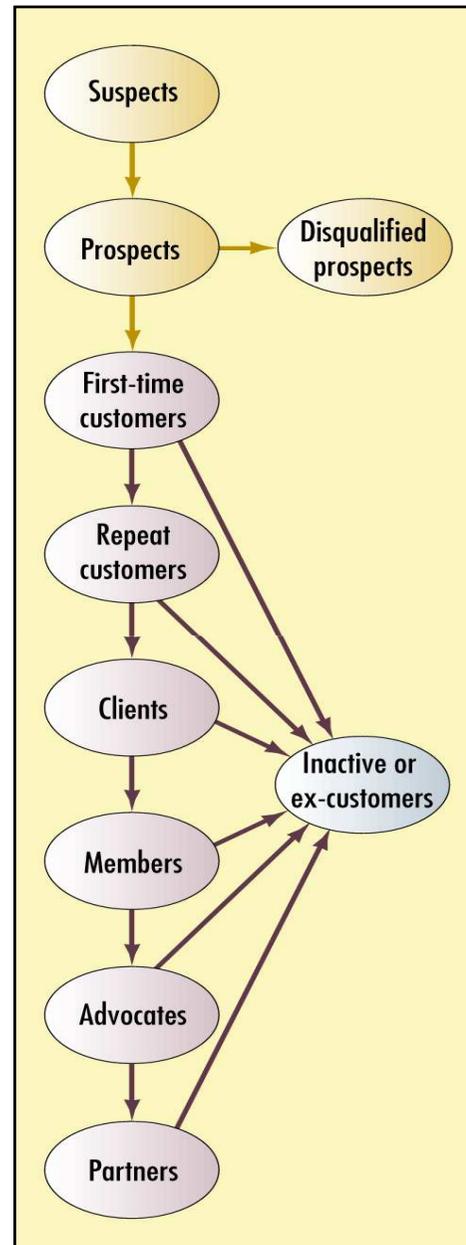
# Attracting and Retaining Customers

- **Five levels of investment in customer relationship building**
  - **Basic marketing**
  - **Reactive marketing**
  - **Accountable marketing**
  - **Proactive marketing**
  - **Partnership marketing**

# Figure 3-6: Levels of Relationship Marketing

|  | High Margin | Medium Margin | Low Margin |
|---|---|---|---|
| Many customers/ distributors | Accountable | Reactive | Basic or reactive |
| Medium number of customers/ distributors | Proactive | Accountable | Reactive |
| Few customers/ distributors | Partnership | Proactive | Accountable |

# Attracting and Retaining Customers

- **Forming Strong Customer Bonds: The Basics**
  - Cross-departmental participation
  - Integrate the Voice of the Customer into all business decisions
  - Create superior offering for the target market
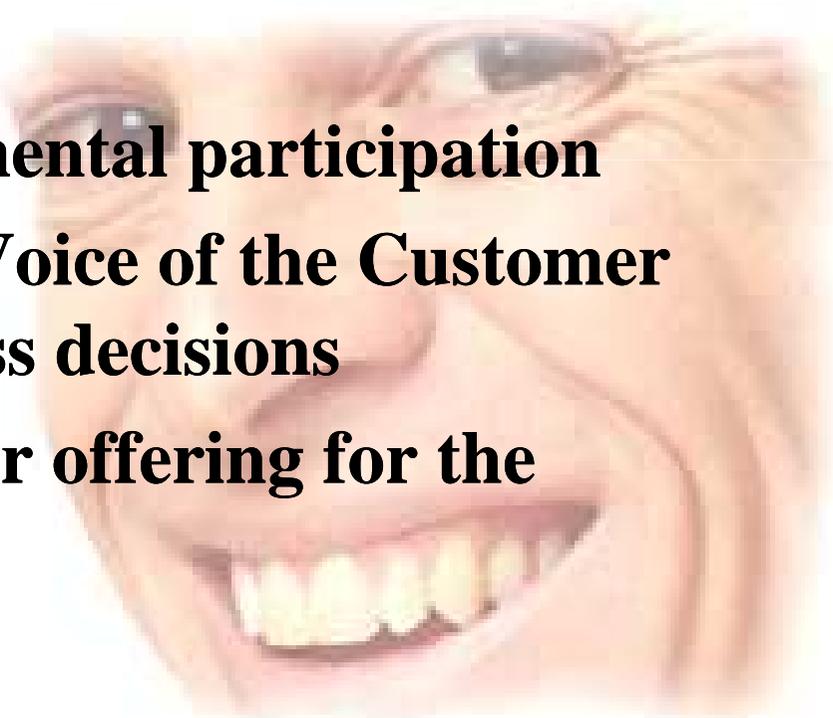
# Attracting and Retaining Customers

- **Organize and make accessible a database of customer information**
- **Make it easy for customers to reach the appropriate personnel**
- **Reward outstanding employees**
- **Adding Financial Benefits**
  - **Frequency programs (FPs)**

# The H.O.G. Web site presents the benefits of joining.

# Attracting and Retaining Customers

- **Adding Social Benefits**

**Table 3-2: Social Actions Affecting Buyer-Seller Relationships**

| Good Things | Bad Things |
|---|---|
| Initiate positive phone calls | Make only callbacks |
| Make recommendations | Make justifications |
| Candor in language | Accommodative language |
| Use phone | Use correspondence |
| Show appreciation | Wait for misunderstandings |
| Make service suggestions | Wait for service requests |
| Use "we" problem-solving language | Use "owe-us" legal language |
| Get to problems | Only respond to problems |
| Use jargon or shorthand | Use long-winded communications |
| Personality problems aired | Personality problems hidden |
| Talk of "our future together" | Talk about making good on the past |
| Routinize responses | Fire drill and emergency responsiveness |
| Accept responsibility | Shift blame |
| Plan the future | Rehash the past |

# Attracting and Retaining Customers

- **Adding Structural Ties**
  - **Create long-term contracts**
  - **Charge lower price to high volume customers**
  - **Turn product into long-term service**

# Customer Profitability, Company Profitability, and Total Quality Management

- **Measuring Profitability**
  - **Profitable customer**
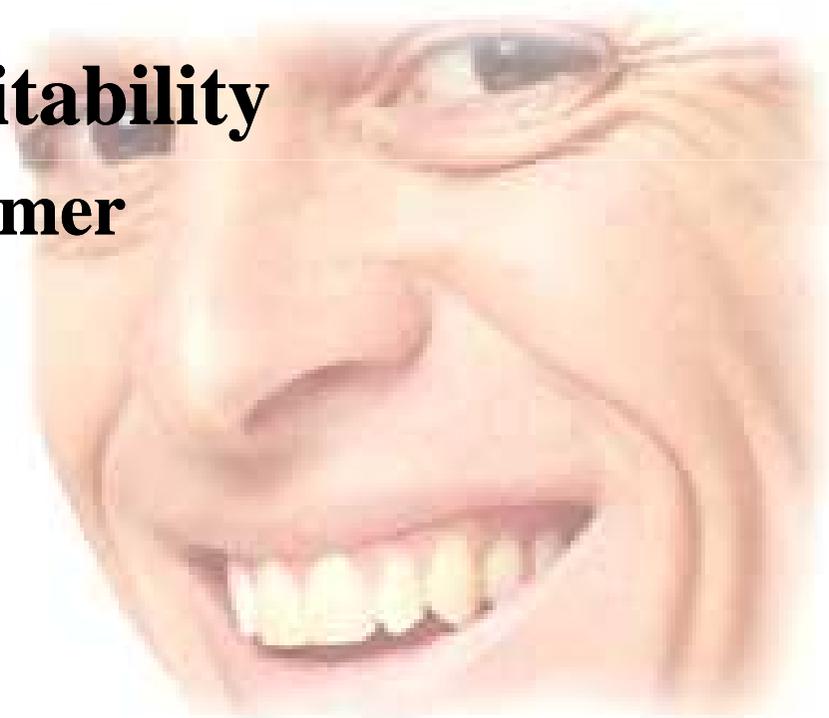
# Figure 3-7: Customer-Product Profitability Analysis

|  | Customers | | | |
|---|:---:|:---:|:---:|---|
| | $C_1$ | $C_2$ | $C_3$ | |
| $P_1$ | + | + | + | Highly profitable product |
| $P_2$ | + | | | Profitable product |
| $P_3$ | | − | − | Losing product |
| $P_4$ | + | | − | Mixed-bag product |
| | High-profit customer | Mixed-bag customer | Losing customer | |

Products

# Figure 3-8: Allocating marketing investment according to customer value



Platinum customers

Gold customers

Iron customers

Lead customers

Profit tiers

Marketing investment pyramid
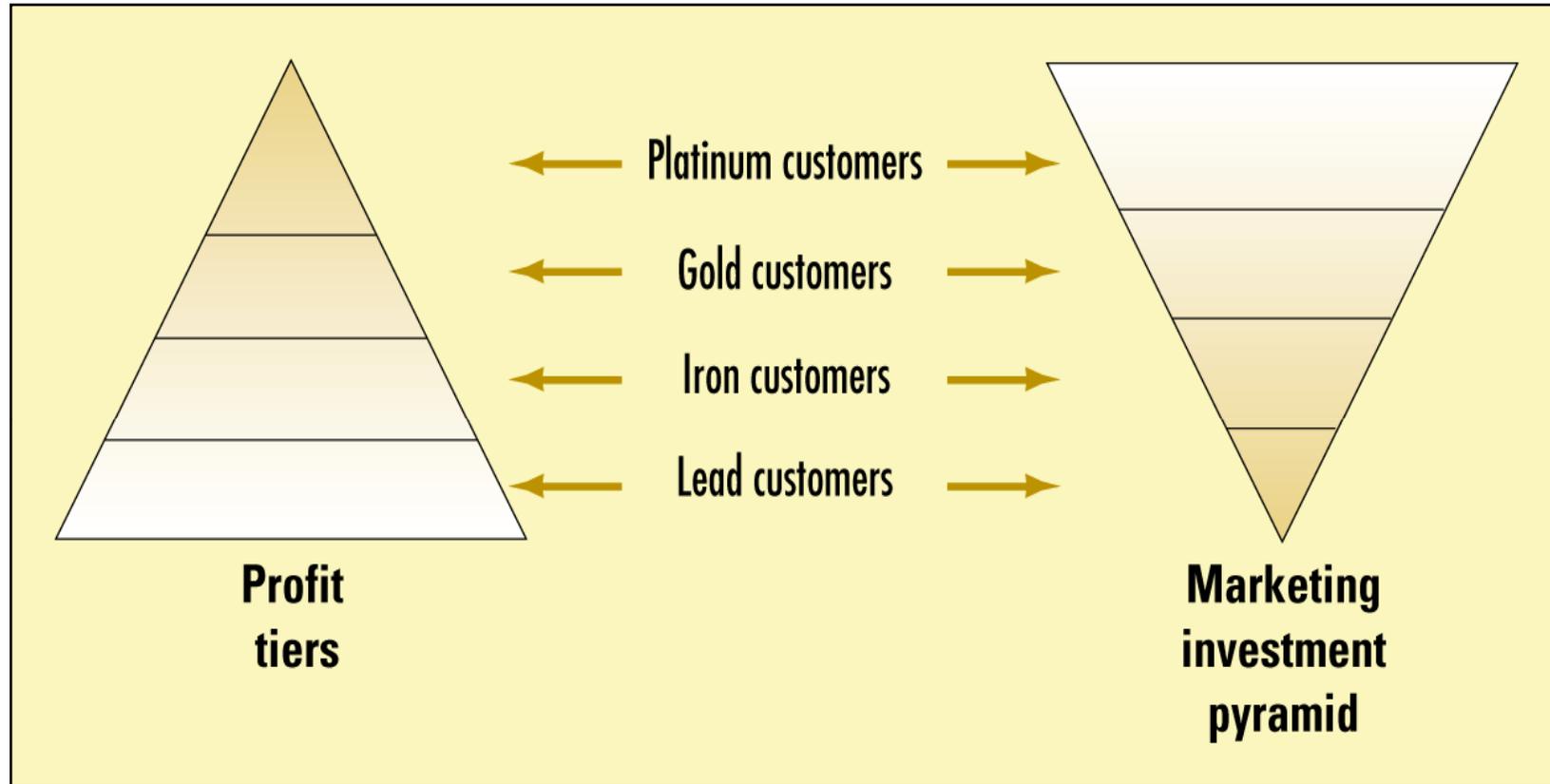
# Customer Profitability, Company Profitability, and Total Quality Management

- **Increasing Company Profitability**
  - **Competitive advantage**
- **Implementing TQM**
  - **Total Quality Management**
    - **Quality**

# Chapter 4
# Winning Markets Through Market-Oriented Strategic Planning

**by** *Philip Kotler*

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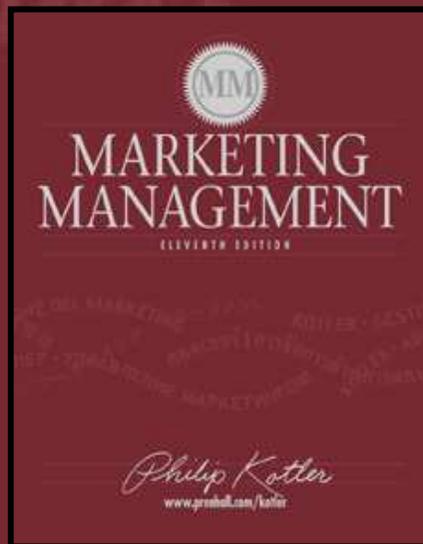
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# Kotler on Marketing

*It is more important to do what is strategically right than what is immediately profitable.*

# Chapter Objectives

- **In this chapter, we examine the following questions:**
  - How is strategic planning carried out at the corporate and division levels?
  - How is planning carried out at the business unit level?
  - What are the major steps in the marketing process?
  - How is planning carried out at the product level?
  - What does a marketing plan include?

# Strategic Planning: Three Key Areas and Four Organization Levels

- **Strategic marketing plan**

- **Tactical marketing plan**

- **Marketing plan**

# Corporate and Division Strategic Planning

- **All corporate headquarters undertake four planning activities**
  - **Defining the Corporate Mission**
  - **Establishing Strategic Business Units (SBUs)**
  - **Assigning resources to each SBU**
  - **Planning new businesses, downsizing, or terminating older businesses**

# Corporate and Division Strategic Planning

- **Defining the Corporate Mission**
  - **Mission statements define which competitive scopes the company will operate in**
    - **Industry scope**
    - **Products and applications scope**
    - **Competence scope**
    - **Market-segment scope**
    - **Vertical scope**
    - **Geographical scope**

# Corporate and Division Strategic Planning

- **Establishing Strategic Business Units (SBUs)**

# Table 4.1: Product-Oriented versus Market-Oriented Definitions of a Business

| Company | Product Definition | Market Definition |
|---|---|---|
| Missouri-Pacific Railroad | We run a railroad | We are a people-and-goods mover |
| Xerox | We make copying equipment | We help improve office productivity |
| Standard Oil | We sell gasoline | We supply energy |
| Columbia Pictures | We make movies | We market entertainment |
| Encyclopaedia | We sell encyclopedias | We distribute Information |
| Carrier | We make air conditioners and furnaces | We provide climate control in the home |

# Corporate and Division Strategic Planning

- **Three characteristics of SBUs**
  - **Single business or collection of related businesses that can be planned for separately**
  - **Has its own set of competitors**
  - **Has a manager who is responsible for strategic planning and profit**

- **The Growth-Share Matrix**
  - **Relative market share**
  - **Four Cells**
    - **Question Marks**
    - **Stars**
    - **Cash Cows**
    - **Dogs**
- **SBU Strategies**
- **SBU Lifecycle**

**Discussion Question**

Can you give an example of a "Star" that skipped "Cash Cow", and went straight to "Dog" status?

# Corporate and Division Strategic Planning

- **The General Electric Model**

## Table 4-2: Factors underlying Market Attractiveness and Competitive Position in GE Multifactor Portfolio Model: Hydraulic-Pumps Market

| | | Weight | Rating = (1-5) | Value |
|---|---|---|---|---|
| **Market Attractiveness** | Overall market size | 0.20 | 4 | 0.80 |
| | Annual market growth rate | 0.20 | 5 | 1. |
| | Historical profit margin | 0.15 | 4 | 0.60 |
| | Competitive intensity | 0.15 | 2 | 0.30 |
| | Technological requirements | 0.15 | 4 | 0.60 |
| | Inflationary vulnerability | 0.05 | 3 | 0.15 |
| | Energy requirements | 0.05 | 2 | 0.10 |
| | Environmental impact | 0.05 | 3 | 0.15 |
| | Social-political-legal | Must be acceptable | | |
| | | 1.0 | | 3.70 |
| **Business Strength** | Market share | 0.10 | 4 | 0.40 |
| | Share growth | 0.15 | 2 | 0.30 |
| | Product quality | 0.10 | 4 | 0.40 |
| | Brand reputation | 0.10 | 5 | 0.50 |
| | Distribution network | 0.05 | 4 | 0.20 |

*See text for complete table*

# Corporate and Division Strategic Planning

- **Critique of Portfolio Models**
- **Planning New Businesses, Downsizing Older Businesses**

# Corporate and Division Strategic Planning

- **Intensive Growth**

# Starbucks' home page: Customers can request a catalog of Starbucks products, subscribe to a newsletter, and shop online

# Corporate and Division Strategic Planning

- **Integrative Growth**
- **Diversification Growth**
- **Downsizing Older Businesses**

# Discussion Question

Give an example of a market segment where integrative growth would be preferable to growth through diversification. Explain why one approach is better than the other.

# Business Unit Strategic Planning

- **Business Mission**

- **SWOT Analysis**
  - **External Environment Analysis (Opportunity and Threat Analysis)**
    - **Marketing Opportunity**
      - **Buying opportunity more convenient or efficient**
      - **Meet the need for more information and advice**
      - **Customize an offering that was previously only available in standard form**

# Discussion Question

Give some examples of companies that have grown to dominate their market segment by using technology to make buying opportunities more convenient and efficient.

# Business Unit Strategic Planning

- **Marketing Opportunity Analysis (MOA)**
  - **Can the benefits be articulated to a target market?**
  - **Can the target market be reached with cost-effective media and trade channels?**
  - **Does the company have the critical capabilities to deliver the customer benefits?**
  - **Can the company deliver these benefits better than any actual or potential competitors?**
  - **Will the rate of return meet the required threshold of investment?**

# Figure 4-7: Opportunity and Threat Matrices

## (a) Opportunity matrix

**Success Probability**

| Attractiveness | High | Low |
|---|---|---|
| High | 1 | 2 |
| Low | 3 | 4 |

**Opportunities**

1. Company develops a more powerful lighting system
2. Company develops a device for measuring the energy efficiency of any lighting system
3. Company develops a device for measuring illumination level
4. Company develops a software program to teach lighting fundamentals to TV studio personnel

## (b) Threat matrix

**Probability of Occurrence**

| Seriousness | High | Low |
|---|---|---|
| High | 1 | 2 |
| Low | 3 | 4 |

**Threats**

1. Competitor develops a superior lighting system
2. Major prolonged economic depression
3. Higher costs
4. Legislation to reduce number of TV studio licenses

# Business Unit Strategic Planning

- **Internal Environmental Analysis (Strength/Weakness Analysis)**

- **Goal Formation**

- **Strategic Formulation**
  - **Strategy**

# Business Unit Strategic Planning

- **Porter's Generic Strategies**
  - **Overall cost leadership**
  - **Differentiation**
  - **Focus**

# Travelocity's Web site helps the consumer plan the whole vacation – flights, lodging, and car rental.com

# Business Unit Strategic Planning

- **Operational Effectiveness and Strategy**
  - **Strategic group**
  - **Strategic alliances**

# Business Unit Strategic Planning

- **Marketing Alliances**
  - **Product or service alliances**
  - **Promotional alliances**
  - **Logistical alliances**
  - **Pricing collaborations**
- **Partner Relationship Management, PRM**
- **Program Formulation and Implementation**

# Business Unit Strategic Planning

- **Feedback and Control**

# The Marketing Process

- **Steps in the Planning Process**
  - **The marketing process**

- **Analyzing Market Opportunities**

- **Developing Marketing Strategies**

- **Planning Marketing Programs**

- **Managing the Marketing Effort**
  - **Annual-plan control**
  - **Profitability control**
  - **Strategic control**

**Figure 4-10: Factors Influencing Company Marketing Strategy**

Demographic/economic environment

Technological/physical environment

Marketing Intermediaries

Marketing information system

Marketing planning system

Product

Target customers

Place

Price

Promotion

Suppliers

Publics

Marketing control system

Marketing organization and implementation system

Political/legal environment

Competitors

Social/cultural environment
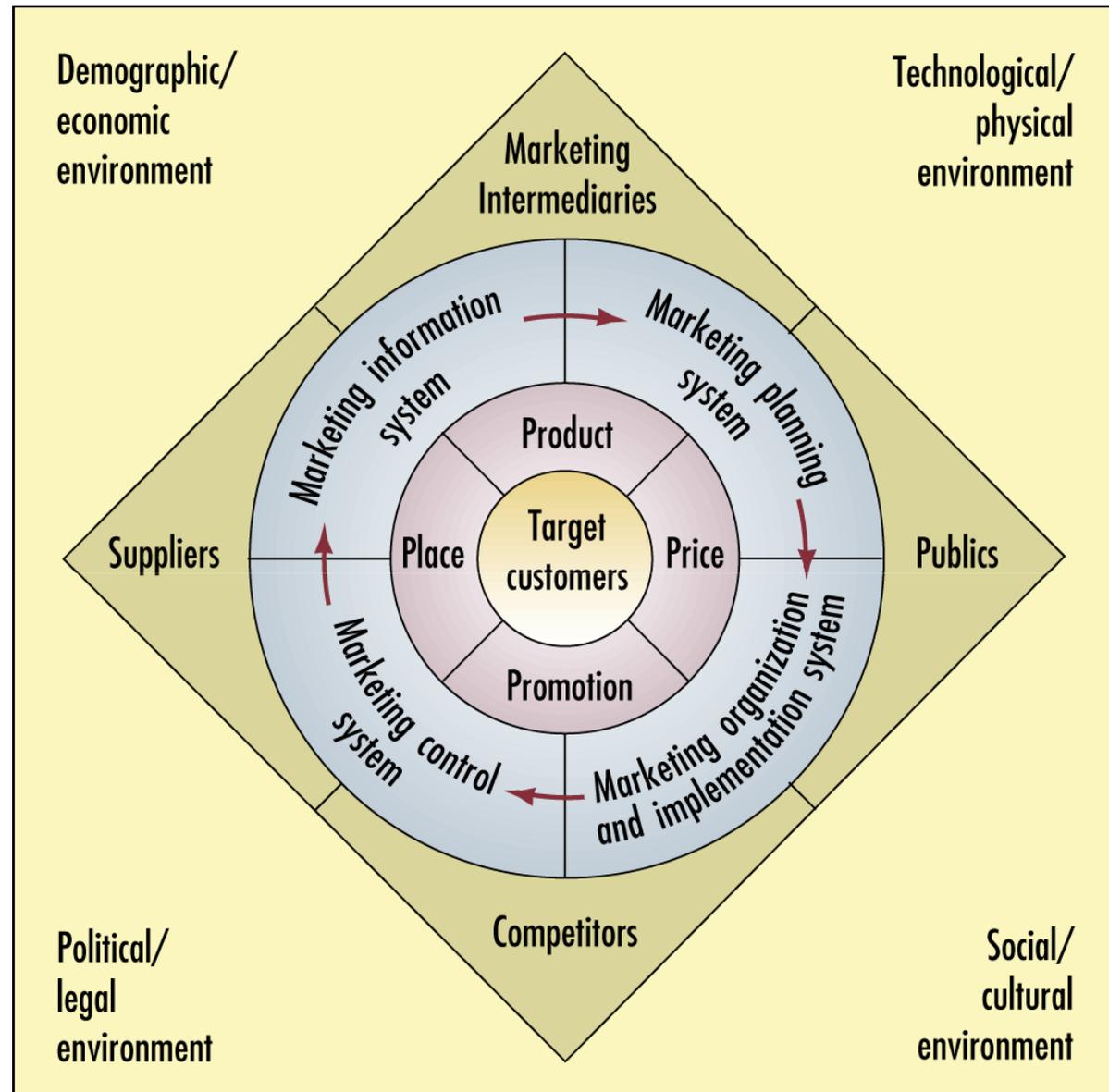
# Product Planning: The Nature and Contents of a Marketing Plan

- **Contents of the Marketing Plan**
  - **Executive Summary**
  - **Current Marketing Situation**
  - **Opportunity and issue analysis**
  - **Objectives**
  - **Marketing strategy**
  - **Action programs**
  - **Financial projections**
  - **Implementation controls**

# Product Planning: The Nature and Contents of a Marketing Plan

- **Sample Marketing Plan: Sonic Personal Digital Assistant**
  - Current Marketing Situation
  - Opportunity and Issue Analysis
  - Objectives
  - Action Programs
  - Financial Projections

# Product Planning: The Nature and Contents of a Marketing Plan

- **Implementation Controls**
- **Marketing Strategy**
  - **Positioning**
  - **Product Management**
  - **Pricing**
  - **Distribution**
  - **Marketing Communications**
  - **Marketing Research**
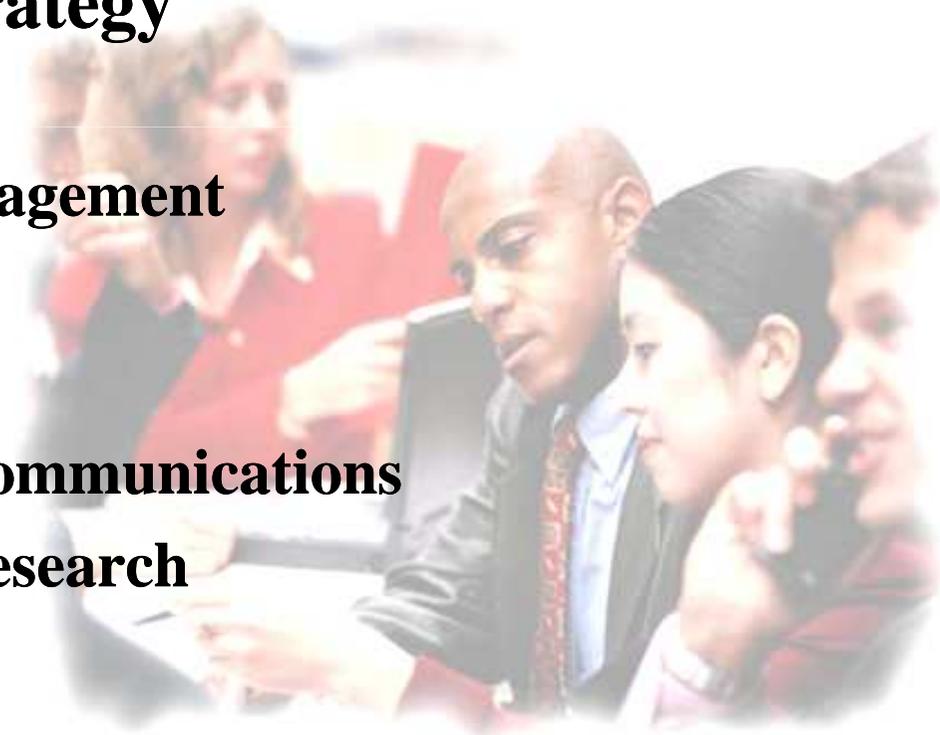
# Chapter 5
# Gathering Information and Measuring Market Demand

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
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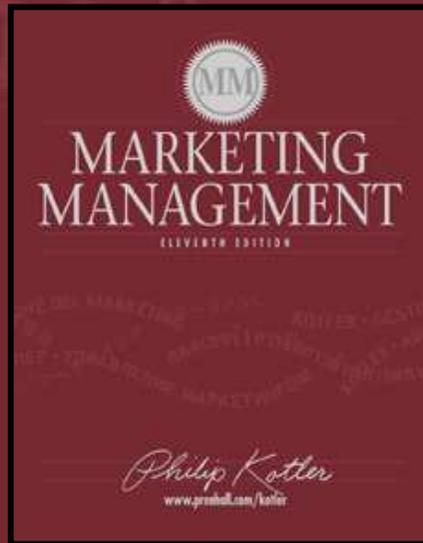
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University of New Orleans

# Kotler on Marketing

*Marketing is becoming a battle based more on information than on sales power.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
    - **What are the components of a modern marketing information system?**
    - **What constitutes good marketing research?**
    - **How can marketing decision support systems help marketing managers make better decisions?**
    - **How can demand be more accurately measured and forecasted?**

# The Components of a Modern Marketing Information System

- **Marketing Information System (MIS)**

- **10 useful questions for determining the information needs of marketing managers.**

  - What decisions do you regularly make?
  - What information do you need to make these decisions?
  - What information do you regularly get?
  - What special studies do you **periodically request?**

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# The Components of a Modern Marketing Information System

- What information would you want that you are not getting now?
- What information would you want daily? Weekly? Monthly? Yearly?
- What magazines and trade reports would you like to see on a regular basis?
- What topics would you like to be kept informed of?
- What data analysis programs would you want?
- What are the four most helpful improvements that could be made in the present marketing information system?

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# Internal Record Systems

- **The Order-to-Payment Cycle**

- **Sales Information Systems**

- **Databases, Data Warehouses And Data-Mining**

**Discussion Question**

Can you name a company that uses targeted mailings to promote new products, or regional offerings?

# The Marketing Intelligence System

- **A Marketing Intelligence System is a set of procedures and sources used by managers to obtain everyday information about developments in the marketing environment.**

# Discussion Question

**What are some of the potential hazards a company might face by relying too heavily on distributors, retailers, or other intermediaries for market intelligence?**

# The Marriott Vacation Club International Web site gives interested customers the opportunity to sell themselves on the Marriott offerings
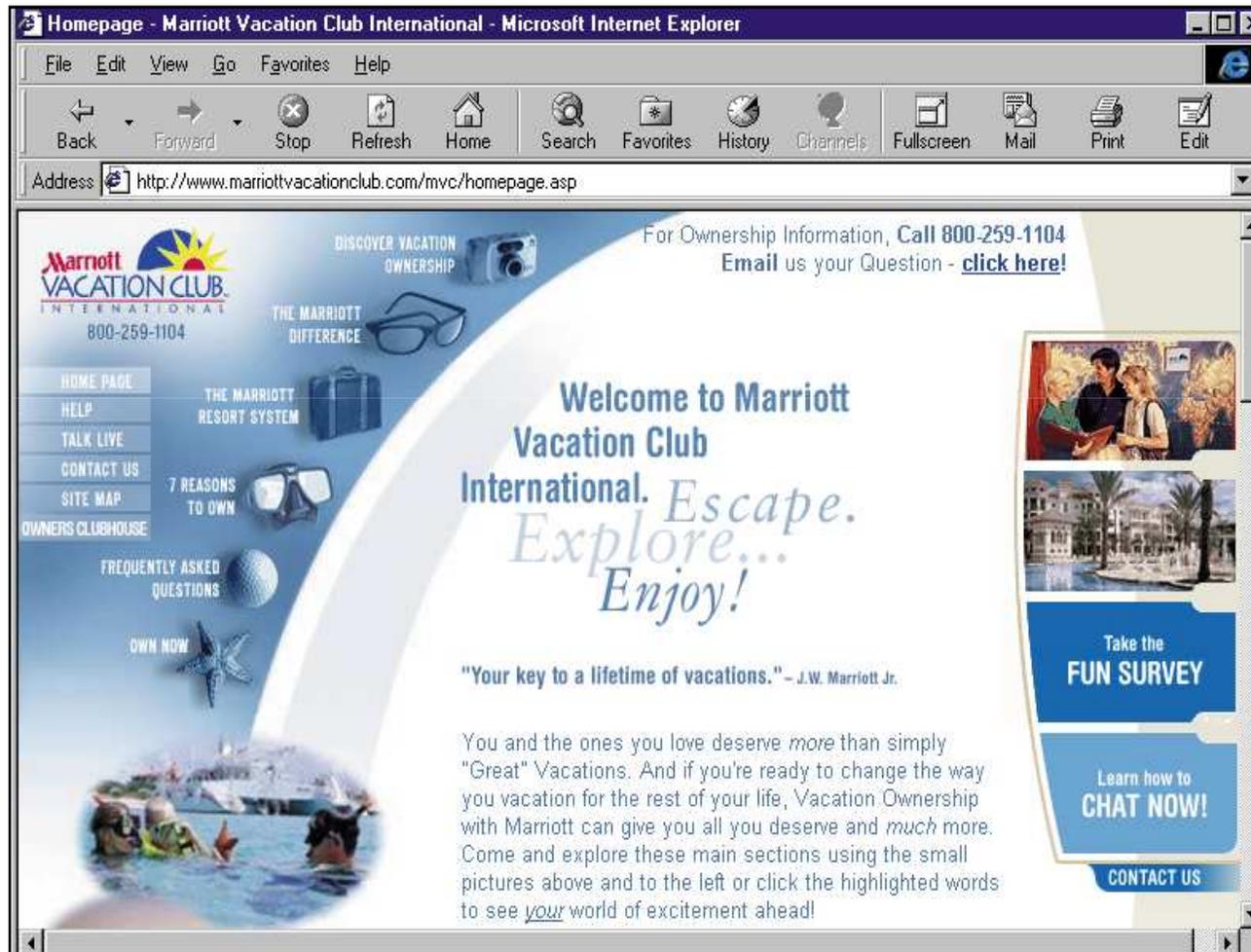
# CEOExpress.com is a portal to information–a user clicks on a listing and is then connected to that site

# Table 5-1: Secondary-Data Sources

| Secondary-Data Sources | A. **Internal Sources** |
|---|---|
| | *Company profit-loss statements, balance sheets, sales figures, sales-call reports, invoices, inventory records, and prior research reports.* |
| | B. **Government Publications** |
| | • **Statistical Abstract of the United States** |
| | • **County and City Data Book** |
| | • **Industrial Outlook** |
| | • **Marketing Information Guide** |
| | C. **Periodicals and Books** |
| | • **Business Periodicals Index** |
| | • **Standard and Poor's Industry** |

*See text for complete table*

# Marketing Research System

- **Marketing Research**
- **Suppliers of Marketing Research**
  - **Engaging students or professors to design and carry out projects**
  - **Using the Internet**
  - **Checking out rivals**
  - **Syndicated-service research firms**
  - **Custom marketing research firms**
  - **Specialty-line marketing research firms**

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**Figure 5-1:
The Marketing
Research
Process**



Define the problem
and research objectives

Develop the
research plan

Collect the
information

Analyze the
information

Present the
findings

Make the
decision
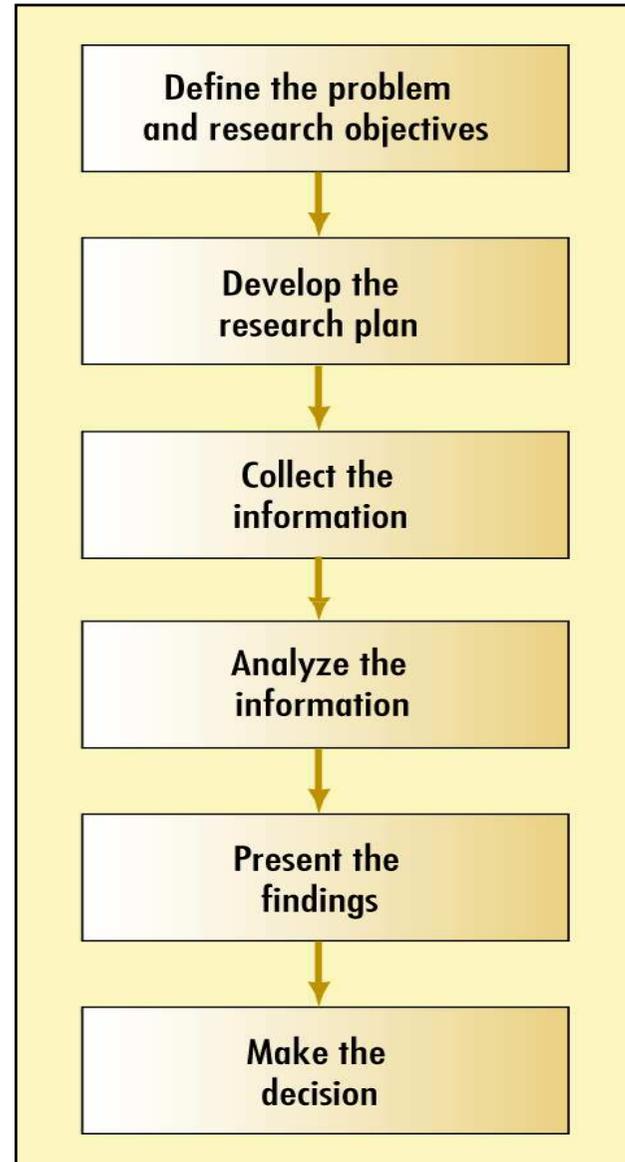
# Marketing Research System

- **The Marketing Research Process**
  - **Step 1: Define the Problem, the Decision Alternatives, and the Research Objectives**
  - **Step 2: Develop the Research Plan**
    - **Data Sources**
    - **Research Approaches**
      - Observational research
      - Focus group research
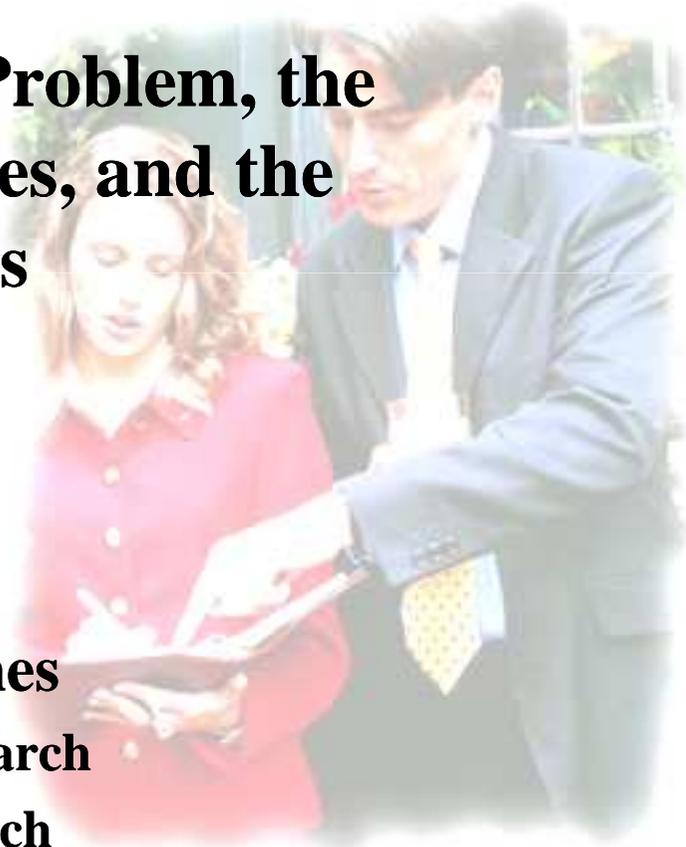
# Marketing Research System

- Survey research
- Behavioral data
- Experimental research

- **Research Instruments**
  - **Questionnaires**
  - **Psychological tools**
  - **Mechanical devices**
  - **Quantitative measures**



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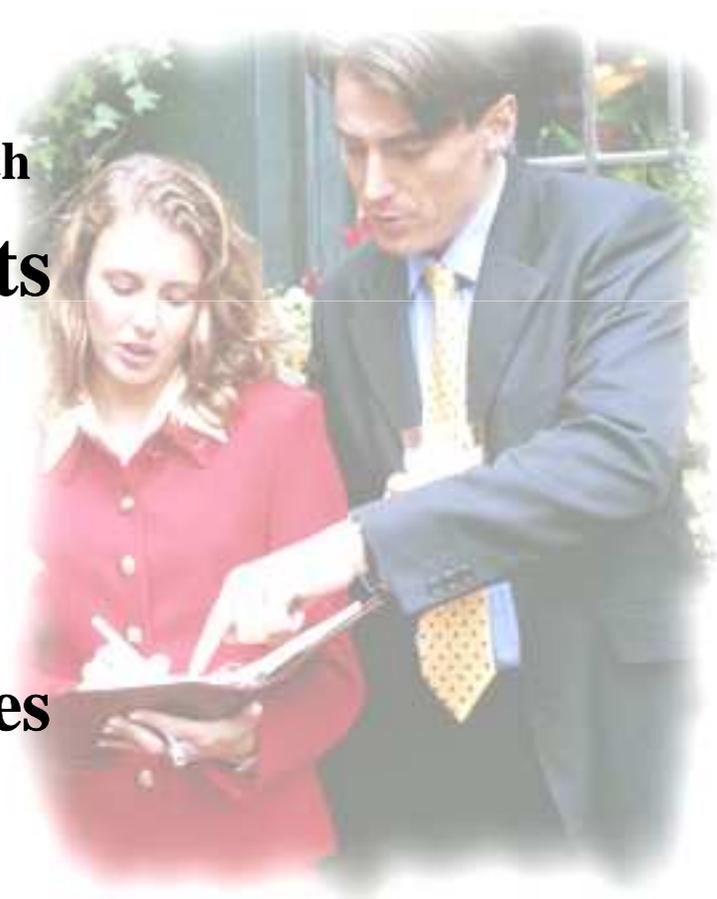
# Table 5-2: Types of Questions

**A. Closed-end Questions**

| Name | Description | Example |
|------|-------------|---------|
| Dichotomous | A question with two possible answers. | In arranging this trip, did you personally phone American?<br>Yes    No |
| Multiple Choice | A question with three or more answers. | With whom are you traveling on this flight?<br>☐ No one    ☐ Children only<br>☐ Spouse    ☐ Business associates/friends/relatives<br>☐ Spouse and children    ☐ An organized tour group |
| Likert scale | A statement with which the respondent shows the amount of agreement/ disagreement. | Small airlines generally give better service than large ones.<br>Strongly disagree    Disagree    Neither agree nor disagree    Agree    Strongly agree<br>1_____    2 _____    3_____    4_____    5_____ |

*See text for complete table*

# Marketing Research System

- **Sampling Plan**
  - **Sampling unit**
  - **Sample size**
  - **Sampling procedure**

# www.wansink.com is a consumer psychology Web site set up by Dr. Brian Wansink of the University of Illinois

# Table 5-3: Probability and Nonprobability Samples

| | |
|---|---|
| **A. Probability Sample** | |
| **Simple random sample** | Every member of the population has an equal chance of selection |
| **Stratified random sample** | The population is divided into mutually exclusive groups (such as age groups), and random samples are drawn from each group |
| **Cluster (area) sample** | The population is divided into mutually exclusive groups (such as city blocks), and the researcher draws a sample of the groups to interview |

**Continued on next slide . . .**

# Table 5-3: Probability and Nonprobability Samples (Continued)

| | |
|---|---|
| **B. Nonprobability Sample** | |
| **Convenience sample** | **The researcher selects the most accessible population members** |
| **Judgment sample** | **The researcher selects population members who are good prospects for accurate information** |
| **Quota sample** | **The researcher finds and interviews a prescribed number of people in each of several categories** |

# Marketing Research System

- **Contact Methods**
  - **Mail questionnaire**
  - **Personal interviewing**
    - **Arranged interviews**
    - **Intercept interviews**
    - **Online methods**
      - **Click-stream**
      - **Cookies**
      - **Automated telephone surveys**

# Marketing Research System

- **Step 3: Collect the Information**
- **Step 4: Analyze the Information**
- **Step 5: Present the Findings**
- **Step 6: Make the Decision**

## Table 5-4: The Seven Characteristics of Good Marketing Research

| | |
|---|---|
| **1. Scientific method** | **Effective marketing research uses the principles of the scientific method: careful observation, formulation of hypotheses, prediction, and testing.** |
| **2. Research creativity** | **At its best, marketing research develops innovative ways to solve a problem: a clothing company catering to teenagers gave several young men video cameras, then used the videos for focus groups held in restaurants and other places teens frequent.** |
| **3. Multiple methods** | **Marketing researchers shy away from overreliance on any one method. They also recognize the value of using two or three methods to increase confidence in the results.** |

*See text for complete table*

# Marketing Research System

- **Overcoming Barriers to the Use of Marketing Research**
  - A narrow conception of the research
  - Uneven caliber of researchers
  - Poor framing of the problem
  - Late and occasionally erroneous findings
  - Personality and presentational differences

# Marketing Decision Support System

- **Marketing Decision Support System (MDSS)**
  - **Marketing and sales software programs**
    - BRANDAID
    - CALLPLAN
    - DETAILER
    - GEOLINE
    - MEDIAC
    - PROMOTER
    - ADCAD
    - CONVERSTORY
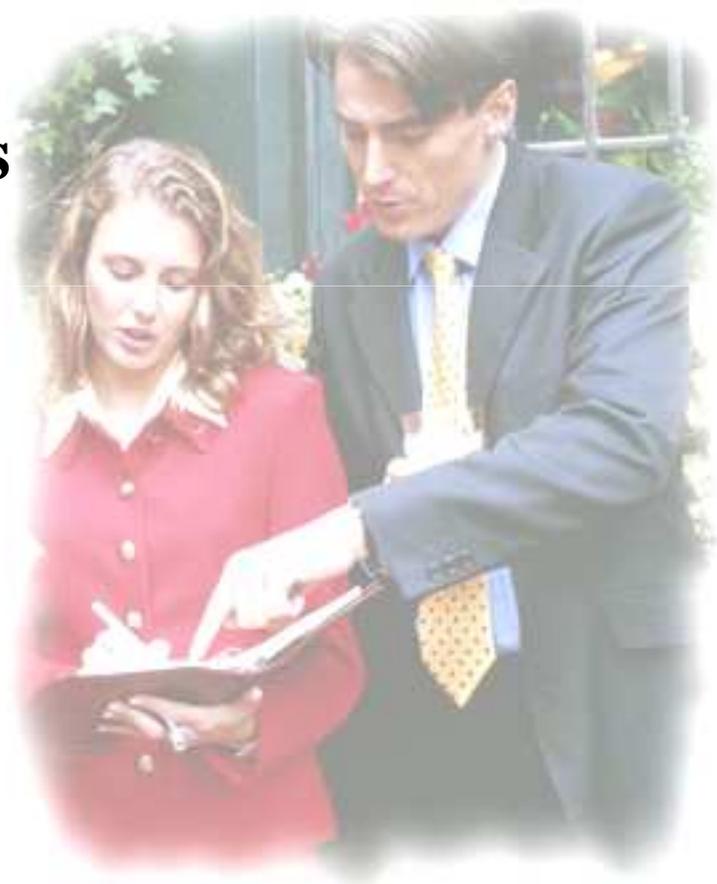
# Table 5-5: Quantitative Tools Used in Marketing Decision Support Systems

**Statistical Tools**

| | |
|---|---|
| **1. Multiple regression:** | A statistical technique for estimating a "best fitting" equation showing how the value of a dependent variable varies with changing values in a number of independent variables. *Example*: A company can estimate how unit sales are influenced by changes in the level of company advertising expenditures, sales force size, and price. |
| **2. Discriminant analysis:** | A statistical technique for classifying an object or persons into two or more categories. *Example*: A large retail chain store can determine the variables that discriminate between successful and unsuccessful store locations. |
| **3. Factor analysis:** | A statistical technique used to determine the few underlying dimensions of a larger set of intercorrelated variables. *Example*: A broadcast network can reduce a large set of TV programs down to a small set of basic program types. |

*See text for complete table*

# Forecasting and Demand Measurement

- **The Measures of Market Demand**

**Figure 5-3: Ninety Types of Demand Measurement (6X5X3)**
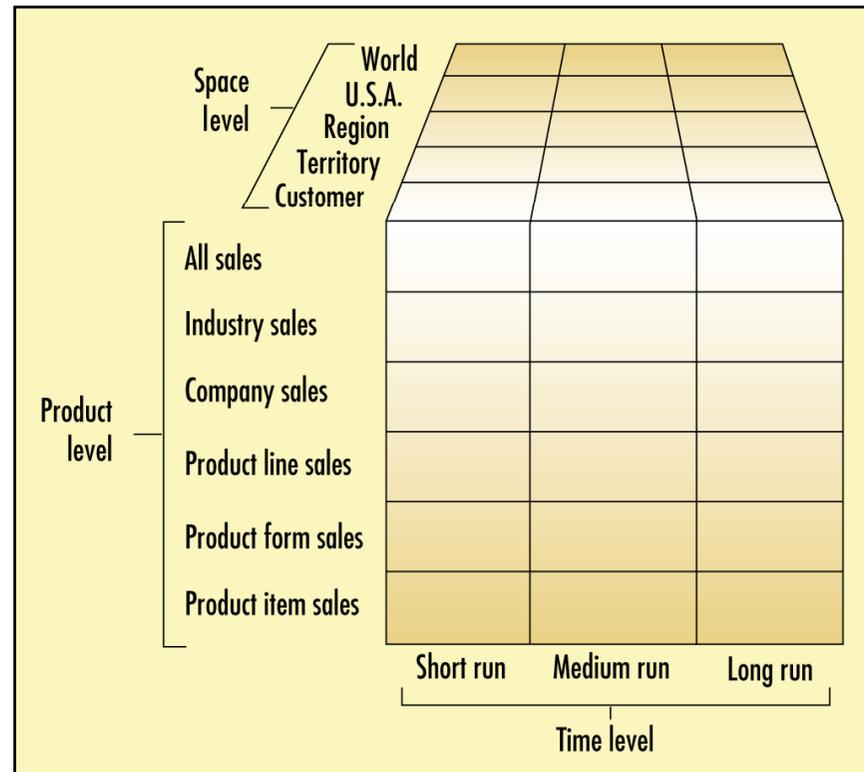
# Forecasting and Demand Measurement

- **Which Market to Measure?**
  - Market
  - Potential market
  - Available market
  - Target market (severed market)
  - Penetrated market

- **A Vocabulary for Demand Measurement**
  - **Market Demand**
    - Market share
    - Market penetration index
    - <u>Share penetration index</u>

# Forecasting and Demand Measurement

## Figure 5-4: Market Demand Functions



**(a) Marketing demand as a function of industry marketing expenditure (assumes a particular marketing environment)**

Market demand in the specific period

- Market potential, $Q_2$
- Market forecast, $Q_F$
- Market minimum, $Q_1$
- Planned expenditure

Industry marketing expenditure

**(b) Marketing demand as a function of industry marketing expenditure (two different environments assumed)**

Market demand in the specific period

- Market potential (prosperity)
- Market potential (recession)
- Prosperity
- Recession

Industry marketing expenditure

**Discussion Question**

Can you name a market segment with a low penetration index? A high penetration index? Can you think of a market where the high penetration index might be a misleading indicator?

# Forecasting and Demand Measurement

- **Market Forecast**
- **Market Potential**
  - **Product penetration percentage**
- **Company Demand**
- **Company Sales Forecast**
  - **Sales quota**
  - **Sales budget**
- **Company Sales Potential**

# Forecasting and Demand Measurement

- **Estimating Current demand**
  - **Total Market Potential**
  - **Area Market Potential**
    - **Market-Buildup Method**
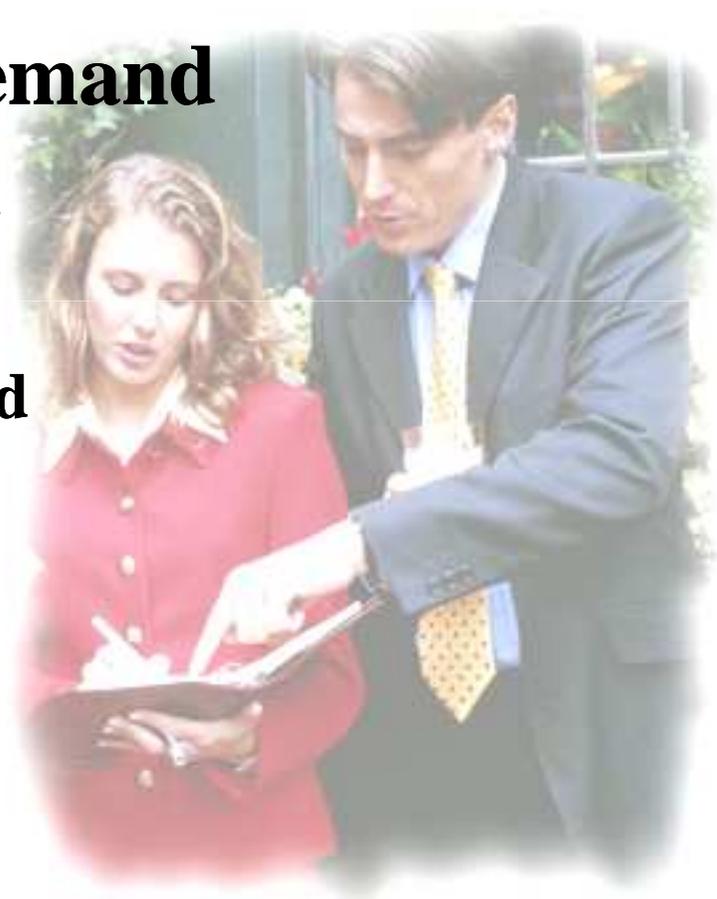
# Table 5-6: Market-Buildup Method Using SIC Codes

| SIC | (a) Annual Sales in Millions of $ | (b) Number of Establishments | (c) Potential Number of Lathe Sales Per $1 Million Customer Sales | Market Potential (a x b x c) |
|---|---|---|---|---|
| 2511 | | | | |
| | 1 | 6 | 10 | 60 |
| | 5 | 2 | 10 | 100 |
| 2521 | 1 | 3 | 5 | 15 |
| | 5 | 1 | <u>5</u> | <u>25</u> |
| | | | 30 | 200 |

# Forecasting and Demand Measurement

- **Multiple-Factor Index Method**
  - **Brand development index (BDI)**

# Table 5-7: Calculating the Brand Development Index (BDI)

| Territory | (a) Percent of U.S. Brand Sales | (b) Percent of U.S. Category Sales | BDI (a ÷ b) x 100 |
|---|---|---|---|
| Seattle | 3.09 | 2.71 | 114 |
| Portland | 6.74 | 10.41 | 65 |
| Boston | 3.49 | 3.85 | 91 |
| Toledo | .97 | .81 | 120 |
| Chicago | 1.13 | .81 | 140 |
| Baltimore | 3.12 | 3.00 | 104 |

# Forecasting and Demand Measurement

- Industry Sales and Market Shares
- Estimating Future Demand
- Survey of Buyers' Intentions
  - Forecasting
  - Purchase probability scale

# Forecasting and Demand Measurement

- **Composite of Sales Force Opinions**
- **Expert Opinion**
  - Group discussion method
  - Pooling of individual estimates
  - Past-Sales Analysis
    - Time-series analysis
    - Exponential smoothing
    - Statistical demand analysis
    - Econometric analysis
  - Market-Test Method

# Chapter 6
# Scanning the Marketing Environment
## by Philip Kotler

MARKETING MANAGEMENT
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Philip Kotler
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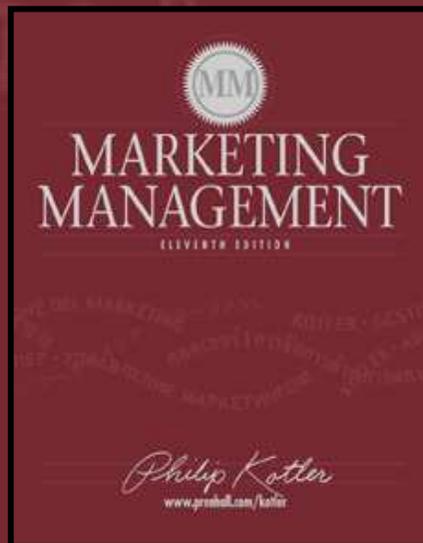
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# Kotler on Marketing

*Today you have to run faster to stay in place.*

# Chapter Objectives

- **In this chapter, we focus on two questions:**
  - **What are the key methods for tracking and identifying opportunities in the macroenvironment?**
  - **What are the key demographic, economic, natural, technological, political, and cultural developments?**

# Analyzing Needs and Trends in the Macroenvironment

- **Trend**
- **Fad**
- **Megatrends**

# Discussion Question

Given the definitions for fads, trends, and megatrends presented in the text, how would you define *your* online activities? Can you identify an online trend that is likely to grow into a megatrend?

# Identifying and Responding to the Major Macroenvironment Forces

- **The substantial speedup of international transportation, communication, and financial transactions, leading to the rapid growth of world trade and investment, especially tripolar trade (North America, Western Europe, Far East)**

- **The movement of manufacturing capacity and skills to lower cost countries.**

- **The rising economic power of several Asian countries in world markets.**

- **The rise of trade blocks such as the European Union and NAFTA signatories.**

# Identifying and Responding to the Major Macroenvironment Forces

- The severe debt problems of a number of countries, along with the increasing fragility of the international financial system.

- The increasing use of barter and countertrade to support international transactions.

- The move toward market economies in formerly socialist countries along with rapid privatization of publicly owned companies.

- The rapid dissemination of global lifestyles.

- The gradual opening of major new markets, namely China, India, eastern Europe, the Arab countries, and Latin America.

# Identifying and Responding to the Major Macroenvironment Forces

- The increasing tendency of multinationals to transcend their locational and national characteristics and become transnational firms.

- The increasing number of cross-border corporate strategic alliances–for example, MCI and British Telecom, and Texas Instruments and Hitachi.

- The increasing ethnic and religious conflicts in certain countries and regions.

- The growth of global brands in autos, food, clothing, electronics.

# Identifying and Responding to the Major Macroenvironment Forces

- **Demographic Environment**
  - **Worldwide Population Growth**
  - **Population Age Mix**
  - **Ethnic and Other Markets**

# Discussion Question

Can you identify one or more nations whose populations hold the promise of huge potential markets for consumer goods? How have pressures from potential marketers to these untapped consumer groups driven the political discussion on a national and international level?

# Identifying and Responding to the Major Macroenvironment Forces

- **Educational Groups**
- **Household Patterns**
- **Geographical Shifts in Population**
- **From a Mass Market to Micromarkets**

# Identifying and Responding to the Major Macroenvironment Forces

- **Economic Environment**
  - **Income Distribution**
  - **Savings, Debt, and Credit Availability**

# Identifying and Responding to the Major Macroenvironment Forces

- **Natural Environment**
  - **Shortage of Raw Materials**
  - **Increased Energy Cost**
  - **Anti-Pollution Pressures**
  - **Changing Role of Governments**

# Identifying and Responding to the Major Macroenvironment Forces

- **Technological Environment**
  - **Accelerating Pace of Change**
  - **Unlimited Opportunities for Innovation**

# Identifying and Responding to the Major Macroenvironment Forces

- **Varying R&D Budgets**
- **Increased Regulation of Technological Change**
- **Political-Legal Environment**
  - **Legislation Regulating Business**
  - **Growth of Special-Interest Groups**
    - **Consumerist movement**

# Identifying and Responding to the Major Macroenvironment Forces

- **Social-Cultural Environment**
  - Views of themselves
  - Views of others
  - Views of organizations
  - Views of society
  - Views of nature
  - Views of universe

# Identifying and Responding to the Major Macroenvironment Forces

- **High Persistence of Core Cultural Values**

- **Existence of subcultures**
  - **Subcultures**

- **Shifts of Secondary Cultural Values Through Time**

# Chapter 7
# Analyzing Consumer Markets and Buyer Behavior

**by** *Philip Kotler*
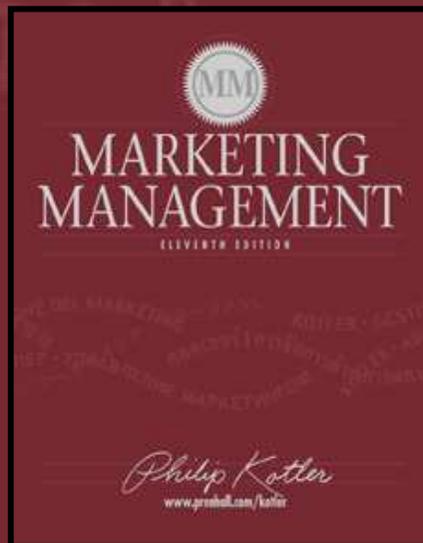
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Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*The most important thing is to forecast where customers are moving, and be in front of them.*

# Chapter Objectives

- **In this chapter, we focus on two questions:**
  - **How do the buyers' characteristics – cultural, social, personal, and psychological – influence buying behavior?**
  - **How does the buyer make purchasing decisions?**
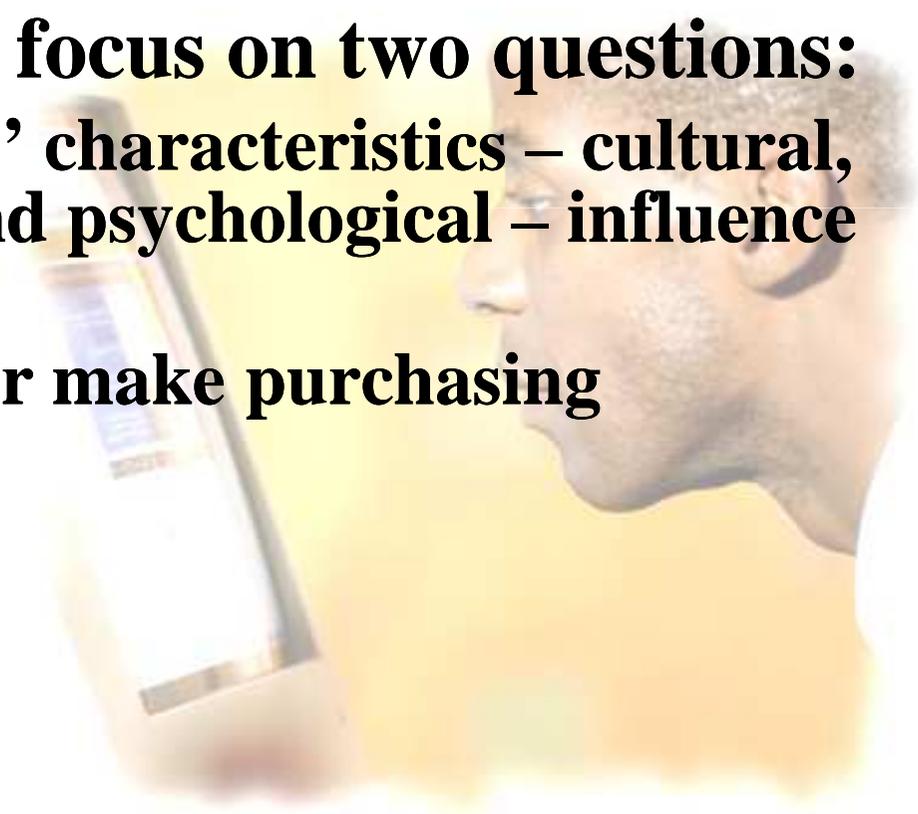
# Influencing Buyer Behavior

- **Consumer Behavior**
- **Cultural Factors**
  - **Culture**
    - **Subcultures**
    - **Diversity marketing**
    - **Social class**

# Influencing Buyer Behavior

- **Social Factors**
  - **Reference Groups**
    - **Reference groups**
    - **Membership groups**
    - **Primary groups**
    - **Secondary groups**
    - **Aspirational groups**
    - **Dissociative groups**
    - **Opinion leader**

# Table 7.1: Characteristics of Major U.S. Social Classes

| | |
|---|---|
| 1. **Upper Uppers** (less than 1%) | The social elite who live on inherited wealth. They give large sums to charity, run the debutante balls, maintain more than one home, and send their children to the finest schools. They are a market for jewelry, antiques, homes, and vacations. They often buy and dress conservatively. Although small as a group, they serve as a reference group to the extent that their consumption decisions are imitated by the other social classes. |
| 2. **Lower Uppers** (about 2%) | Persons, usually from the middle class, who have earned high income or wealth through exceptional ability in the professions or business. They tend to be active in social and civic affairs and to buy the symbols of status for themselves and their children. They include the nouveau riche, whose pattern of conspicuous consumption is designed to impress those below them. |

*See text for complete table*

# Influencing Buyer Behavior

- **Secondary groups**
- **Aspirational groups**
- **Dissociative groups**
- **Opinion leader**

# Influencing Buyer Behavior

- **Family**
  - **Family of orientation**
  - **Family of procreation**
- **Roles and Statuses**
  - **Role**
  - **Status**

# Discussion Question

**With the "graying" of the American populace, marketers have begun to shift images and cultural references in advertising from things that are relevant to the twenty-somethings to images of active seniors, and soundtracks from the sixties and seventies. Can you identify any particular ad campaigns that fit this pattern?**

# Influencing Buyer Behavior

- **Personal Factors**
  - **Age and Stage in the Life Cycle**
    - **Family life cycle**
  - **Occupation and Economic Circumstances**
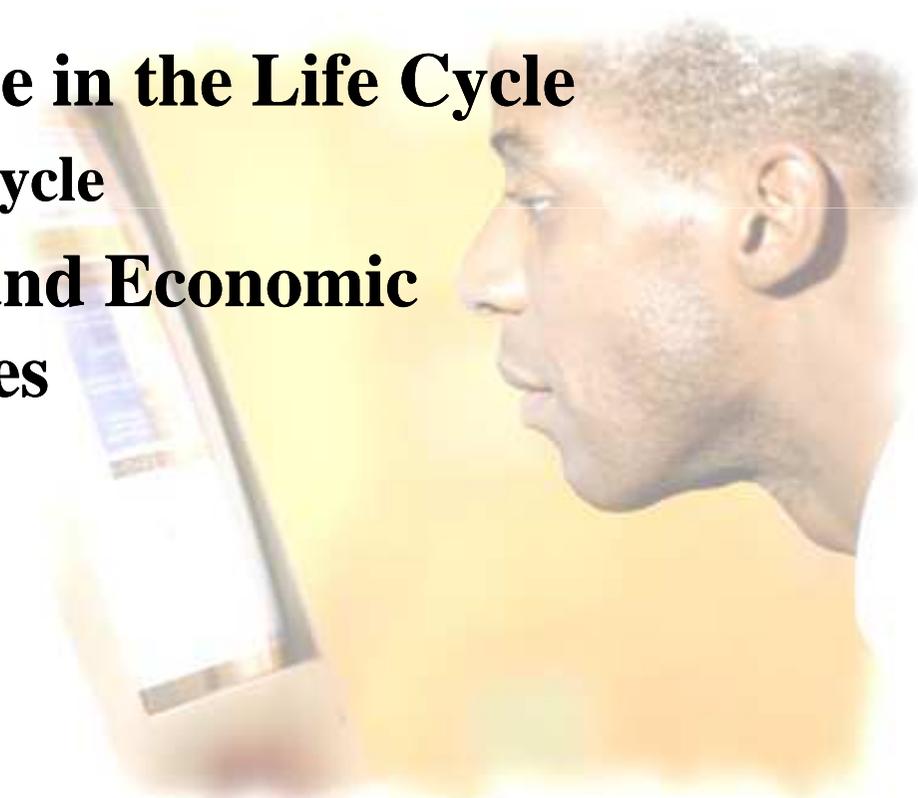
# Discussion Question

In recent years, many organizations have "provided" televisions with limited programming access for use in K-12 classrooms. Do these entities have a moral obligation to avoid overt marketing to their captive audiences, or is this a valid tool for introducing offerings to future consumers? What should the responsibilities of the educators be in these situations?
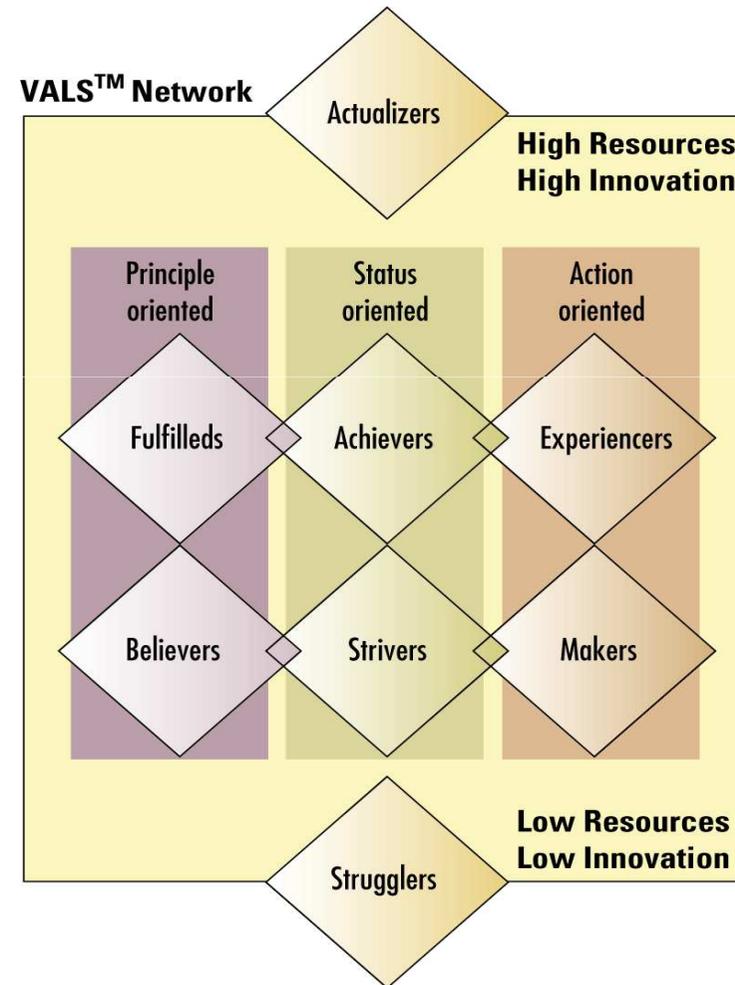
# Table 7.2:  Stages in the Family Life Cycle

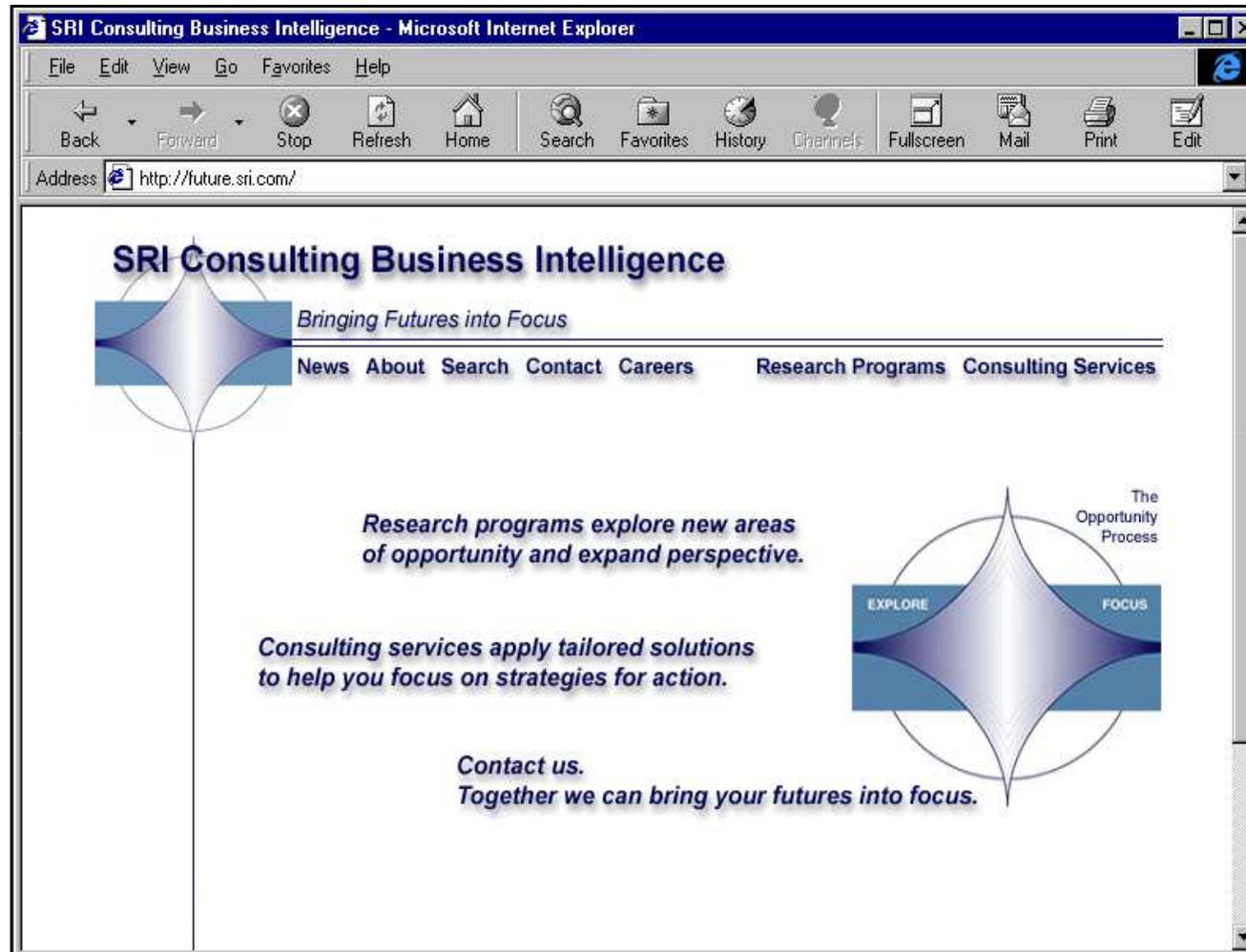| | |
|---|---|
| **1.  Bachelor stage:** <br> **Young, single, not living at home** | **Few financial burdens. Fashion opinion leaders. Recreation oriented. Buy: basic home equipment, furniture, cars, equipment for the mating game; vacations.** |
| **2.  Newly married couples:** <br> **Young, no children** | **Highest purchase rate and highest average purchase of durables: cars, appliances, furniture, vacations.** |
| **3.  Full nest I:** <br> **Youngest child under six** | **Home purchasing at peak. Liquid assets low. Interested in new products, advertised products. Buy: washers, dryers, TV, baby food, chest rubs and cough medicines, vitamins, dolls, wagons, sleds, skates.** |
| **4.  Full nest II:** <br> **Youngest child six or over** | **Financial position better. Less influenced by advertising. Buy larger-size packages, multiple-unit deals. Buy: many foods, cleaning materials, bicycles, music lessons, pianos.** |

*See text for complete table*

# Figure 7.2:  The VALS segmentation system: An 8-part typology

- **Groups with High Resources**
  1. **Actualizers**
  2. **Fulfilleds**
  3. **Achievers**
  4. **Experiencers**

- **Groups with Lower Resources**
  1. **Believers**
  2. **Strivers**
  3. **Makers**
  4. **Strugglers**



VALS™ Network

Actualizers — High Resources High Innovation

Principle oriented | Status oriented | Action oriented

Fulfilleds | Achievers | Experiencers

Believers | Strivers | Makers

Strugglers — Low Resources Low Innovation

# SRI Consulting Business Intelligence's Web site

# Influencing Buyer Behavior

- **Personality and Self-Concept**
  - **Personality**
  - **Brand personality**
    - **Sincerity**
    - **Excitement**
    - **Competence**
    - **Sophistication**
    - **Ruggedness**
  - **Self-concept**
    - **Person's actual self-concept**
    - **Ideal self-concept**
    - **Others' self-concept**

# Influencing Buyer Behavior

- **Psychological Factors**
  - **Motivation**
    - **Motive**
  - **Freud's Theory**
    - **Laddering**
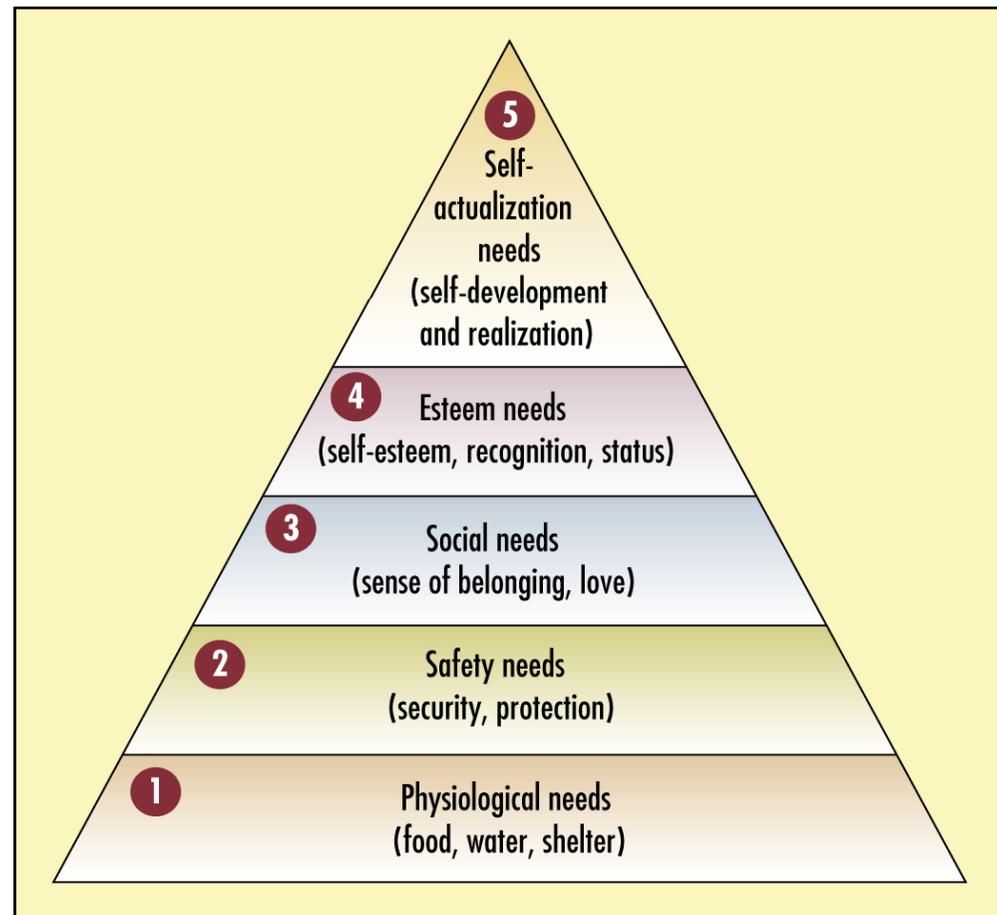    - **Projective techniques**

# Influencing Buyer Behavior

- **Ernest Dichter's research found:**
  - **Consumers resist prunes because prunes are wrinkled looking and remind people of old age.**
  - **Men smoke cigars as an adult version of thumb sucking.**
  - **Women prefer vegetable shortening to animal fats because the latter arouse a sense of guilt over killing animals.**
  - **Women don't trust cake mixes unless they require adding an egg, because this helps them feel they are giving "birth."**

# Influencing Buyer Behavior

- Maslow's Theory

**Figure 7.3: Maslow's Hierarchy of Needs**



5 Self-actualization needs (self-development and realization)

4 Esteem needs (self-esteem, recognition, status)

3 Social needs (sense of belonging, love)

2 Safety needs (security, protection)

1 Physiological needs (food, water, shelter)

# Influencing Buyer Behavior

- **Herzberg's Theory**
  - **Dissatisfiers**
  - **Satisfiers**

# Influencing Buyer Behavior

- **Perception**
  - **Selective attention**
    - People are more likely to notice stimuli than relate to a current need
    - People are more likely to notice stimuli than they anticipate
    - People are more likely to notice stimuli whose deviations are large in relation to the normal size of the stimuli
  - **Selective distortion**
  - **Selective retention**

# Influencing Buyer Behavior

- **Learning**
  - **Drive**
  - **Cues**
  - **Discrimination**
- **Beliefs and Attitudes**
  - **Belief**
    - **Spreading activation**
  - **Attitude**

# Discussion Question

The purchase of a product from a Company A turns out to be a positive experience. You are looking for a loosely related product, which is also offered by Company A. Do you assume that you will again have a positive experience with Company A's offering, or do you look for the "best of breed," regardless of which company offers it?

# The Buying Decision Process

- **Buying Roles**
  - **Initiator**
  - **Influencer**
  - **Decider**
  - **Buyer**
  - **User**
- **Buying behavior**

# Table 7.3: Four Types of Buying Behavior

|  | High Involvement | Low Involvement |
|---|---|---|
| **Significant Differences between Brands** | Complex buying behavior | Variety-seeking buying behavior |
| **Few Differences between Brands** | Dissonance-reducing buying behavior | Habitual buying behavior |

# The Buying Decision Process

- **Complex Buying Behavior**
- **Dissonance-Reducing Buyer Behavior**
- **Habitual Buying Behavior**
- **Variety-Seeking Buying Behavior**

# Stages in the Buying Decision Process

- **How marketers learn about the stages:**
  - **Introspective method**
  - **Retrospective method**
  - **Prospective method**
  - **Prescriptive method**
- **Understanding by mapping the customer's**
  - **Consumption system**
  - **Customer activity cycle**
  - **Customer scenario**
- **Metamarket**
- **Metamediaries**

# The Edmunds.com home page shows the variety of services this Web company offers those shopping for a car.

# Stages of the Buying Decision Process

- **Problem recognition**

- **Information search**
  - **Personal sources**
  - **Commercial sources**
  - **Public sources**
  - **Experiential sources**

**Figure 7.4: Five-Stage Model of the Consumer Buying Process**

Problem recognition

↓

Information search

↓

Evaluation of alternatives

↓

Purchase decision

↓

Postpurchase behavior

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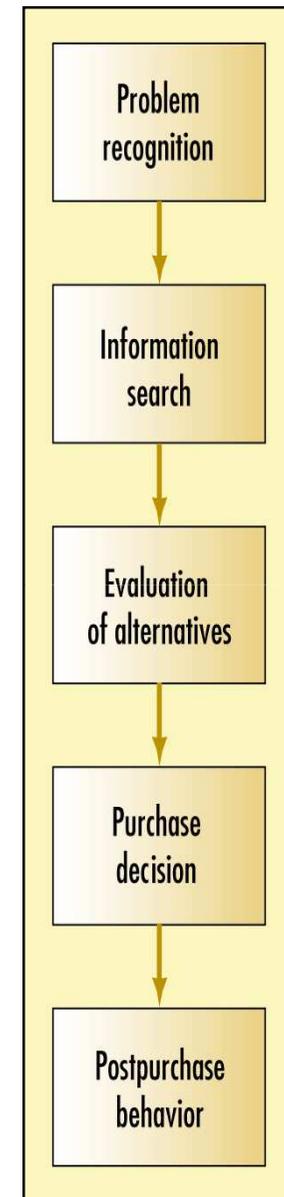
# Figure 7.5: Successive Sets Involved in Customer Decision Making

| Total set | → | Awareness set | → | Consideration set | → | Choice set | → | Decision |
|---|---|---|---|---|---|---|---|---|
| IBM<br>Apple<br>Dell<br>Hewlett-Packard<br>Toshiba<br>Compaq<br>NEC<br>Tandy<br>.<br>.<br>. | | IBM<br>Apple<br>Dell<br>Hewlett-Packard<br>Toshiba<br>Compaq | | IBM<br>Apple<br>Dell<br>Toshiba | | IBM<br>Apple<br>Dell | | ? |
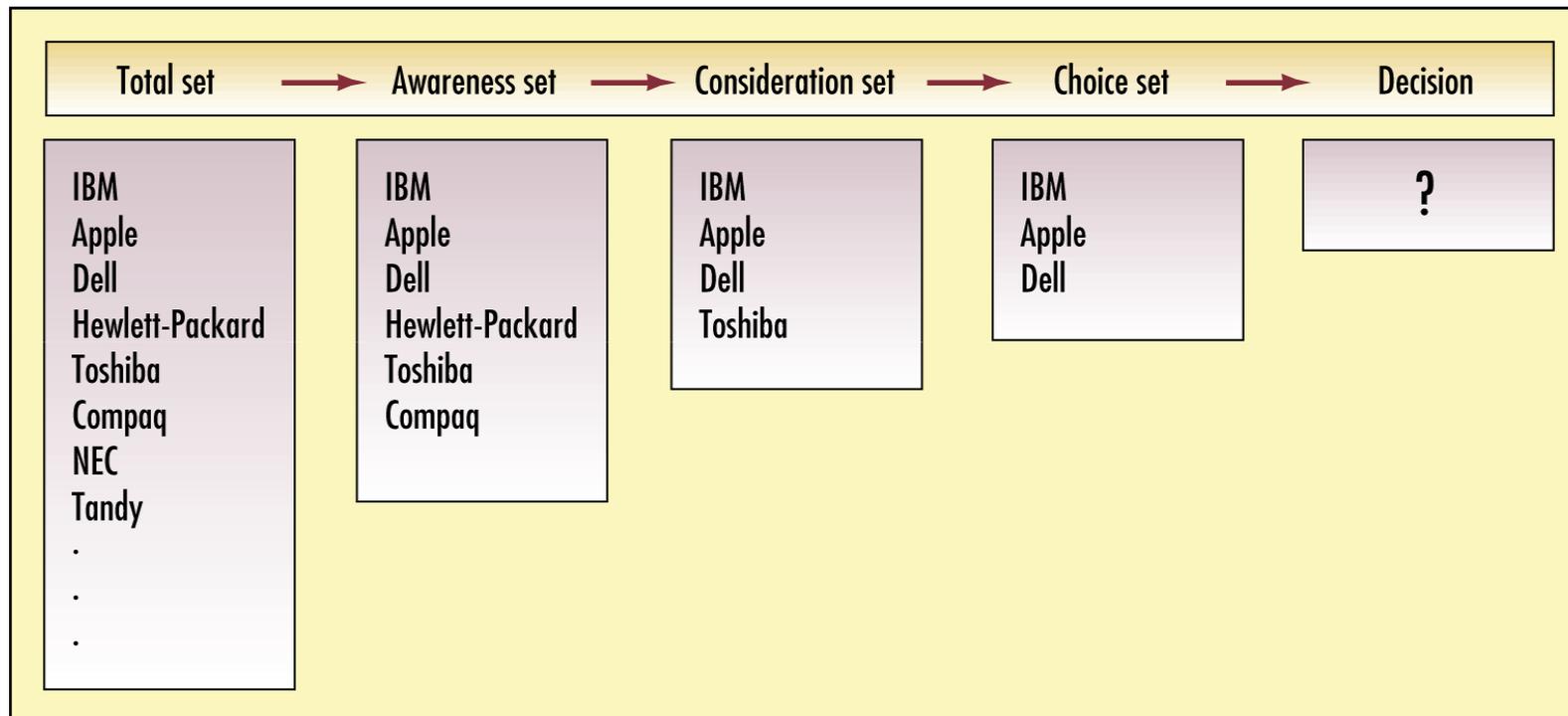
# The Buying Decision Process

- **Evaluation of Alternatives**
  - **Potential Attributes of interest**
    - Cameras
    - Hotels
    - Mouthwash
    - Tires
  - **Brand beliefs**
  - **Brand image**

# Table 7.4: A Consumer's Brand Beliefs about Computers

| Computer | Attribute | | | |
|---|---|---|---|---|
| | Memory Capacity | Graphics Capability | Size and Weight | Price |
| A | 10 | 8 | 6 | 4 |
| B | 8 | 9 | 8 | 3 |
| C | 6 | 8 | 10 | 5 |
| D | 4 | 3 | 7 | 8 |

# The Buying Decision Process

- **Strategies designed to stimulate interest in a computer**
  - Redesign the computer
  - Alter beliefs about the brand
  - Alter beliefs about competitors' brands
  - Alter the importance weights
  - Call attention to neglected attributes
  - Shift the buyer's ideas

# The Buying Decision Process

- **Purchase Decision**

**Figure 7.6: Steps Between Evaluation of Alternatives and a purchase decision**
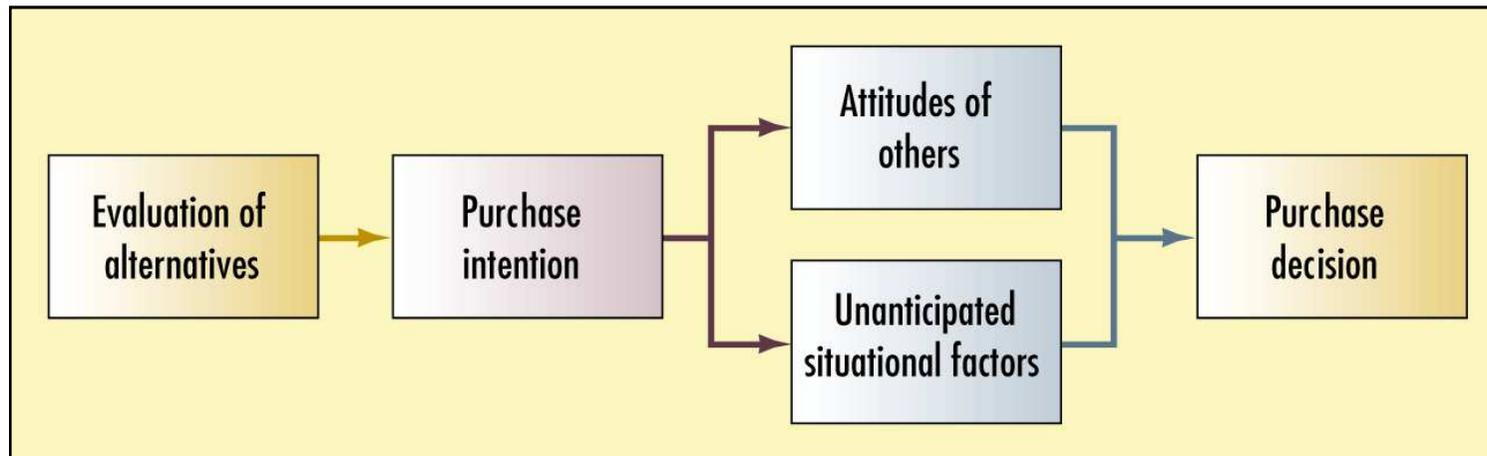
# The Buying Decision Process

- **Informediaries**
    - **Consumer Reports**
    - **Zagats**
- **Unanticipated situational factors**
- **Perceived risk**
- **Brand decision**
- **Vendor decision**
- **Quantity decision**
- **Timing decision**
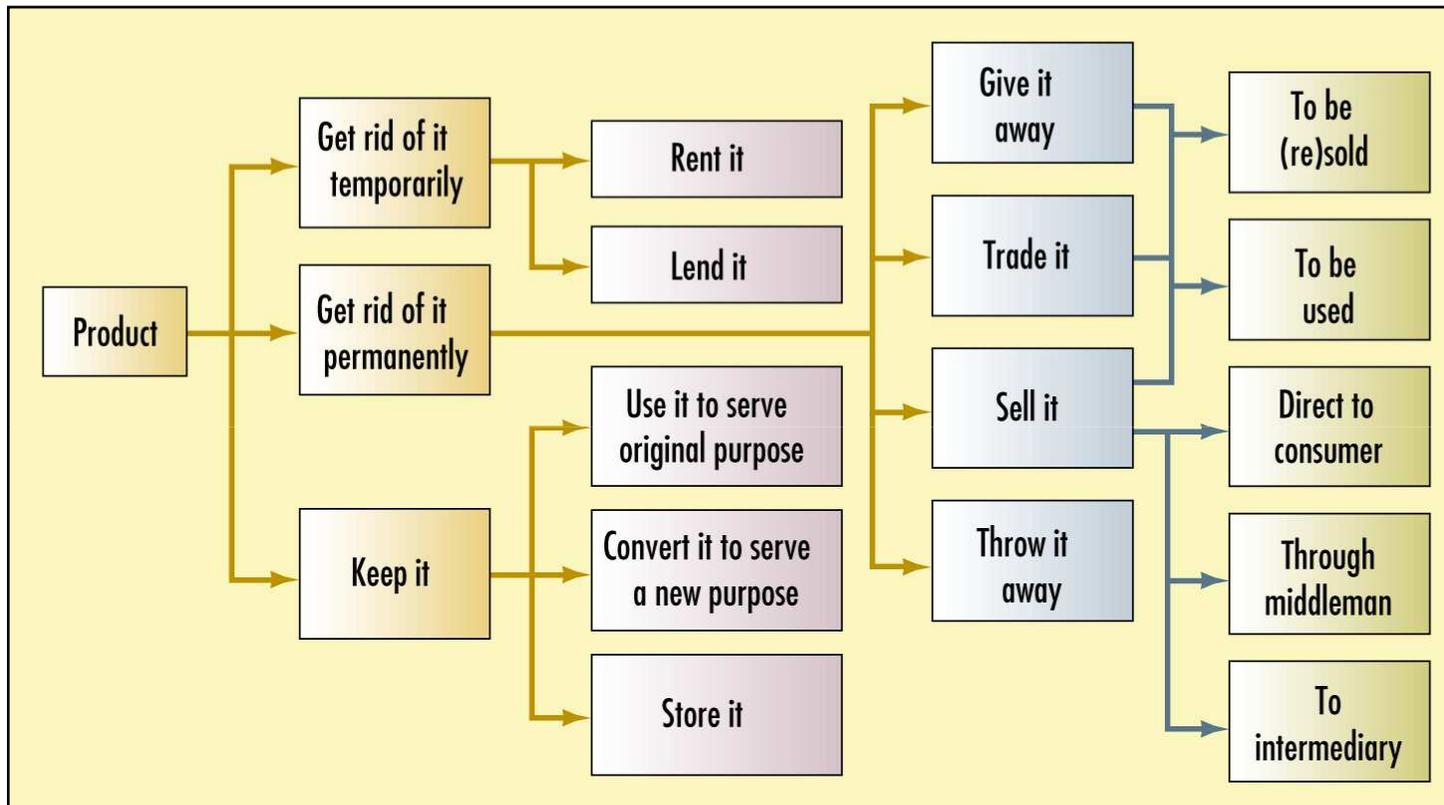- **Payment-method decision**

# The Buying Decision Process

- **Postpurchase Behavior**
  - **Postpurchase Satisfaction**
    - **Disappointed**
    - **Satisfied**
    - **Delighted**
- **Postpurchase Actions**
  - **Postpurchase Use and Disposal**

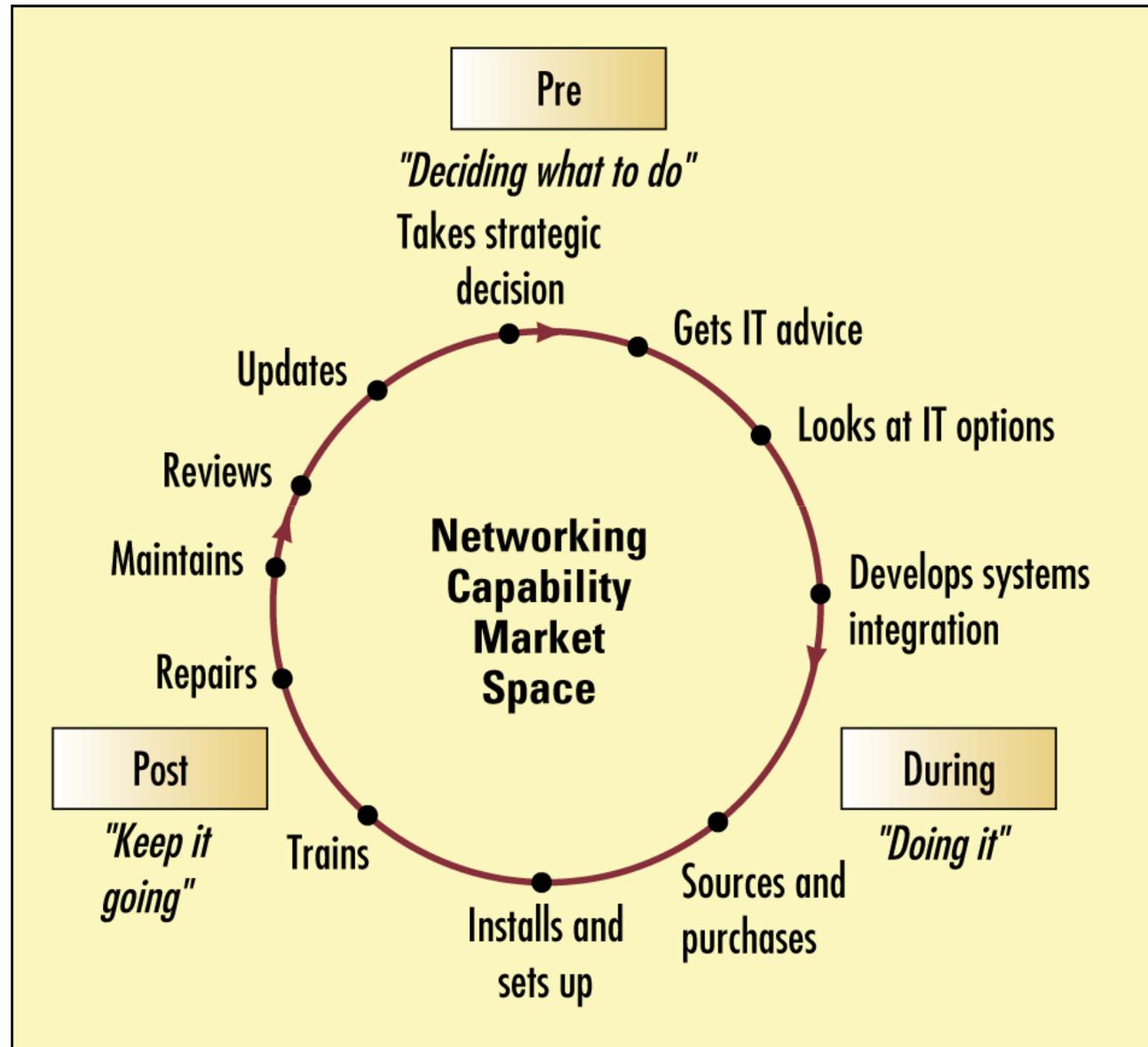# Figure 7.7: How Customers Dispose of Products

# The Buying Decision Process
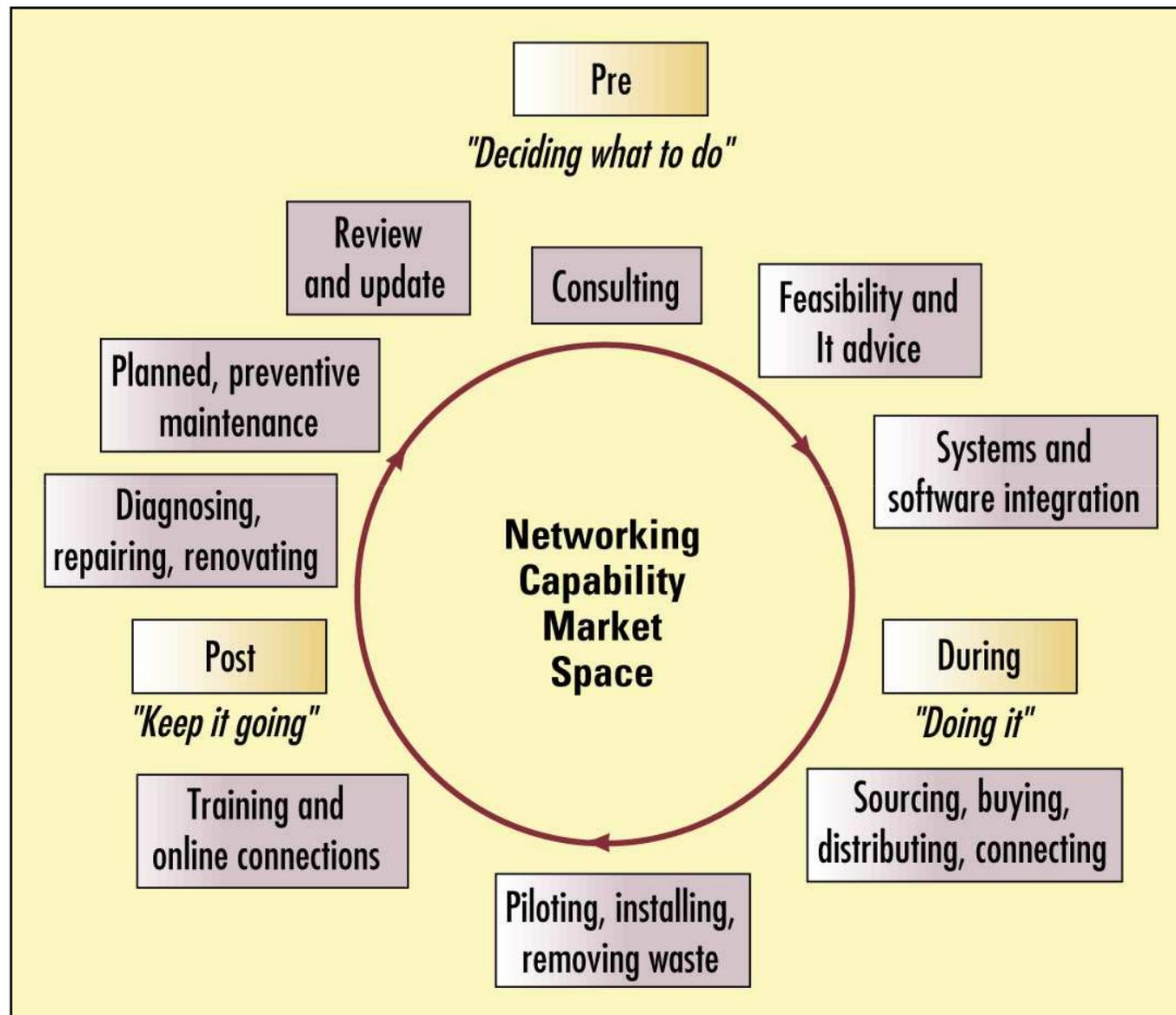
- **Other Models of the Buying Decision Process**
  - **Health Model**
    - **Stages of Change Model**
      - **Precontemplation**
      - **Contemplation**
      - **Preparation**
      - **Action**
      - **Maintenance**
  - **Customer Activity Cycle Model**
    - **Pre, during and post phases**

**Figure 7.8: Activity cycle for IBM customers in the global electronic networking capability market space**



Pre

"Deciding what to do"

Takes strategic decision

Gets IT advice

Looks at IT options

Updates

Reviews

Develops systems integration

Maintains

**Networking Capability Market Space**

Repairs

Post

"Keep it going"

Trains

During

"Doing it"

Installs and sets up

Sources and purchases

**Figure 7.9: Value adds for IBM customers in the global electronic networking capability market space**



Pre

"Deciding what to do"

Review and update

Consulting

Feasibility and It advice

Planned, preventive maintenance

Systems and software integration

Diagnosing, repairing, renovating

**Networking Capability Market Space**

Post

"Keep it going"

During

"Doing it"

Training and online connections

Sourcing, buying, distributing, connecting

Piloting, installing, removing waste

# Chapter 8
# Analyzing Business Markets and Business Buying Behavior

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
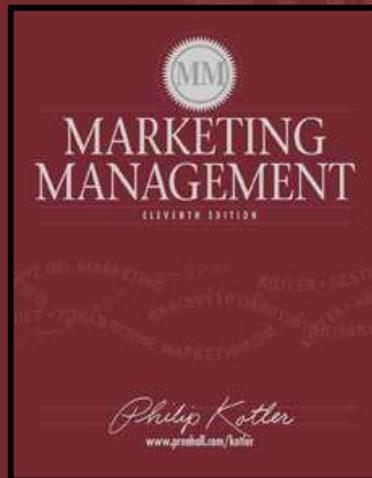
PowerPoint by

Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*Many businesses are wisely turning their suppliers and distributors into valued partners.*

# Chapter Objectives

- **In this chapter, we focus on six questions:**
    - **What is the business market, and how does it differ from the consumer market?**
    - **What buying situations do organizational buyers face?**
    - **Who participates in the business buying process?**
    - **What are the major influences on organizational buyers?**
    - **How do business buyers make their decisions?**
    - **How do institutions and government agencies do their buying?**

# What is Organizational Buying?

- **Organizational buying**

- **The business market versus the consumer market**

  - **Business market**

    - Fewer buyers
    - Larger buyers
    - Close supplier-customer relationship
    - Geographically concentrated buyers

# What is Organizational Buying?

- Derived demand
- Inelastic demand
- Fluctuating demand
- Professional purchasing

# Blue Shield of California's mylifepath

# What is Organizational Buying?

- **Several buying influences**
- **Multiple sales calls**
- **Directed purchasing**
- **Reciprocity**
- **Leasing**

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# Discussion Question

If you were tasked with marketing a product or service to an organization, would you attempt to initially contact the *purchasing department*, or *potential users* of your company's offerings? Why? Would the product you were selling make a difference? Why?

# What is Organizational Buying?

- **Buying Situations**
  - **Straight rebuy**
  - **Modified rebuy**
  - **New Task**
- **Systems Buying and Selling**
  - **Systems buying**
  - **Turnkey solution**
  - **Systems selling**

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# Discussion Question

What are some of the benefits to an organization that can be derived from a *single source solution*, or a *systems buying* arrangement with a prime contractor? What are some of the potential pitfalls? What can the company do to protect itself from these hazards?
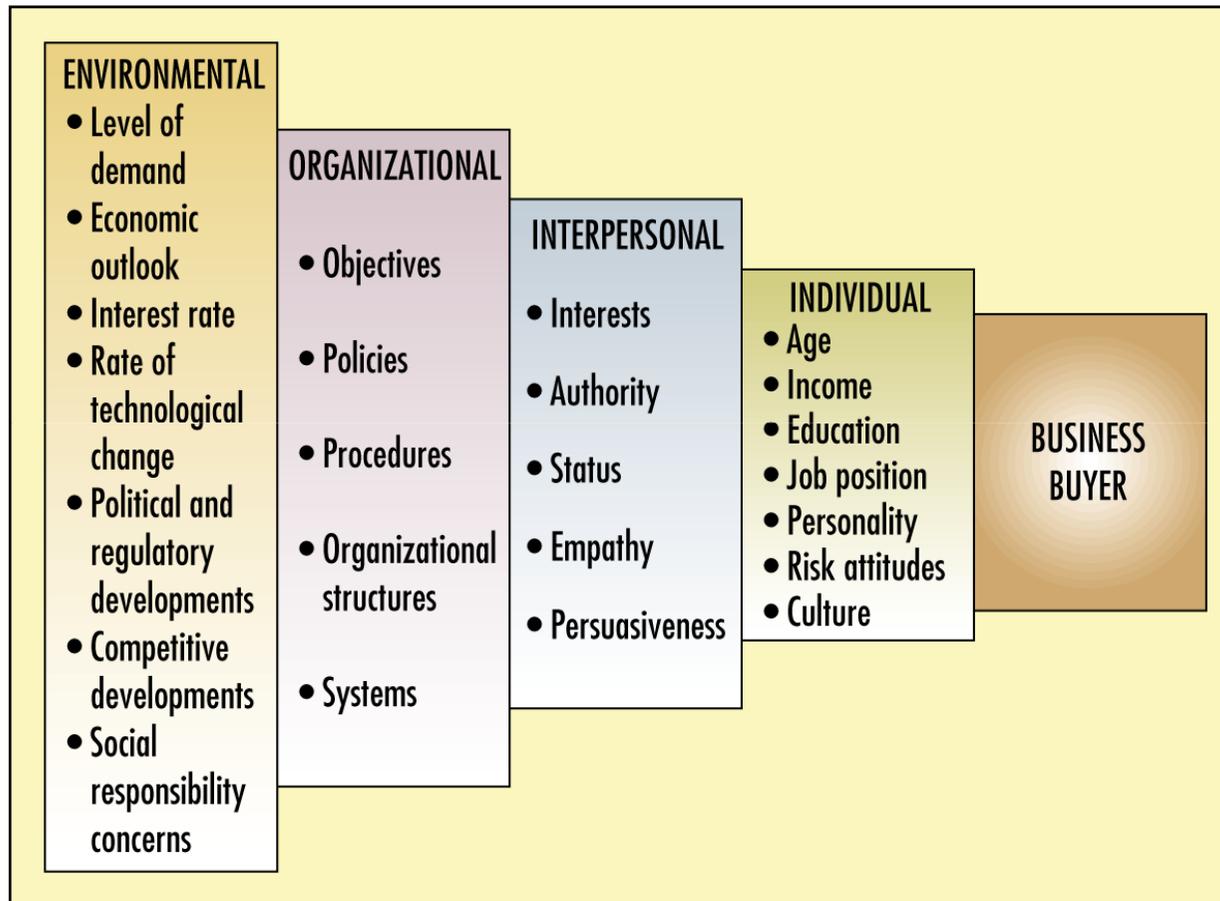
# Participants in the Business Buying Process

- **The Buying Center**
  - **Initiators**
  - **Users**
  - **Influencers**
  - **Deciders**
  - **Approvers**
  - **Buyers**
  - **Gatekeepers**
    - **Key buying influencers**
    - **Multilevel in-depth selling**

# Figure 8-1: Major Influences on Industrial Buying Behavior

**ENVIRONMENTAL**
- Level of demand
- Economic outlook
- Interest rate
- Rate of technological change
- Political and regulatory developments
- Competitive developments
- Social responsibility concerns

**ORGANIZATIONAL**
- Objectives
- Policies
- Procedures
- Organizational structures
- Systems

**INTERPERSONAL**
- Interests
- Authority
- Status
- Empathy
- Persuasiveness

**INDIVIDUAL**
- Age
- Income
- Education
- Job position
- Personality
- Risk attitudes
- Culture

**BUSINESS BUYER**

# Major Influences on Buying Decisions

- **Environmental Factors**
- **Organizational Factors**
  - **Purchasing-Department Upgrading**
  - **Cross-Functional Roles**
  - **Centralized Purchasing**
  - **Decentralized Purchasing of Small-Ticket Items**
  - **Internet Purchasing**

# The e-hub Plastics.com home page offers buyers and sellers of plastics a marketplace plus news and information

# Covisint's Web site offers both services and information

# Major Influences on Buying Decisions

- **Other Organizational Factors**
  - **Long-Term Contracts**
    - Vendor-managed inventory
    - Continuous replenishment programs
  - **Purchasing-Performance Evaluation and Buyers' Professional Development**
  - **Improved Supply Chain Management**
  - **Lean Production**
    - Just-in-time

# Major Influences on Buying Decisions

- **Interpersonal and Individual Factors**
- **Cultural Factors**
  - **France**
  - **Germany**
  - **Japan**
  - **Korea**
  - **Latin America**

# The Purchasing/ Procurement Process

- **Incentive to purchase**

- **Three Company Purchasing Orientations**
  - **Buying Orientation**
    - Commoditization
    - Multisourcing
  - **Procurement Orientation**
    - Materials requirement planning (MRP)
  - **Supply Chain Management Orientation**

# The Purchasing/ Procurement Process

- **Types of Purchasing Processes**
  - **Routine products**
  - **Leverage products**
  - **Strategic products**
  - **Bottleneck products**

# The Purchasing/ Procurement Process

- **Stages in the Buying Process**
  - **Problem Recognition**
  - **General Need Description and Product Specification**
    - **Product value analysis**
  - **Supplier Search**
    - **Vertical hubs**
    - **Functional hubs**
    - **Direct external links to major suppliers**
    - **Buying alliances**
      - **Company buying sites**
      - **Request for proposals (RFPs)**

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## Table 8.1: Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses)

|  |  | Buyclasses | | |
| --- | --- | --- | --- | --- |
|  |  | New Task | Modified Rebuy | Straight Rebuy |
|  | 1. Problem recognition | Yes | Maybe | No |
|  | 2. General need description | Yes | Maybe | No |
|  | 3. Product specification | Yes | Yes | Yes |
| Buyphases | 4. Supplier search | Yes | Maybe | No |
|  | 5. Proposal solicitation | Yes | Maybe | No |
|  | 6. Supplier selection | Yes | Maybe | No |
|  | 7. Order-routine specification | Yes | Maybe | No |
|  | 8. Performance review | Yes | Yes | Yes |

# The Purchasing/ Procurement Process

- **General Need Description and Product Specification**
  - **Product value analysis**
- **Supplier Search**
  - **Vertical hubs**
  - **Functional hubs**
  - **Direct extranet links to major suppliers**
  - **Buying alliances**
    - **Company buying sites**
    - **Request for proposals (RFPs)**

# The Purchasing/ Procurement Process

- **Proposal Solicitation**
- **Supplier Selection**

# Table 8-2: An Example of Vendor Analysis

| Attributes | Rating Scale | | | | |
|---|---|---|---|---|---|
| | Importance Weights | Poor (1) | Fair (2) | Good (3) | Excellent (4) |
| Price | .30 | | | | x |
| Supplier reputation | .20 | | | x | |
| Product reliability | .30 | | | | x |
| Service reliability | .10 | | x | | |
| Supplier Flexibility | .10 | | | x | |

Total score: .30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5

# The Purchasing/ Procurement Process

- **Customer value assessment**
- **Routine-order products**
- **Procedural-problem products**
- **Political-problem products**
- **Order-Routine Specification**
  - **Blanket contract**
  - **Stockless purchase plans**
- **Performance Review**
  - **Buyflow map**

# Figure 8-2:  Major Influences on Industrial Buying Behavior



1  President
2  Financial department
3  Sales headquarters
4  Production chief
5  Decision
6  Discussion of production and sales plans
7  Production department
8  Production of packing process plan
9  New products development committee
10  Request for consultation
11  Production of new product marketing plan
12  Product development department
13  Discussion of design of prototype machines
14  Prototype machine
15  Placement of orders
16  Makers design and technical staff
17  Supplier A
18  Supplier B
19  Supplier C
20  Overseas machine exhibitions
21  Request for testing of prototype machines
22  Research staff
23  Production of basic design
24  Foreman
25  Production of draft plans
26  Marketing department

# Institutional and Government Markets

- Institutional market

# Chapter 9
# Dealing with the Competition

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
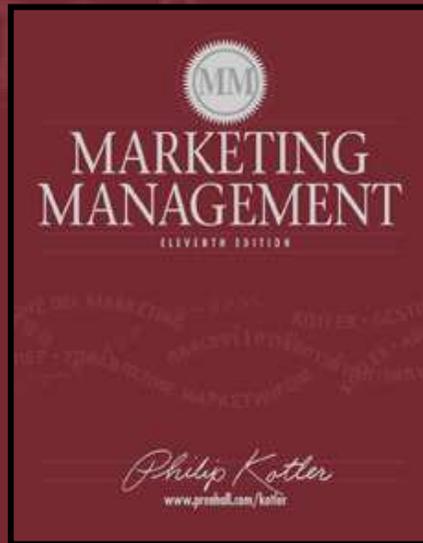
PowerPoint by

Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*Poor firms ignore their competitors; average firms copy their competitors; winning firms lead their competitors.*

# Chapter Objectives

- **In this chapter, we focus on five things companies need to know about their competition:**
  - **Who the primary competitors are**
  - **How to ascertain their strategies, objectives, strengths and weaknesses, and reaction patterns**
  - **How to design a competitive intelligence system**
  - **Whether to position as market leader, challenger, follower, or nicher**
  - **How to balance a customer versus competitor orientation**

# Competitive Forces

**Threat of:**

1. intense segment rivalry

2. new entrants

3. substitute products

▪ buyers' growing bargaining power

▪ suppliers' growing bargaining power

**Figure 9-1: Five Forces Determining Segment Structural Attractiveness**



Potential entrants
(Threat of mobility)

Suppliers
(Supplier power)

Industry competitors
(Segment rivalry)

Buyers
(Buyer power)

Substitutes
(Threat of substitutes)
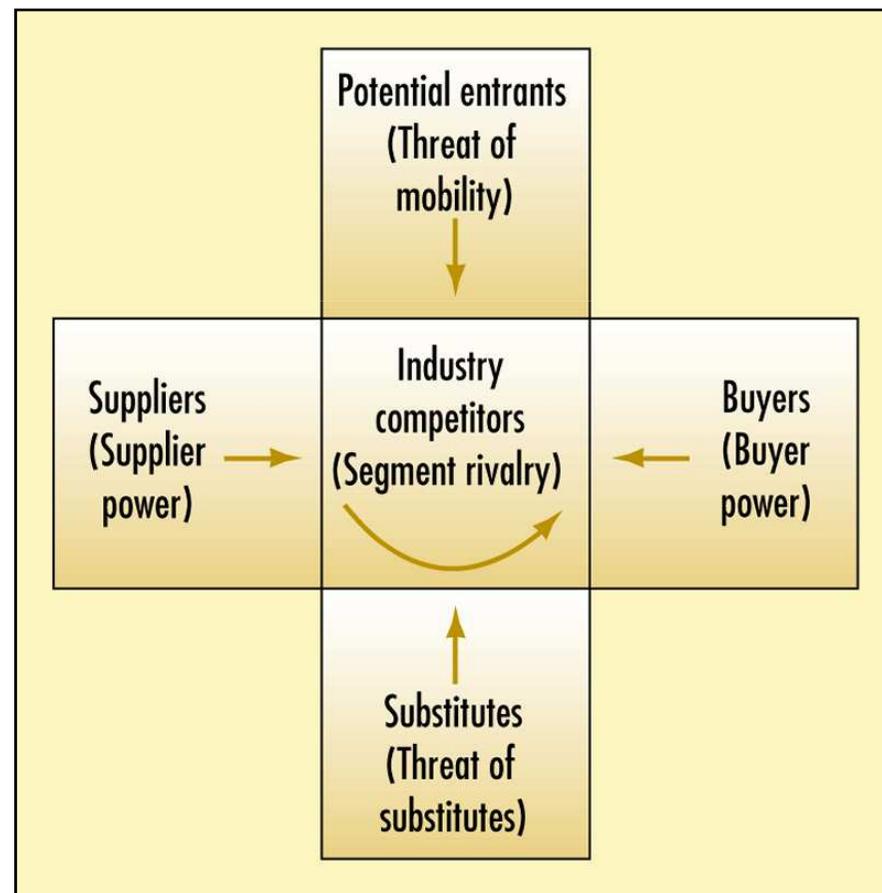
# Figure 9-2: Barriers and Profitability



**Exit Barriers**

|  | | Low | High |
|---|---|---|---|
| **Entry Barriers** | **Low** | Low, stable returns | Low, risky returns |
| | **High** | High, stable returns | High, risky returns |

**GetThere.com, launched as the Internet Travel Network in 1995, was the first company to book trips over the Web**

# Identifying Competitors

- **Industry Concept of Competition**
  - **Industry**
  - **Number of Sellers and Degree of Differentiation**
    - **Pure monopoly**
    - **Oligopoly**
      - **Pure oligopoly**
      - **Differentiated oligopoly**
    - **Monopolistic competition**
    - **Pure competition**

# Identifying Competitors

- **Entry, Mobility, Exit Barriers**
  - **Entry barriers**
  - **Mobility barriers**
  - **Exit barriers**
- **Cost Structure**
- **Degree of Vertical Integration**
  - **Vertical integration**
- **Degree of Globalization**
- **Market Concept of Competition**

# Analyzing Competitors

- **Objectives**

**Figure 9-5: A Competitor's Expansion Plans**

|  | Individual Users | Commercial and Industrial | Educational |
|---|---|---|---|
| **Personal Computers** | Dell → | | |
| **Hardware Accessories** | ↓ | | |
| **Software** | | | |

# Analyzing Competitors

- **Strengths and Weaknesses**
  - **Dominant**
  - **Strong**
  - **Favorable**
  - **Tenable**
  - **Weak**
  - **Nonviable**

## Table 9-1: Customer's Ratings of Competitors on Key Success Factors

|  | Customer Awareness | Product Quality | Product Availability | Technical Assistance | Selling Staff |
|---|---|---|---|---|---|
| Competitor A | E | E | P | P | G |
| Competitor B | G | G | E | G | E |
| Competitor C | F | P | G | F | F |

Note: E = excellent, G = good, F = fair, P = poor.

# Analyzing Competitors

- **Three Variables to Monitor When Analyzing Competitors:**
  - Share of market
  - Share of mind
  - Share of heart

## Table 9-2: Market Share, Mind Share, and Heart Share

| | Market Share | | | Mind Share | | | Heart Share | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| Competitor A | 50% | 47% | 44% | 60% | 58% | 54% | 45% | 42% | 39% |
| Competitor B | 30 | 34 | 37 | 30 | 31 | 35 | 44 | 47 | 53 |
| Competitor C | 20 | 19 | 19 | 10 | 11 | 11 | 11 | 11 | 8 |

# Analyzing Competitors

- **Reaction Patterns**

    1. If competitors are nearly identical and make their living the same way, then their competitive equilibrium is unstable.

    2. If a single major factor is the critical factor, then the competitive equilibrium is unstable.

    3. If multiple factors may be critical factors, then it is possible for each competitor to have some advantage and be differentially attractive to some customers. The more factors that may provide an advantage, the more competitors who can coexist. Competitors all have their segment, defined by the preference for the factor trade-offs they offer.

    4. The fewer the number of critical competitive variables, the fewer the number of competitors.

    5. A ratio of 2 to 1 in market share between any two competitors seems to be the equilibrium point at which it is neither practical nor advantageous for either competitor to increase or decrease share.

# Discussion Question

For many years, the major national broadcast television networks shared 100% of the market, and traded market share back and forth periodically. During the last two decades, the emergence of nationally available cable programming, and the rise of rival broadcast networks like Fox, UPN, and WB have increasingly cut into the market share of the "big three." What steps would you recommend that the "big three" networks take to stop or slow this loss of market share?

# Designing The Competitive Intelligence System

- **Four Main Steps**
  - **Setting Up the System**
  - **Collecting the Data**
  - **Evaluating and Analyzing the Data**
  - **Disseminating Information and Responding**

# Designing The Competitive Intelligence System

- **Selecting Competitors**
  - **Customer Value Analysis (CVA)**
    - **Customer Value = Customer Benefits – Customer Costs**
    - **Customer Benefits = product benefits, service benefits, personnel benefits, image benefits**
    - **Customer Costs = purchase price, acquisition costs, usage costs, maintenance costs, ownership costs, disposal costs**

# Discussion Question

What do you see as the potential impact of the availability of information via the Internet on the design of competitive intelligence systems? What problems could be caused by the inability of the average computer user to verify the accuracy of data from the web? What impact will emerging database technologies like text-based data mining have in competitive intelligence systems?

## Table 9-3: Customer Cost of Three Brands

|  | A | B | C |
|---|---|---|---|
| Price | $100 | $ 90 | $ 80 |
| Acquisition costs | 15 | 25 | 30 |
| Usage costs | 4 | 7 | 10 |
| Maintenance costs | 2 | 3 | 7 |
| Ownership costs | 3 | 3 | 5 |
| Disposal costs | 6 | 5 | 8 |
| Total costs | $130 | $135 | $140 |

# Designing The Competitive Intelligence System

- **Major Steps in Customer Value Analysis:**

    1. Identify the major attributes customers value.

    2. Assess the quantitative importance of the different attributes.

    3. Assess the companies' and competitors' performances on the different customer values against their rated importance.

    4. Examine how customers in a specific segment rate the company's performance against a specific major competitor on an attribute-by-attribute basis.
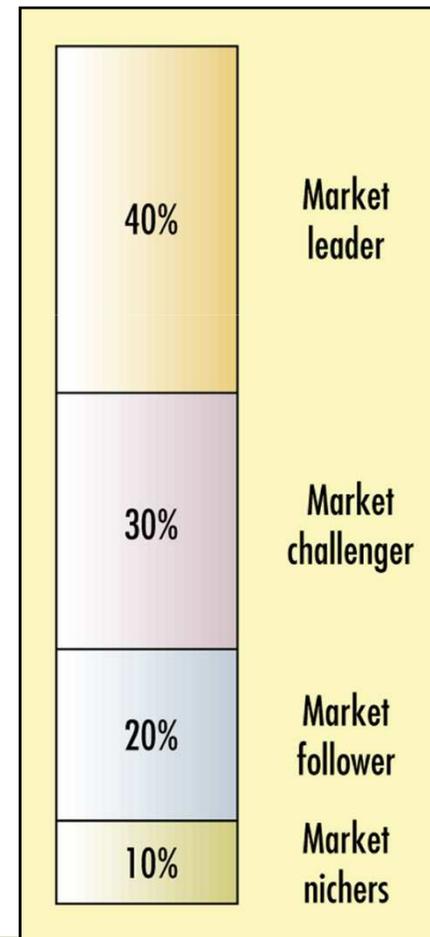
    5. Monitor customer values over time.

# Designing The Competitive Intelligence System

- **Classes of Competitors**
  - **Strong versus Weak**
  - **Close versus Distant**
  - **"Good" versus "Bad"**

# Designing Competitive Strategies

**Figure 9-6:
Hypothetical
Market
Structure**

| | |
|---|---|
| 40% | Market leader |
| 30% | Market challenger |
| 20% | Market follower |
| 10% | Market nichers |

# Designing Competitive Strategies

- **Market-Leader Strategies**
  - **Expanding the Total Market**
    - **New Users**
      - **Market-penetration strategy**
      - **New-market segment strategy**
      - **Geographical-expansion strategy**
    - **New Uses**
    - **More Usage**
  - **Defending Market Share**

# IGT's home page focuses on customer service

# Designing Competitive Strategies

- **Defense Strategies**
  - **Position Defense**
  - **Flank Defense**
  - **Preemptive Defense**
  - **Counteroffensive Defense**
  - **Mobile Defense**
    - **Market broadening**
    - **Principle of the objective**
    - **Principle of mass**
    - **Market diversification**
  - **Contraction Defense**
    - **Planned contraction (Strategic withdrawal)**

# Designing Competitive Strategies

- **Two Case Studies: Procter & Gamble and Caterpillar**
  - **Proctor & Gamble**
    - Customer knowledge
    - Long-term outlook
    - Product innovation
    - Quality strategy
    - Line-extension strategy

# Designing Competitive Strategies

- **Brand-extension strategy**
- **Multibrand strategy**
- **Heavy advertising and media pioneer**
- **Aggressive sales force**
- **Effective sales promotion**
- **Competitive toughness**
- **Manufacturing efficiency and cost cutting**
- **Brand-management system**

# Designing Competitive Strategies

- **Market-Challenger Strategies**
  - **Defining the Strategic Objective and Opponent(s)**
    - **It can attack the market leader**
    - **It can attack firms of its own size that are not doing the job and are underfinanced**
    - **It can attack small local and regional firms**
- **Choosing a General Attack Strategy**

# Figure 9-10: Attack Strategies
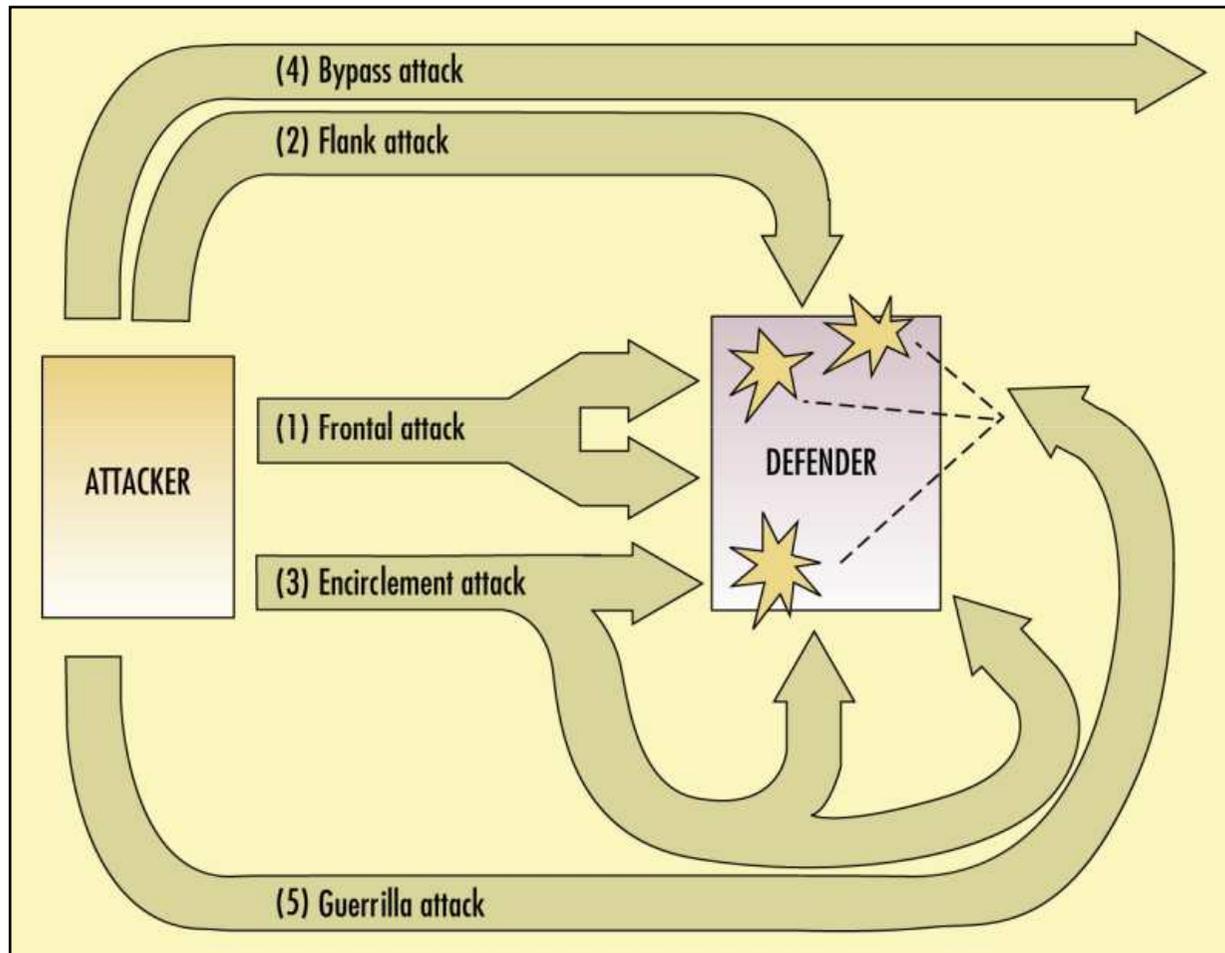
**Swedish firm SCA's www.libero.se site creates a dialogue with expectant and new parents and even allows users to send pictures, brief stories, and child wish list to family all over the world.**

# Designing Competitive Strategies

- **Choosing a Specific Attack Strategy**
  - **Price-discount**
  - **Lower price goods**
  - **Prestige goods**
  - **Product proliferation**
  - **Product innovation**
  - **Improved services**
  - **Distribution innovation**
  - **Manufacturing cost reduction**
  - **Intensive advertising promotion**

# Designing Competitive Strategies

- **Market-Follower Strategies**
  - **Innovative imitation (Product imitation)**
  - **Product innovation**
  - **Four Broad Strategies:**
    - Counterfeiter
    - Cloner
    - Imitator
    - Adapter

# Designing Competitive Strategies

- **Market-Nicher Strategies**

  - **High margin versus high volume**

  - **Nicher Specialist Roles**

    - **End-user specialist**

      - **Value-added reseller**

    - **Vertical-level specialist**

    - **Customer-size specialist**

    - **Specific-customer specialist**

    - **Geographic specialist**

    - **Product or product-line specialist**

    - **Product-feature specialist**

    - **Job-shop specialist**

    - **Quality-price specialist**

    - **Service specialist**

    - **Channel specialist**

# Balancing Customer and Competitor Orientations

- **Competitor-centered company**
- **Customer-centered company**

# Chapter 10
# Identifying Market Segments and Selecting Target Markets

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
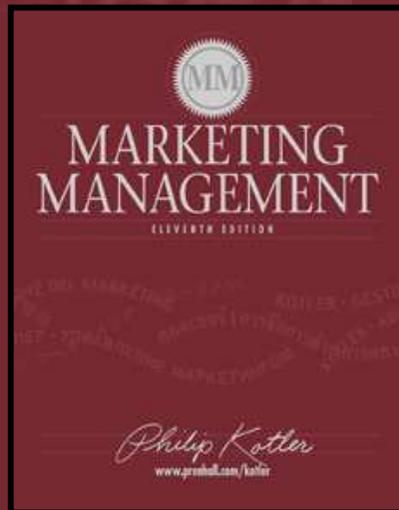
PowerPoint by

Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*"Don't buy market share. Figure out how to earn it."*

# Chapter Objectives

- **We focus on the following questions:**
  - **How can a company identify the segments that make up a market?**
  - **What criteria can a company use to choose the most attractive target markets?**

# Target Marketing

- **Target marketing requires marketers to take three major steps:**
  - Identify and profile distinct groups of buyers who differ in their needs and preferences (market segmentation).
  - Select one or more market segments to enter (market targeting).
  - For each target segment, establish and communicate the key distinctive benefit(s) of the company's market offering (market positioning).

# Levels and Patterns of Market Segmentation

- **Levels of Market Segmentation**
    - Mass marketing
    - Micromarketing
- **Segment marketing**
    - Market segment
    - Sector
    - Flexible market offering
        - Naked solution
        - Discretionary options

# Levels and Patterns of Market Segmentation

- **Niche Marketing**
  - **Niche**
- **Local Marketing**
- **Individual Customer Marketing**
  - **Mass-customization**
  - **Choiceboard**
  - **Customerization**
    - **Segments**
    - **Individuals**

# Levels and Patterns of Market Segmentation

- **Patterns for Market Segmentation**
  - **Preference segments**
    - **Homogeneous preferences**
    - **Diffused preferences**
    - **Clustered preferences**
      - Natural market segments
      - Concentrated marketing

# Levels and Patterns of Market Segmentation

- **Market Segmentation Procedure**
  - Needs-based market segmentation approach
  - Market partitioning
    - Brand-dominant hierarchy
    - Nation-dominant hierarchy

# ChemStation's Web site offers customers solutions to their problems, not just products.
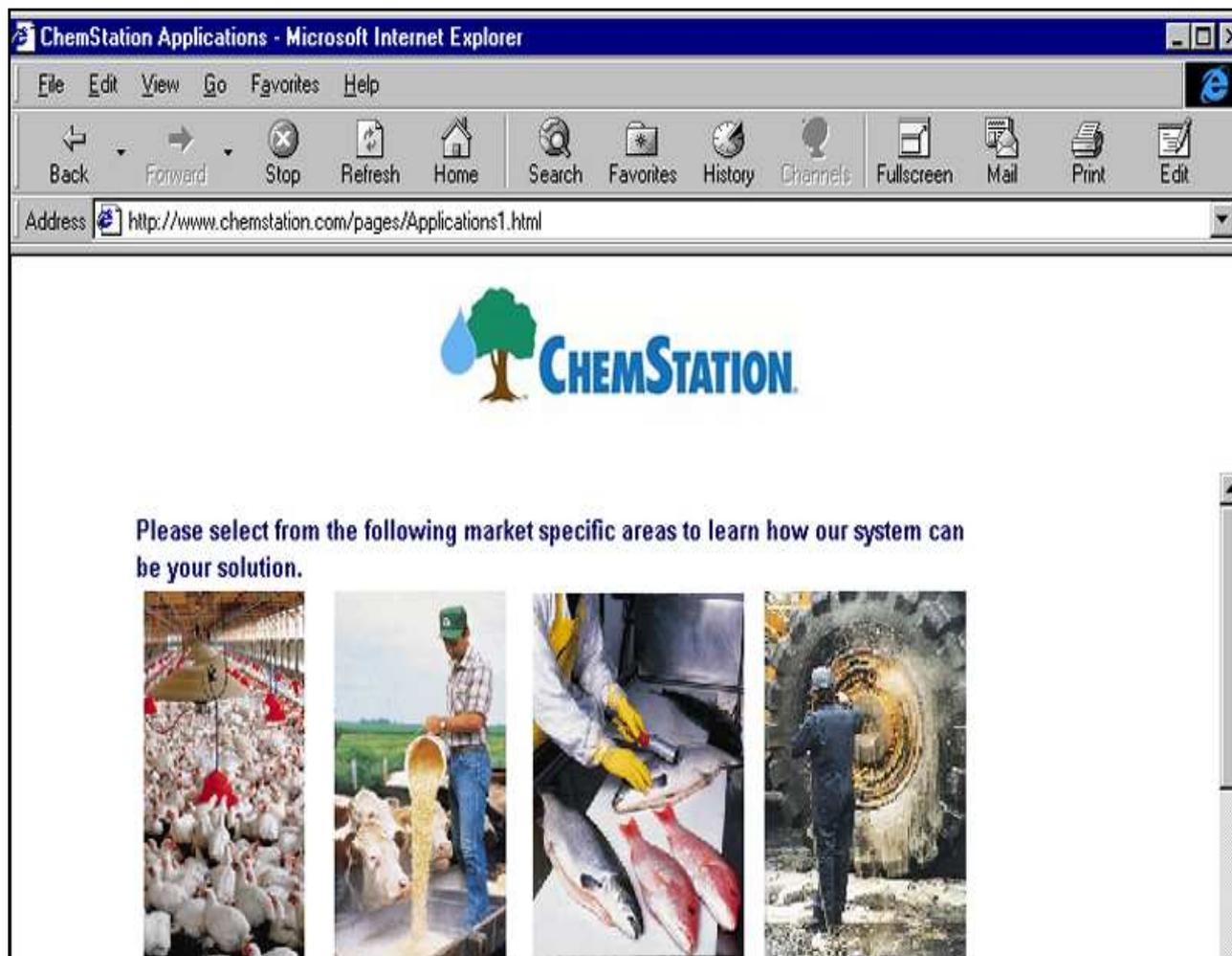
# Table 10-1: Steps in Segmentation Process

| | Description |
|---|---|
| **1. Needs-Based Segmentation** | **Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.** |
| **2. Segment Identification** | **For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).** |
| **3. Segment Attractiveness** | **Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.** |
| **4. Segment Profitability** | **Determine segment profitability.** |
| **5. Segment Positioning** | **For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.** |

*See text for complete table*

# Levels and Patterns of Market Segmentation

- **Effective Segmentation**
    - **Measurable**
    - **Substantial**
    - **Accessible**
    - **Differentiable**
    - **Actionable**

# Segmenting Consumer and Business Markets

- **Bases for Segmenting Consumer Markets**

# Table 10-2:  Major Segmentation Variables for Consumer Markets

## Geographic

| | |
|---|---|
| Region | Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England |
| City or metro size | Under 5,000; 5,000-20,000; 20,000-50,000; 50,000-100,000; 100,000-250,000; 250,000-500,000; 500,000-1,000,000; 1,000,000-4,000,000; 4,000,000 or over |
| Density | Urban, suburban, rural |
| Climate | Northern southern |

## Demographic

| | |
|---|---|
| Age | Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 65+ |
| Family size | 1-2, 3-4, 5+ |

*See text for complete table*

# Segmenting Consumer and Business Markets

- **Bases for Segmenting Consumer Markets**
  - **Geographic Segmentation**
  - **Demographic Segmentation**
    - **Age and Life-Cycle Stage**

**Discussion Question**

An easily identifiable demographic group which is often targeted by marketers is college students. Do you think this is influenced more by a common economic status of the target group, geographic concentration of a specific age group, or some other factor(s)?

# Sega's homepage: Not just games

# Segmenting Consumer and Business Markets

- **Life Stage**
- **Gender**
- **Income**
- **Generation**
  - **The Depression Cohort**
  - **The World War II Cohort**
  - **The Post-War Cohort**
  - **Leading-Edge Baby Boomer Cohort**
  - **Trailing-Edge Baby Boomer Cohort**
  - **Generation X Cohort**
  - **The Generation Y Cohort**



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# Segmenting Consumer and Business Markets

- **Lifestage Analytic Matrix**
  - **Lifestages**
  - **Physiographics**
  - **Emotional effects**
  - **Socioeconomics**
- **Social Class**
- **Psychographic Segmentation**
  - **Lifestyle**
    - **Time-constrained**
      - **multitasking**
    - **Money-constrained**

Improvements in both the average standard of living and in health care have had profound effects in the industrialized world during the last two generations. Other than an increase in the average life expectancy for both men and women, what effects has this trend toward longer and healthier lives in general had on the traditional life stage assumptions that marketers make?

# Segmenting Consumer and Business Markets

- **Personality**
  - **"Brand personality" examples:**
    - **Sincere**
    - **Exciting**
    - **Competent**
    - **Sophisticated**
    - **Rugged**
- **Values**
  - **Core values**

# Segmenting Consumer and Business Markets

- **Behavioral Segmentation**
  - **Occasions**
    - **Critical life events or transitions**
  - **Benefits**
    - **Mobil has identified five segments and their sizes**
      - **Road Warriors 16%**
      - **Generation F 27%**
      - **True Blues 16%**
      - **Home Bodies 21%**
      - **Price Shoppers 20%**
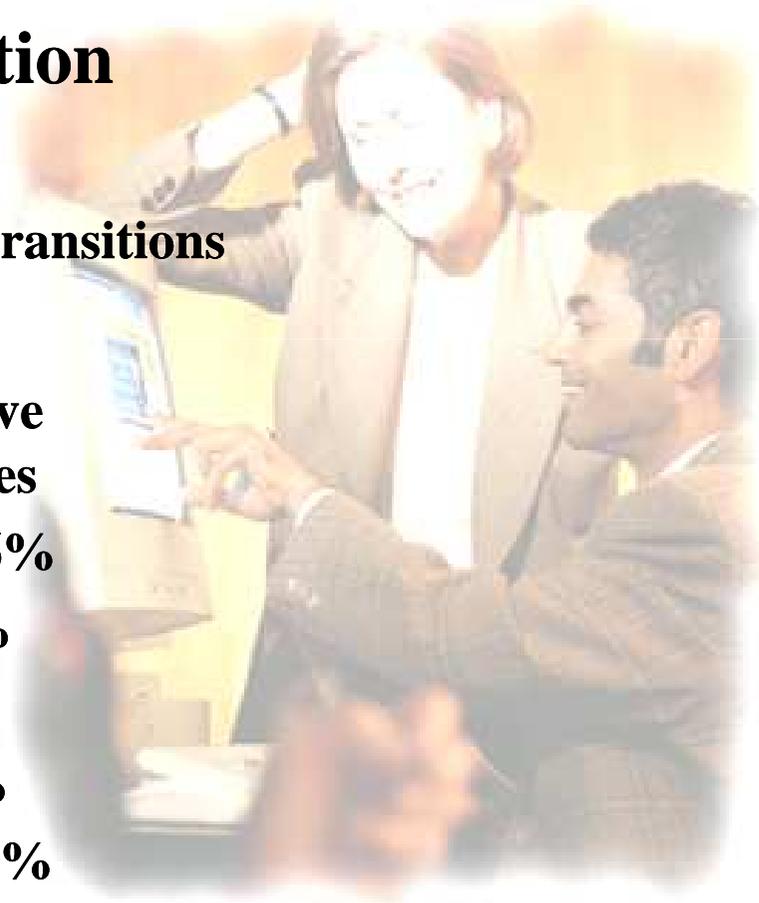
# Segmenting Consumer and Business Markets

- **User Status**
- **Usage Rate**
- **Loyalty Status**
    - Hard-core loyals
    - Split loyals
    - Shifting loyals
    - Switchers
- **Buyer-Readiness Stage**
- **Attitude**

# Segmenting Consumer and Business Markets

- **Multi-Attribute Segmentation (Geoclustering)**
  - **Four PRIZM clusters**
    - **American Dreams**
    - **Rural Industria**
    - **Gray Power**
    - **Country Squires**
- **Targeting Multiple Segments**



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# Segmenting Consumer and Business Markets

- **Bases For Segmenting Business Markets**

# Table 10-3:  Major Segmentation Variables for Business Markets

**Demographic**

1.　Industry: Which industries should we serve?

2.　Company size: What size companies should we serve?

3.　Location: What geographical areas should we serve?

**Operating Variables**

4.　Technology: What customer technologies should we focus on?

5.　User or nonuser status: Should we serve heavy users, medium users, light users, or nonusers?

6.　Customer capabilities: Should we serve customers needing many or few services?

**Purchasing Approaches**

7.　Purchasing-function organization: Should we serve companies with highly centralized or decentralized purchasing organizations?

8.　Power structure: Should we serve companies that are engineering dominated, financially dominated, and so on?

*See text for complete table*

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# Segmenting Consumer and Business Markets

- **Business buyers seek different benefit bundles based on their stage in the purchase decision process.**
  1. **First-time prospects**
  2. **Novices**
  3. **Sophisticates**

# Segmenting Consumer and Business Markets

- **Rangan, Moriarty, and Swartz studied a mature commodity market, steel stamping, and found four business segments**

  1. **Program buyers**
  2. **Relationship buyers**
  3. **Transaction buyers**
  4. **Bargain hunters**

# Segmenting Consumer and Business Markets

- **Rackman and Vincentis proposed a segmentation scheme that classifies business buyers into three groups**
  - **Price-oriented customers (transactional selling)**
  - **Solution-oriented customers (consultative selling)**
  - **Strategic-value customers (enterprise selling)**

# Market Targeting

- **Evaluating and Selecting the Market Segments**
    - **Single-Segment Concentration**
    - **Selective Specialization**
    - **Product Specialization**
    - **Market Specialization**
    - **Full Market Coverage**
        - **Undifferentiated marketing**
        - **Differentiated marketing**

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# Market Targeting

- **Higher costs using differentiated marketing include:**
  - **Product modification cost**
  - **Manufacturing cost**
  - **Administrative cost**
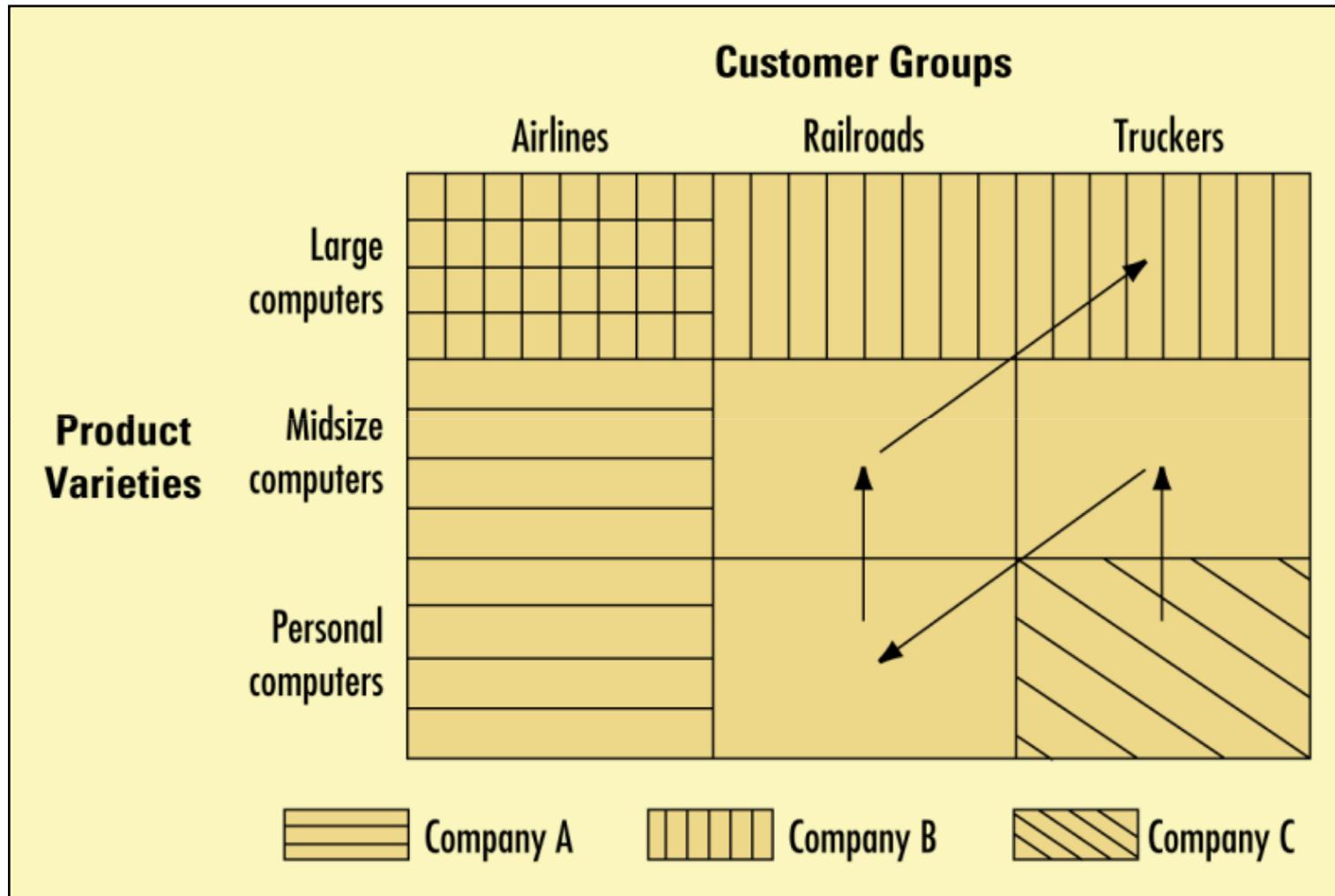  - **Inventory cost**
  - **Promotion cost**

# Market Targeting

- **Additional Considerations**
  - **Ethical Choice of Market Targets**
    - **Supersegment**
  - **Segment-By-Segment Invasion Plans**

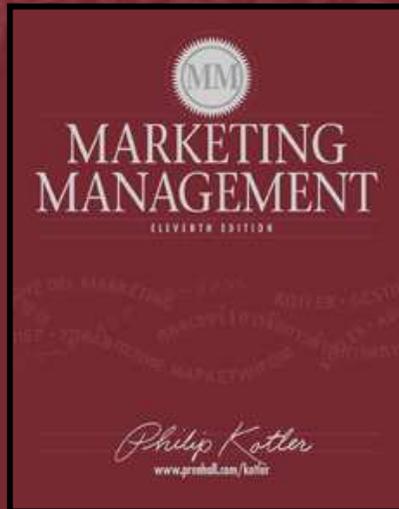# Figure 10-3: Segment-by-Segment Invasion Plan

# Market Targeting

- **Intersegment Cooperation**

# Chapter 11
# Positioning and Differentiating the Market Offering Through the Product Life Cycle

by *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler

PowerPoint by

Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*Watch the product life cycle; but more important, watch the market life cycle.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
  - How can the firm choose and communicate an effective positioning in the market?
  - What are the major **differentiating attributes** available to firms?
  - What marketing strategies are appropriate at each stage of the product life cycle?
  - What marketing strategies are appropriate at each stage of the market's evolution?

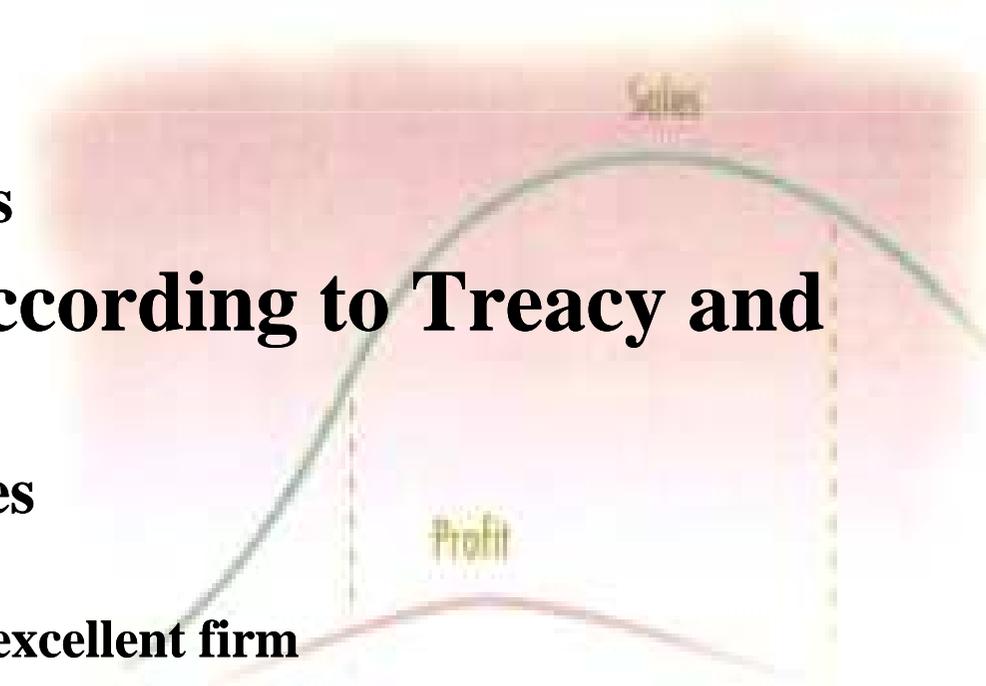# Developing and Communicating a Positioning Strategy

- **Positioning**
- **Value position**
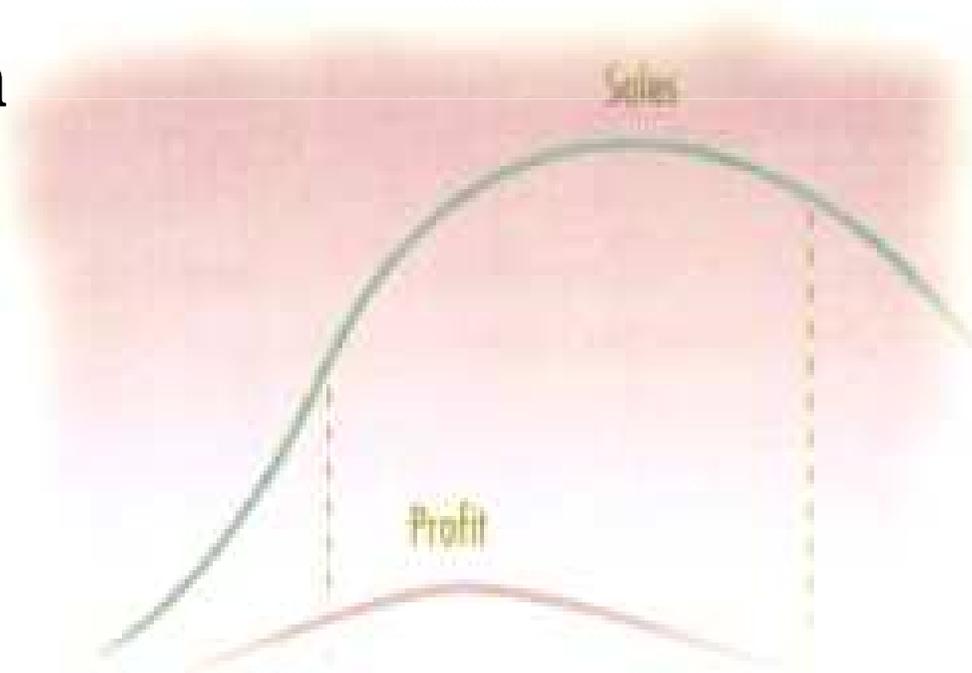
# Table 11.1: Examples of Value Propositions Demand States and Marketing Tasks

| Company and Product | Target Customers | Benefits | Price | Value Proposition |
|---|---|---|---|---|
| Perdue (chicken) | Quality-conscious consumers of chicken | Tenderness | 10% premium | More tender golden chicken at a moderate premium price |
| Volvo (station wagon) | Safety-conscious "upscale" families | Durability and safety | 20% premium | The safest, most durable wagon in which your family can ride |
| Domino's (pizza) | Convenience-minded pizza lovers | Delivery speed and good quality | 15% premium | A good hot pizza, delivered to your door door within 30 minutes of ordering, at a moderate price |

# Developing and Communicating a Positioning Strategy

- **Positioning According to Ries and Trout**
  - Strengthen own current position
  - Grab an unoccupied position
  - De-position
  - Re-position
  - Product ladders
- **Positioning According to Treacy and Wiersema**
  - Value disciplines
    - Product leader
    - Operationally excellent firm
    - Customer intimate firm

# Developing and Communicating a Positioning Strategy

- **Treacy and Wiersema propose that a business should follow four rules for success**

  1. **Become best at one of the three value disciplines.**

  2. **Achieve an adequate performance level in the other two disciplines.**

  3. **Keep improving one's superior position in the chosen discipline so as not to lose out to a competitor.**

  4. **Keep becoming more adequate in the other two disciplines, because competitors keep raising customers' expectations.**

# Developing and Communicating a Positioning Strategy

- **Positioning: How many ideas to promote?**
  - Unique selling proposition
  - **Four major positioning errors**
    1. Underpositioning
    2. Overpositioning
    3. Confused positioning
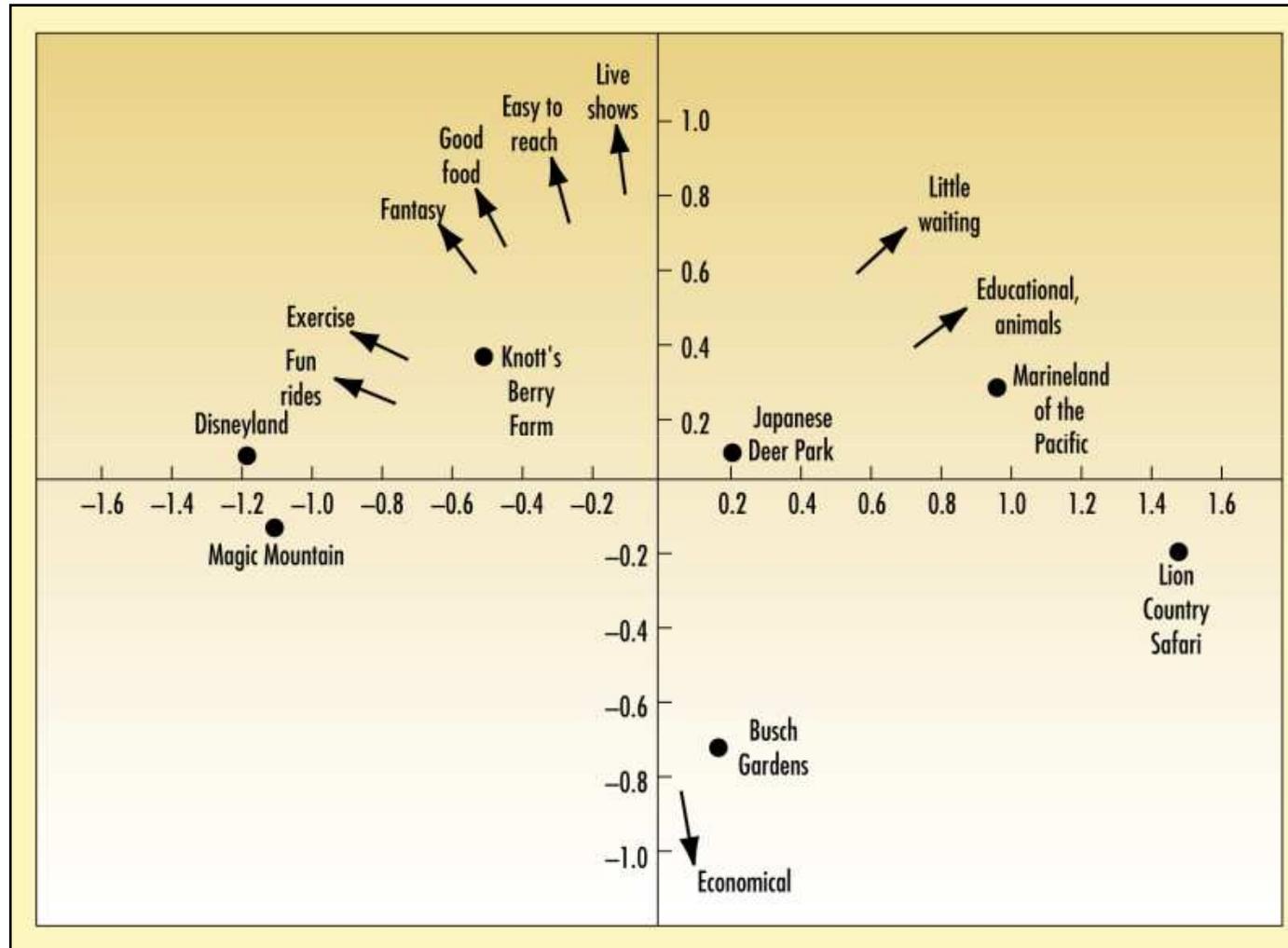    4. Doubtful positioning
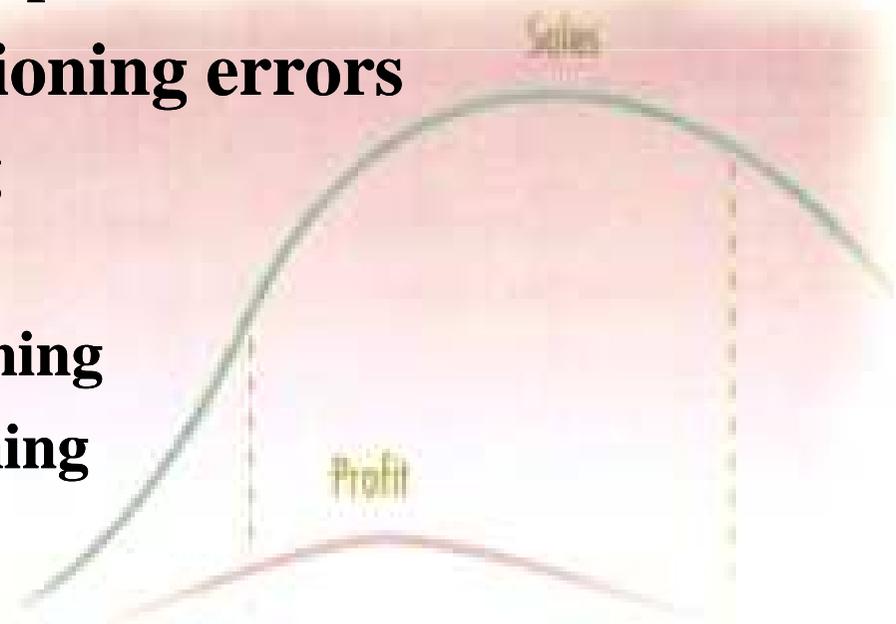
**Discussion Question**

Can you think of any companies that market the same product or service offering to *multiple segments* using different strategies? Are the different segments being offered different value propositions?

# Figure 11.1: Perceptual Map

# Developing and Communicating a Positioning Strategy

- Theme park's positioning possibilities:
    - Attribute positioning
    - Benefit positioning
    - Use or application positioning
    - User positioning
    - Competitor positioning
    - Product category positioning
    - Quality or price positioning
- Which Positioning to Promote?

# Table 11.2: Method for Competitive-Advantage Selection

| (1) Competitive Advantage | (2) Company Standing | (3) Competitor Standing | (4) Importance of Improving Standing (H-M-L)* | (5) Affordability and Speed (H-M-L) |
|---|---|---|---|---|
| Technology | 8 | 8 | L | L |
| Cost | 6 | 8 | H | M |
| Quality | 8 | 6 | L | L |
| Service | 4 | 3 | H | H |
| H=high, M=medium, L=low | | | | |

*See text for complete table*

# Adding Further Differentiation

- **Differentiation**
  - **Differentiation criteria:**
    - **Important**
    - **Distinctive**
    - **Superior**
    - **Preemptive**
    - **Affordable**
    - **Profitable**

# Adding Further Differentiation

- **Exceed customer expectations with a three-step process**
  1. **Defining the customer value model**
  2. **Building the customer value hierarchy**
     - **Basic**
     - **Expected**
     - **Desired**
     - **Unanticipated**
  3. **Deciding on the customer value package**

# Differentiation Tools

**Figure 11.2:
The BCG
Competitive
Advantage
Matrix**



Number of Approaches to Achieve Advantage

|  | Few | Many |
|---|---|---|
| **Large** | Volume | Specialized |
| **Small** | Stalemated | Fragmented |

Size of the Advantage

# Table 11.3: Differentiation Variables

| Product | Services | Personnel | Channel | Image |
|---|---|---|---|---|
| Form | Ordering ease | Competence | Coverage | Symbols |
| Features | Delivery | Courtesy | Expertise | Media |
| Performance | Installation | Credibility | Performance | Atmosphere |
| Conformance | Customer training | Reliability | | Events |
| Durability | Customer consulting | Responsive ness | | |

*See text for complete table*

# Differentiation Tools

- **Product Differentiation**
  - **Form**
  - **Features**

# Table 11.4: Measuring Customer Effectiveness Value

| Feature | Company Cost (a) | Customer Value (b) | Customer Value/Customer Cost (c=b/a) |
|---|---|---|---|
| Rear-window defrosting | $100 | $200 | 2 |
| Cruise control | 600 | 600 | 1 |
| Automatic transmission | 800 | 2,400 | 3 |

# Differentiation Tools

- **Performance Quality**
- **Conformance Quality**
- **Durability**
- **Reliability**
- **Reparability**
- **Style**
- **Design: The Integrating Force**
- **Services Differentiation**
  - **Ordering Ease**

# The home page for Peapod, the nation's largest online grocer

# Differentiation Tools

- **Delivery**
  - **Quick response system**
- **Installation**
- **Customer Training**
- **Customer Consulting**
- **Maintenance and Repair**

HP's online support page
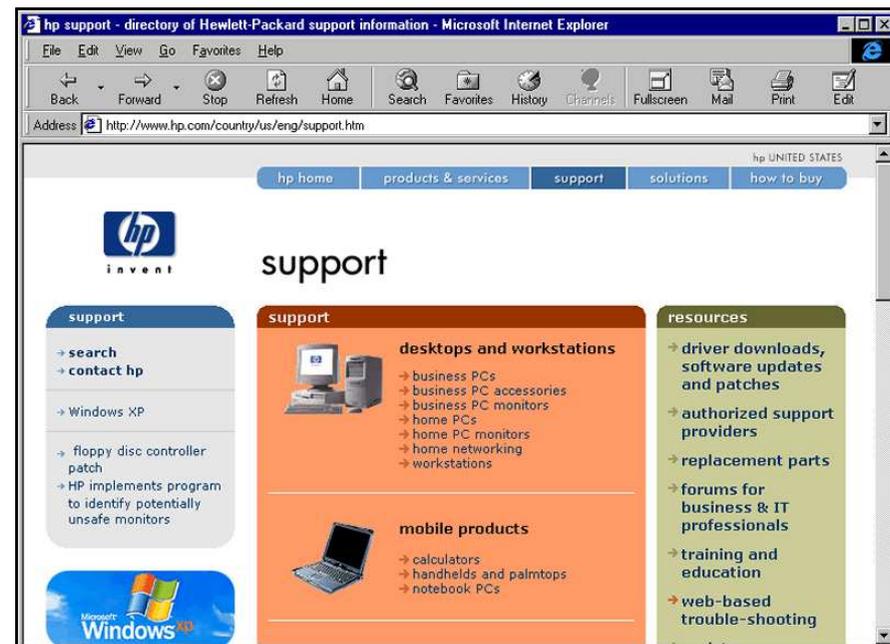
# Discussion Question

Many e-commerce ventures fail because of distribution problems in the so-called "last mile" (the local distribution portion of shipping of online purchases). Can a marketing plan help offset some of these potential pitfalls?
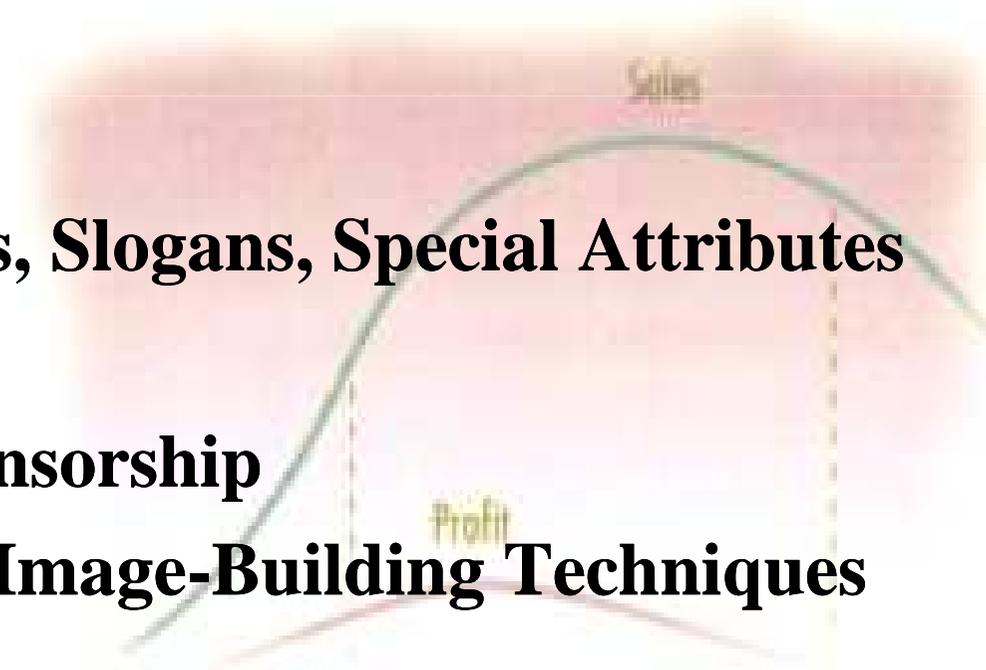
# Differentiation Tools

- **Miscellaneous Services**

- **Personnel Differentiation**
  - **Competence**
  - **Courtesy**
  - **Creditability**
  - **Reliability**
  - **Responsiveness**
  - **Communication**

# Differentiation Tools

- **Channel Differentiation**
- **Image Differentiation**
  - **Identity**
  - **Image**
  - **Symbols, Colors, Slogans, Special Attributes**
  - **Physical plant**
  - **Events and Sponsorship**
  - **Using Multiple Image-Building Techniques**

# Discussion Question

**Which differentiation tool would be most useful for a dot.com startup? Why?**
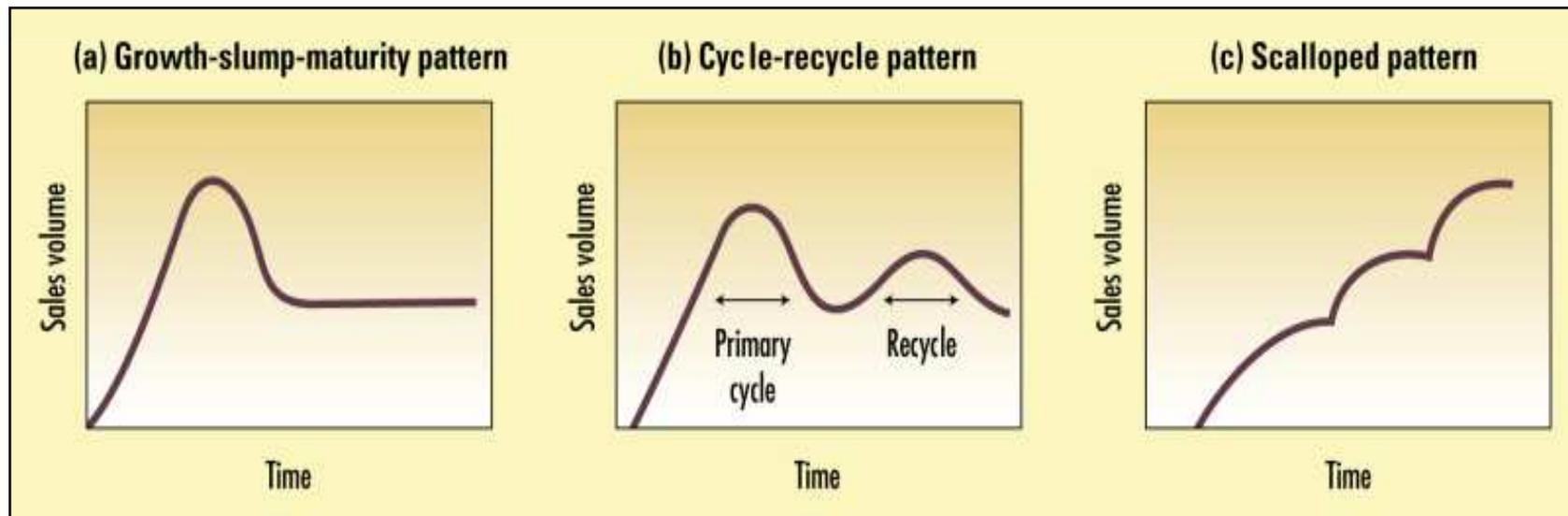
# Product Life-Cycle Marketing Strategies

- To say that a product has a life cycle asserts four things

  1. Products have a limited life.

  2. Product sales pass through distance stages, each posing different challenges, opportunities, and problems to the seller.

  3. Profits rise and fall at different stages of the product life cycle.

  4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

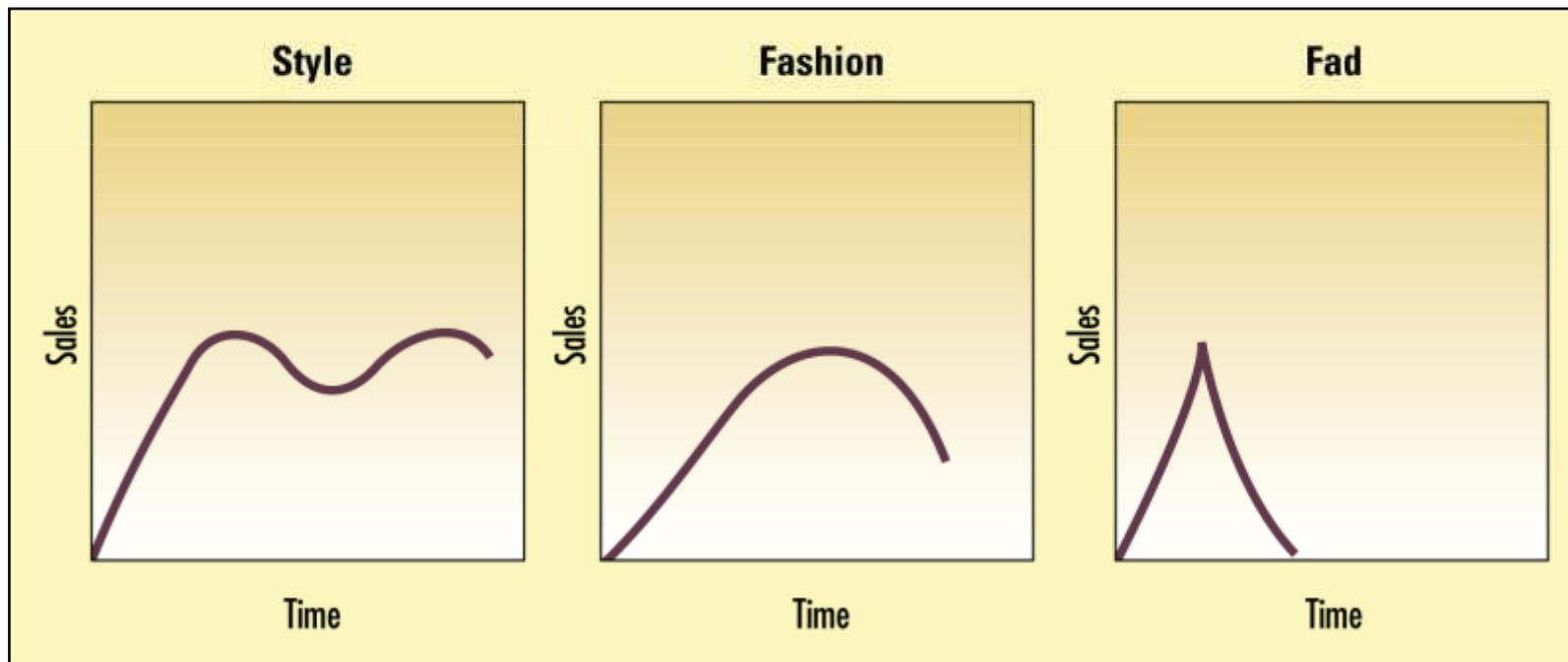www.bookfiesta4u.blogspot.com

11-345

# Product Life-Cycle Marketing Strategies

**Figure 11.4: Cost Product Life-Cycle Patterns**
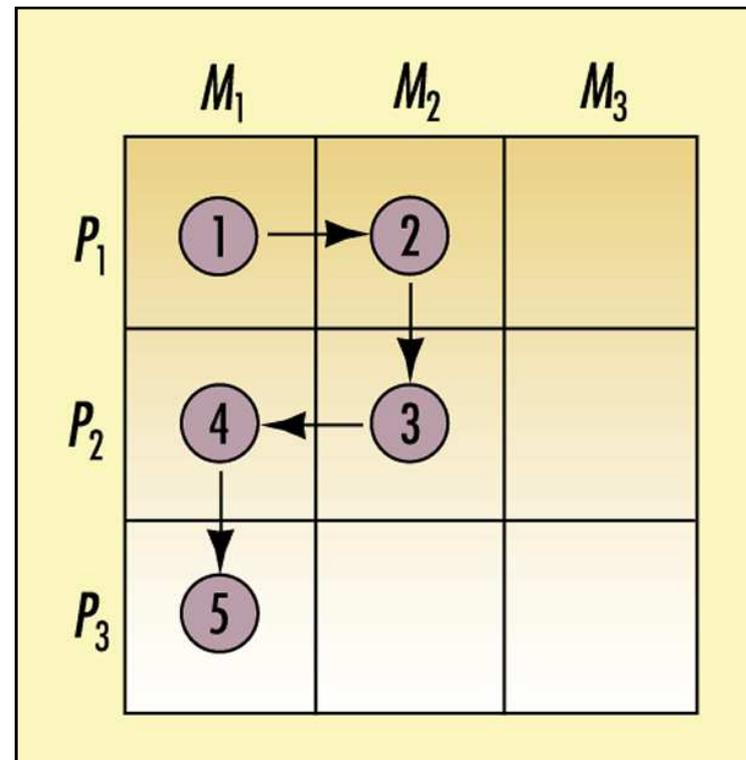
# Product Life-Cycle Marketing Strategies

**Figure 11.5: Style, Fashion, and Fad Life Cycles**

# Product Life-Cycle Marketing Strategies

- **Marketing Strategies: Introduction Stage**
  - **The Pioneer Advantage**
    - Inventor
    - Product pioneer
    - Market pioneer

Figure 11.6:
Long-Range
Product
Market Expansion
Strategy
(P = Product;
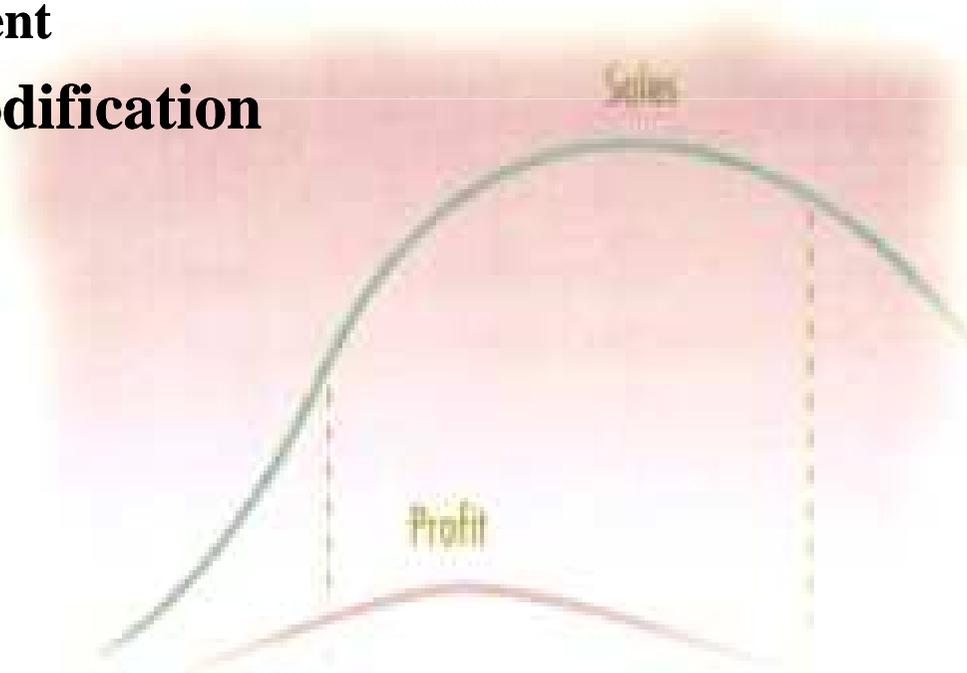M = Market)

# Product Life-Cycle Marketing Strategies

- **Marketing Strategies: Growth Stage**
  - **Improve product quality and add new product features and improved styling**
  - **Add new models and flanker products**
  - **Enter new market segments**
  - **Increase distribution coverage and enter new distribution channels**
  - **Shift from product-awareness advertising to product-preference advertising**
  - **Lower prices to attract next layer of price-sensitive buyers**

# Product Life-Cycle Marketing Strategies

- **Marketing Strategies: Maturity Stage**
  - **Market Modification**
    - **Expand number of brand users by:**
      1. Converting nonusers
      2. Entering new market segments
      3. Winning competitors' customers
    - **Convince current users to increase usage by:**
      1. Using the product on more occasions
      2. Using more of the product on each occasion
      3. Using the product in new ways

# Product Life-Cycle Marketing Strategies

- **Product modification**
  - **Quality improvement**
  - **Feature improvement**
- **Marketing-Mix Modification**
  - **Prices**
  - **Distribution**
  - **Advertising**
  - **Sales promotion**
  - **Personal selling**
  - **Services**

# Product Life-Cycle Marketing Strategies

- **Marketing Strategies: Decline Stage**
  1. Increase firm's investment (to dominate the market and strengthen its competitive position)
  2. Maintain the firm's investment level until the uncertainties about the industry are resolved.
  3. Decrease the firm's investment level selectively by dropping unprofitable customer groups, while simultaneously strengthening the firm's investment in lucrative niches
  4. Harvesting ("milking") the firm's investment to recover cash quickly
  5. Divesting the business quickly by disposing of its assets as advantageously as possible.

# Product Life-Cycle Marketing Strategies

- ▪ **Product Life-Cycle Concept: Critique**
- ▪ **Market evolution**

Sales

Profit

# Table 11.5: Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

| | Introduction | Growth | Maturity |
|---|---|---|---|
| **Characteristics** | | | |
| Sales | Low sales | Rapidly rising sales | Peak sales |
| Costs | High cost per customer | Average cost per customer | Low cost per customer |
| Profits | Negative | Rising profits | High profits |
| Customers | Few | Growing Number | Stable number beginning to decline |

*See text for complete table*

# Market Evolution

- **Diffused-preference market options**
  - A single-niche strategy
  - A multiple-niche strategy
  - A mass-market strategy
- **Growth**
  - **Market-growth stage options**
    - Single-niche strategy
    - Mass-market strategy
    - Multiple-niche strategy
- **Maturity**

# Market Evolution

- **Decline**
- **An Example: The Paper-Towel Market**
- **Dynamics of Attribute Competition**
  - **Customer expectations are progressive**
  - **Approaches to discover new attributes:**
    - Customer-survey processes
    - Intuitive processes
    - Dialectical processes
    - Needs-hierarchy process
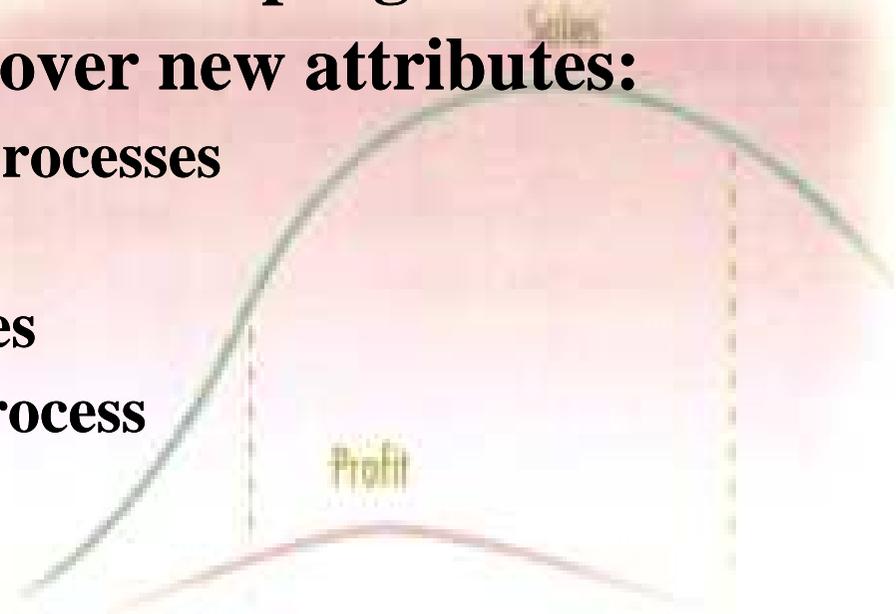
# Chapter 12
# Developing New Market Offerings

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
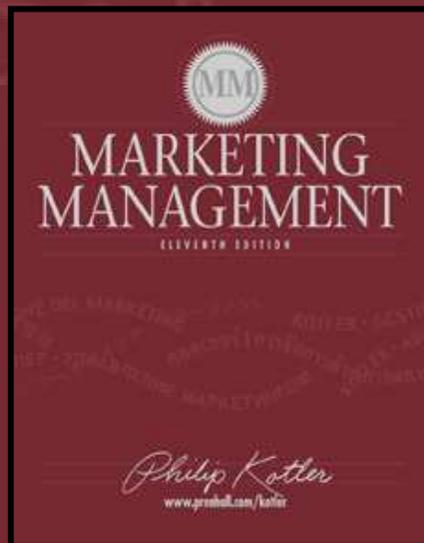
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Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*Who should ultimately design the product? The customer, of course.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
  - **What challenges does a company face in developing new products?**
  - **What organizational structures are used to manage new-product development?**
  - **What are the main stages in developing new products, and how can they be managed better?**
  - **What factors affect the rate of diffusion and consumer adoption of newly launched products?**

# Developing New Market Offerings

- **Six categories of new products**
  1. **New-to-the-world products**
  2. **New product lines**
  3. **Additions to existing product lines**
  4. **Improvements and revisions of existing products**
  5. **Repositioning**
  6. **Cost reductions**

# Challenges in New-Product Development

- **Incremental innovation**
- **Disruptive technologies**
- **Why do new products fail?**
  - **A high-level executive pushes a favorite idea through in spite of negative research findings.**
  - **The idea is good, but the market size is overestimated.**
  - **The product is not well designed.**

# Challenges in New-Product Development

- The product is incorrectly positioned in the market, not advertised effectively, or overpriced.

- The product fails to gain sufficient distribution coverage or support.

- Development costs are higher than expected.

- Competitors fight back harder than expected.

# Challenges in New-Product Development

- **Factors that tend to hinder new-product development**
  - Shortage of important ideas in certain areas
  - Fragmented markets
  - Social and governmental constraints
  - Cost of development
  - Capital shortages
  - Faster required development time
  - Shorter product life cycles

# Organizational Arrangements

- **New-product deployment requires specific criteria – one company established the following acceptance criteria**
    - **The product can be introduced within five years**
    - **The product has a market potential of at least $50 million and a 15 percent growth rate.**
    - **The product would provide at least 30 percent return on sales and 40 percent on investment.**
    - **The product would achieve technical or market leadership.**
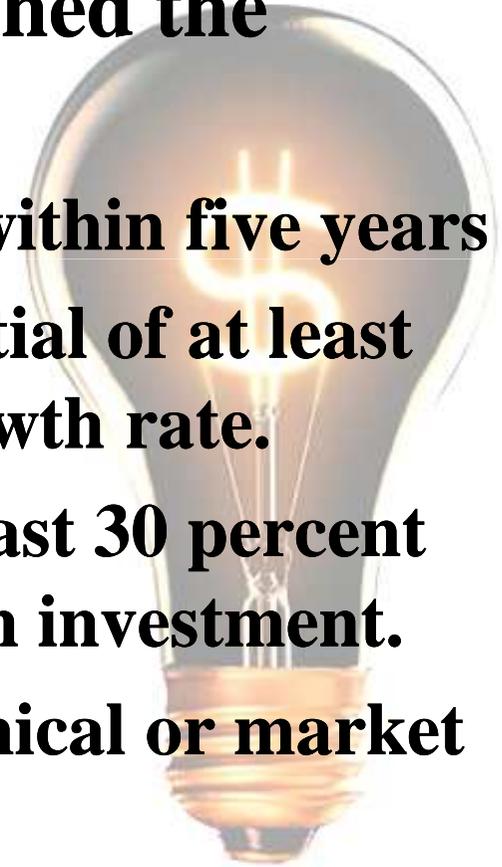
# Organizational Arrangements

- **Budgeting For New Product Development**
  - **3M's approach:**
    - **15% rule**
    - **Each promising idea gets an "executive champion"**
    - **Expect some failures**
    - **Golden Step awards handed out each year**

# 3M online: The 3M Innovation Network

# Table 12.1 Finding One Successful New Product (Starting with 64 New Ideas)

| Stage | Number of Ideas | Pass Ratio | Cost per Product Idea | Total Cost |
|---|---|---|---|---|
| 1. Idea screening | 64 | 1:4 | $ 1,000 | $ 64,000 |
| 2. Concept testing | 16 | 1:2 | 20,000 | 320,000 |
| 3. Product development | 8 | 1:2 | 200,000 | 1,600,000 |
| 4. Test marketing | 4 | 1:2 | 500,000 | 2,000,000 |
| 5. National launch | 2 | 1:2 | 5,000,000 | 10,000,000 |
| | | | $5,721,000 | $13,984,000 |

# Organizational Arrangements

- **Organizing New-Product Development**
  - **Product managers**
  - **New-product managers**
  - **High-level management committee**
  - **New product department**
  - **Venture teams**

# Organizational Arrangements

- **Stage-gate system**
  - **Gatekeepers make one of four decisions:**
    - Go
    - Kill
    - Hold
    - Recycle

# Managing the Development Process: Ideas

- **Idea Generation**
  - **Interacting with Others**
    - Sales representatives
    - Intermediaries
    - Product champion

# Managing the Development Process: Ideas

- **Techniques for stimulating creativity in individuals and groups**
  - **Attribute listing**
  - **Forced relationships**
  - **Morphological analysis**
  - **Reverse assumption analysis**
  - **New contexts**
  - **Mind-mapping**

# Managing the Development Process: Ideas

- **Idea Screening**
  - **Idea manager**
  - **Idea committee**
  - **Two types of errors in screening ideas**
    - **DROP-error**
    - **GO-error**

# Discussion Question

Some of the most notable "drop-errors" have come from the most recognizable names in American business. Xerox saw the potential of the copy machine, IBM and Eastman Kodak did not. IBM thought the personal computer market would be miniscule.
Can you think of any "drop-errors" that the company didn't survive?

# Table 12.2 Product-Idea Rating Device

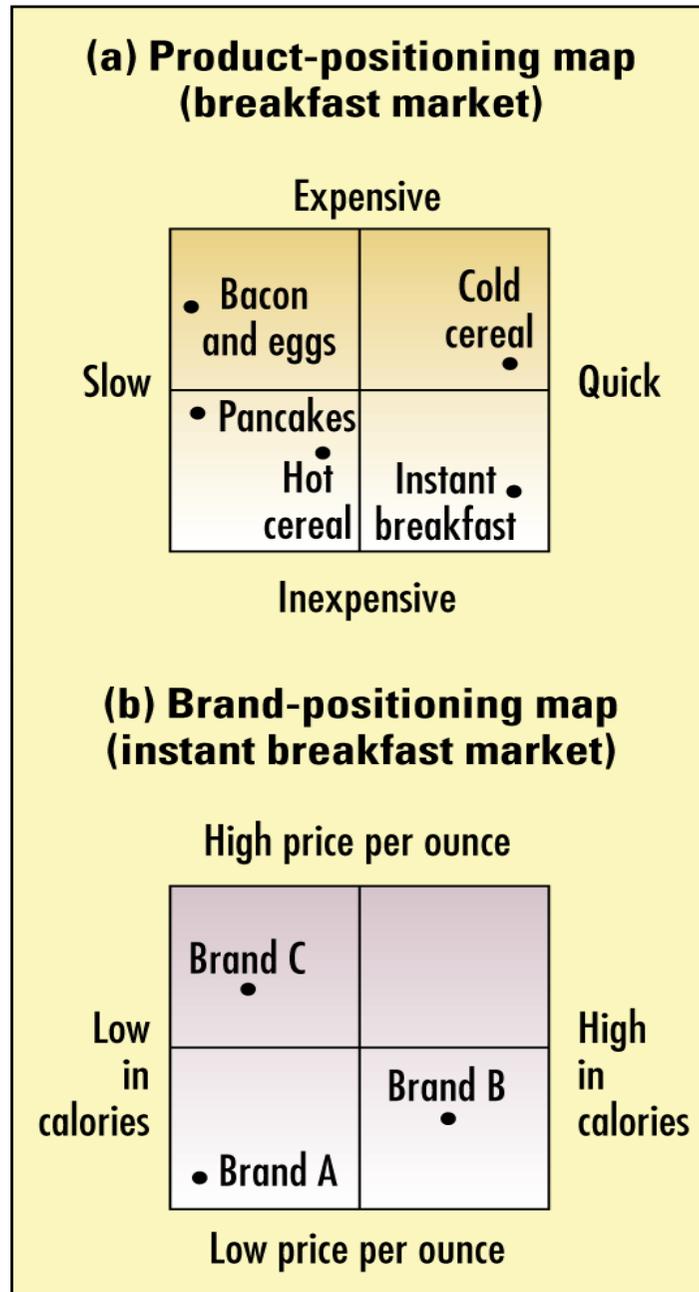| Product Success Requirements | Relative Weight (a) | Product Score (b) | Product Rating (c = a x b) |
|---|---|---|---|
| Unique or superior product | .40 | .8 | .32 |
| High performance to cost ratio | .30 | .6 | .18 |
| High marketing dollar support | .20 | .7 | .14 |
| Lack of strong competition | .10 | .5 | .05 |
| Total | 1.00 | | .69$^\sigma$ |

$\sigma$ Rating scale: .00-.30 poor; .31-.60 fair; .61-.80 good. Minimum acceptance rate: .61

# Managing the Development Process: Concept to Strategy

- **Concept Development and Testing**
  - Product idea
  - Product concept
- **Concept development**
  - Category concept
  - Product–positioning map
  - Brand concept

**Figure 12.3: Product and Brand Positioning**



(a) Product-positioning map (breakfast market)

Expensive

Slow — Bacon and eggs · Cold cereal · — Quick

· Pancakes
Hot cereal · Instant breakfast ·

Inexpensive

(b) Brand-positioning map (instant breakfast market)

High price per ounce

Brand C ·

Low in calories — Brand B · — High in calories

· Brand A

Low price per ounce

# Discussion Question

Sometimes a new product is developed, like the felt-tip pen and the "walkman" style personal music device. Consumers weren't clamoring for either of these products before they came to market. Most people hadn't even conceived of such an item. Careful planning developed markets for these new lines. Can you think of more recent examples?

# Managing the Development Process: Concept to Strategy

- **Concept Testing**
  - **Rapid prototyping**
  - **Virtual reality**
  - **Customer-driven engineering**
- **Questions to measure product dimensions**
  - **Communicability and believability**
  - **Need level**
  - **Gap level**
    - **Need-gap score**
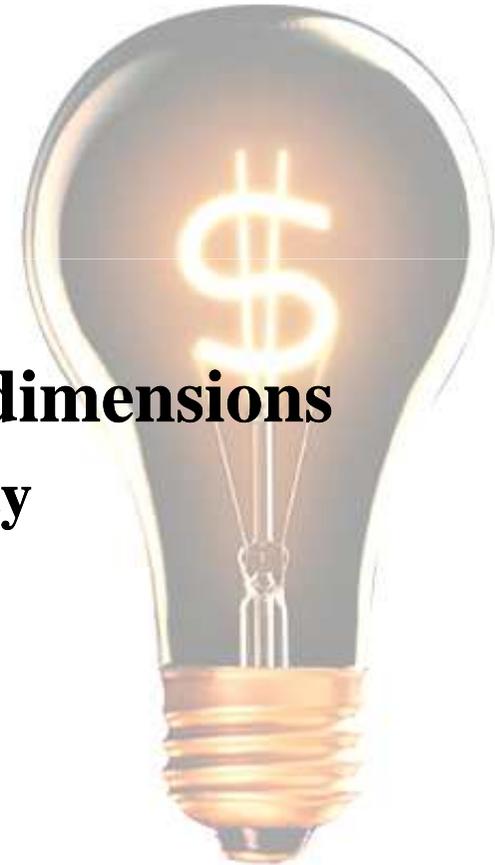
# Managing the Development Process: Concept to Strategy

- **Perceived value**
- **Purchase intention**
- **User targets, purchase occasions, purchasing frequency**
- **Conjoint Analysis**
  - **Example: five design elements**
    - **Three package designs**
    - **Three brand names**
    - **Three prices**
    - **Possible Good Housekeeping seal**
    - **Possible money-back guarantee**

# Managing the Development Process: Concept to Strategy

- **Marketing Strategy**

- **Business Analysis**
  - **Estimating Total Sales**

# Managing the Development Process: Concept to Strategy

- **Survival-age distribution**
- **Estimating Cost and Profits**

# Table 12.3 Projected Five-Year-Cash-Flow Statement (in thousands of dollars)

| | Year 0 | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| 1. Sales revenue | $    0 | $11,889 | $15,381 | $19,654 |
| 2. Cost of goods sold | 0 | 3,981 | 5,150 | 6,581 |
| 3. Gross margin | 0 | 7,908 | 10,231 | 13,073 |
| 4. Development costs | -3,500 | 0 | 0 | 0 |
| 5. Marketing costs | 0 | 8,000 | 6,460 | 8,255 |
| 6. Allocated overhead | 0 | 1,189 | 1,538 | 1,965 |

*See text for complete table*

# Managing the Development Process: Concept to Strategy

- Break-even analysis
- Risk analysis

# Managing The Development Process: Development to Commercialization

- **Product Development**
  - **Quality Function Deployment (QFD)**
  - **Customer attributes (CAs)**
  - **Engineering attributes (EAs)**



**Lands' End**
**Japan Web site**

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# Managing The Development Process: Development to Commercialization

- **Customer tests**
- **Alpha testing**
- **Beta testing**
- **Consumer preference measures**
  - **Rank-order**
  - **Paired-comparison**
  - **Monadic-rating**

# Managing The Development Process: Development to Commercialization

- **Market Testing**
  - **Consumer-Goods Market Testing**
    - **Seeks to estimate four variables**
      - Trial
      - First repeat
      - Adoption
      - Purchase frequency
    - **Sales wave research**

# Managing The Development Process: Development to Commercialization

- **Simulated Test Marketing**
- **Controlled Test Marketing**
- **Test Markets**
  - How many test cities?
  - Which cities?
  - Length of test?
  - What information?
  - What action to take?
- **Business-Goods Market Testing**

# Managing The Development Process: Development to Commercialization

- **Commercialization**
  - **When (Timing)**
    1. **First entry**
    2. **Parallel entry**
    3. **Late entry**
  - **Where (Geographic Strategy)**

**Philips' Pronto Web site**

# Managing The Development Process: Development to Commercialization

- **To Whom (Target-Market Prospects)**
- **How (Introductory Market Strategy)**
  - **Critical path scheduling (CPS)**

**The iMac, launched with a dramatic countdown campaign**

# The Consumer-Adoption Process

- **Adoption**
  - Consumer-adoption process
  - Consumer-loyalty process
  - Mass-market approach
  - Heavy-usage target marketing
- **Stages in the Adoption Process**
  - Innovation
  - Innovation diffusion process

# The Consumer-Adoption Process

- **Adopters of new products move through five stages**
  - **Awareness**
  - **Interest**
  - **Evaluation**
  - **Trial**
  - **Adoption**
- **Factors Influencing the Adoption Process**
  - **Readiness to Try New Products and Personal Influence**
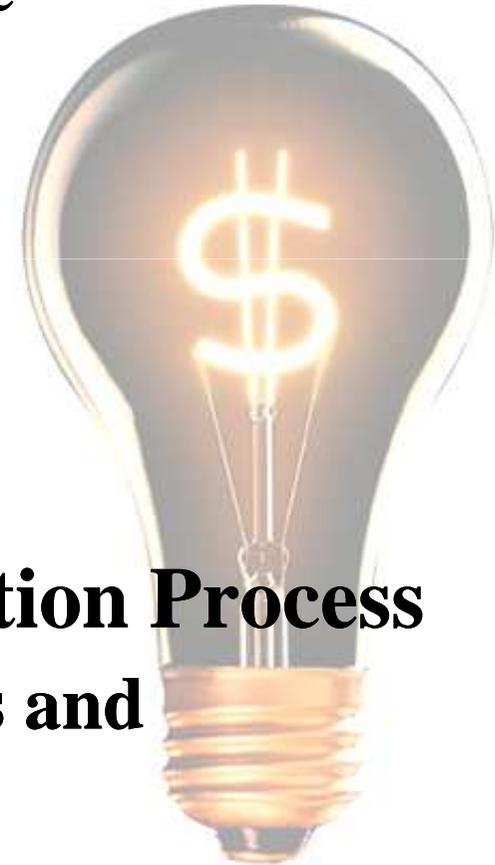
# Figure 12.7: Adopter Categorization on the Basis of Relative Time of Adoption of Innovation
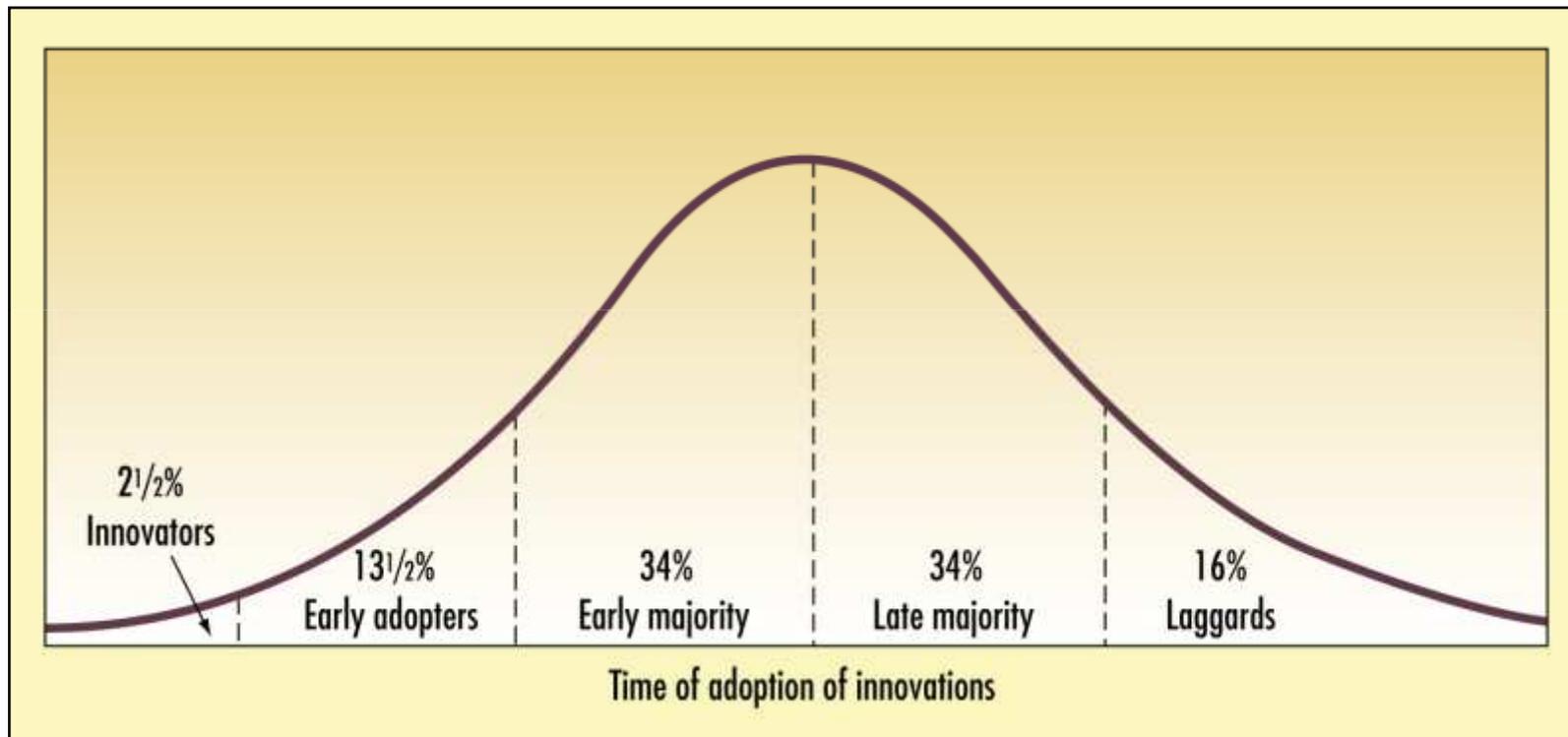
# The Consumer-Adoption Process

- Personal influence
- Characteristics of the Innovation
  - Relative advantage
  - Compatibility
  - Complexity
  - Divisibility
  - Communicability
- Organizations' Readiness to Adopt Innovations

# Chapter 13
# Designing Global
# Market Offerings
**by** *Philip Kotler*

MM
MARKETING
MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
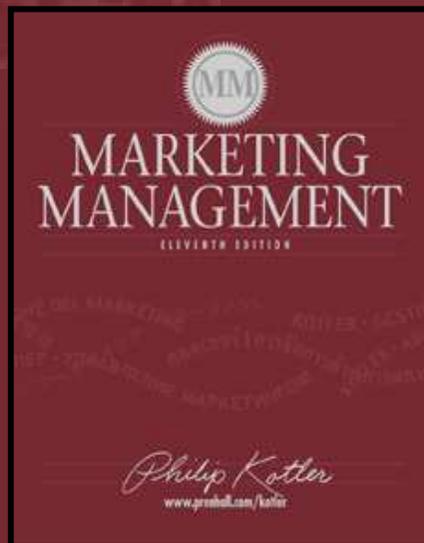
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Milton M. Pressley
University of New Orleans

# Kotler on Marketing

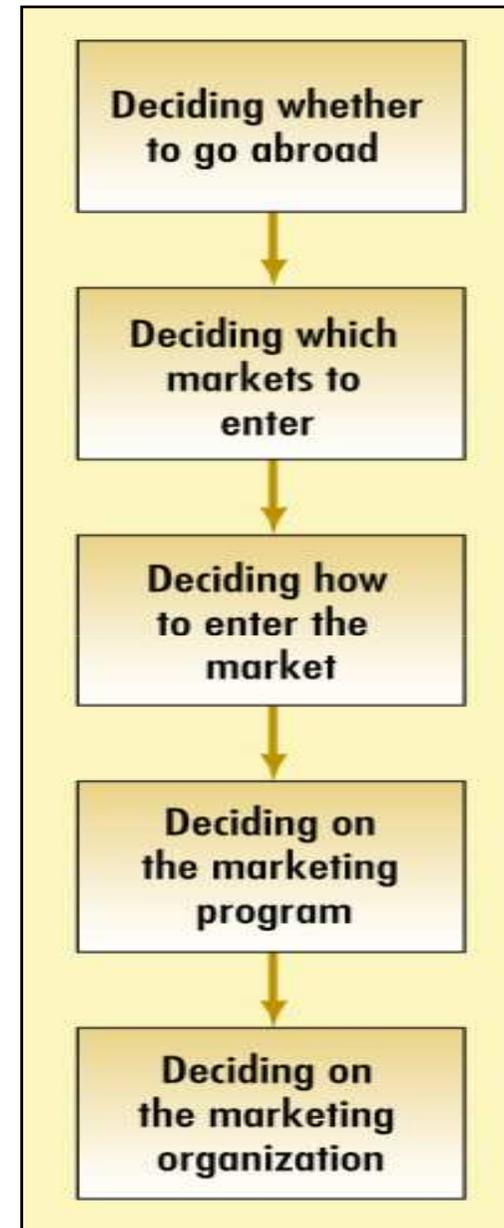*Your company does not belong in markets where it cannot be the best.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
    - **What factors should a company review before deciding to go abroad?**
    - **How can companies evaluate and select foreign markets to enter?**
    - **What are the major ways of entering a foreign market?**
    - **To what extent must the company adapt its products and marketing program to each foreign country?**
    - **How should the company manage and organize its international activities?**

# Competing on a Global Basis

- **Global industry**
- **Global firm**

**Figure 13.1: Major Decisions in International Marketing**

Deciding whether to go abroad

↓

Deciding which markets to enter

↓

Deciding how to enter the market

↓

Deciding on the marketing program

↓

Deciding on the marketing organization

# Deciding Whether To Go Abroad

- **Factors drawing companies into the international arena:**
  - Global firms offering better products or lower prices can attack the company's domestic market.
  - The company discovers that some foreign markets present higher profit opportunities than the domestic market.
  - The company needs a larger customer base to achieve economies of scale.
  - The company wants to reduce its dependence on any one market.
  - The company's customers are going abroad and need servicing.

# Deciding Whether To Go Abroad

- **Before going abroad, the company must weigh several risk:**
  - The company might not understand foreign customer preferences and fail to offer a competitively attractive product.
  - The company might not understand the foreign country's business culture or know how to deal effectively with foreign nationals.
  - The company might underestimate foreign regulations and incur unexpected costs.
  - The company might realize that it lacks managers with international experience.
  - The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate property.

# Table 13.1: Blunders in International Marketing

Hallmark cards failed when they were introduced in France. The French dislike syrupy sentiment and prefer writing their own cards.

Philips began to earn a profit in Japan only after it had reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands.

Coca-Cola had to withdraw its two-liter bottle in Spain after discovering that few Spaniards owned refrigerators with large enough compartments to accommodate it.

General Foods' Tang initially failed in France because it was positioned as a substitute for orange juice at breakfast. The French drink little orange juice and almost none at breakfast.

Kellogg's Pop-Tarts failed in Britain because the percentage of British homes with toasters was significantly lower than in the United States and the product was too sweet for British tastes.

*See text for complete table*

# Discussion Question

In the early 20th century, the Trans-Atlantic cable allowed for the transmission of photographs in near real time. Still images went to press soon after news of events in Europe arrived here in the States. Are there any emerging communication technologies today that show similar potential? How can these be harnessed to improve a company's global offerings?

# Deciding Which Markets to Enter

- **How many markets to enter**
  - **Ayal and Zif contend that a company should enter fewer countries when:**
    - Market entry and market costs are high
    - Product and communication costs are high
    - Population and income size and growth are high in the initial countries chosen
    - Dominant foreign firms can establish high barriers to entry

# Deciding Which Markets to Enter

- **Regional free trade zones**
  - **The European Union**
  - **NAFTA**
  - **MERCOSUL**
  - **APEC**
- **Evaluating potential markets**
  - **Psychic proximity**

# Discussion Question

Regional free trade zones offer many potential benefits to companies expanding their offerings abroad. Clearly defined national import/export policies are just one potential benefit. Can you think of any others? What marketing challenges will not be eased by such agreements?

# Deciding How to Enter the Market

**Figure 13.2:
Five Modes of
Entry into Foreign
Markets**



Amount of commitment, risk, control, and profit potential

- Direct investment
- Joint ventures
- Licensing
- Direct exporting
- Indirect exporting

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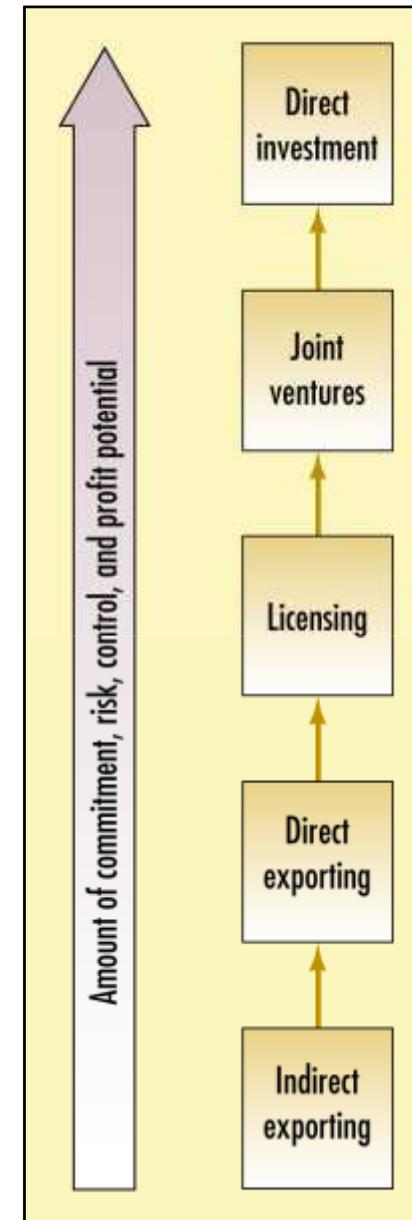
# Deciding How to Enter the Market

- **Indirect and direct export**
  - **Occasional exporting**
  - **Active exporting**
  - **Indirect exporting**
  - **Domestic-based export merchants**
  - **Domestic-based export agents**
  - **Cooperative organizations**
  - **Export-management companies**

# Deciding How to Enter the Market

- **Companies can carry on direct exporting in several ways**
  - Domestic-based export department or division
  - Overseas sales branch or subsidiary
  - Traveling export sales representatives
  - Foreign-based distributors or agents

# Deciding How to Enter the Market

- **Licensing**
  - **Management contracts**
  - **Contract manufacturing**
  - **Franchising**

# Deciding How to Enter the Market

- **Joint ventures**
- **Direct investment**
- **The Internationalization Process**
  - **Johanson and Wiedersheim-Paul identified four stages in the internationalization process:**
    - No regular export activities
    - Export via independent representatives (agents)
    - Establishment of one or more sales subsidiaries
    - Establishment of production facilities abroad

# Deciding on the Marketing Program

- **Standardized marketing mix**
- **Adapted marketing mix**

# McDonald's around the world: Hungary

# Deciding on the Marketing Program

- **Product**
  - **Straight extension**

# Figure 13.3: Five International Product and Promotion Strategies

| | Product | | |
|---|---|---|---|
| **Promotion** | **Do Not Change Product** | **Adapt Product** | **Develop New Product** |
| **Do Not Change Promotion** | Straight extension | Product adaptation | Product invention |
| **Adapt Promotion** | Communication adaptation | Dual adaptation | |

# Deciding on the Marketing Program

- **Product adaptation**
- **Product invention**
  - **Backward invention**
  - **Forward invention**
- **Promotion**
  - **Communication adaptation**
  - **Dual adaptation**

# Carlsberg's global Web site
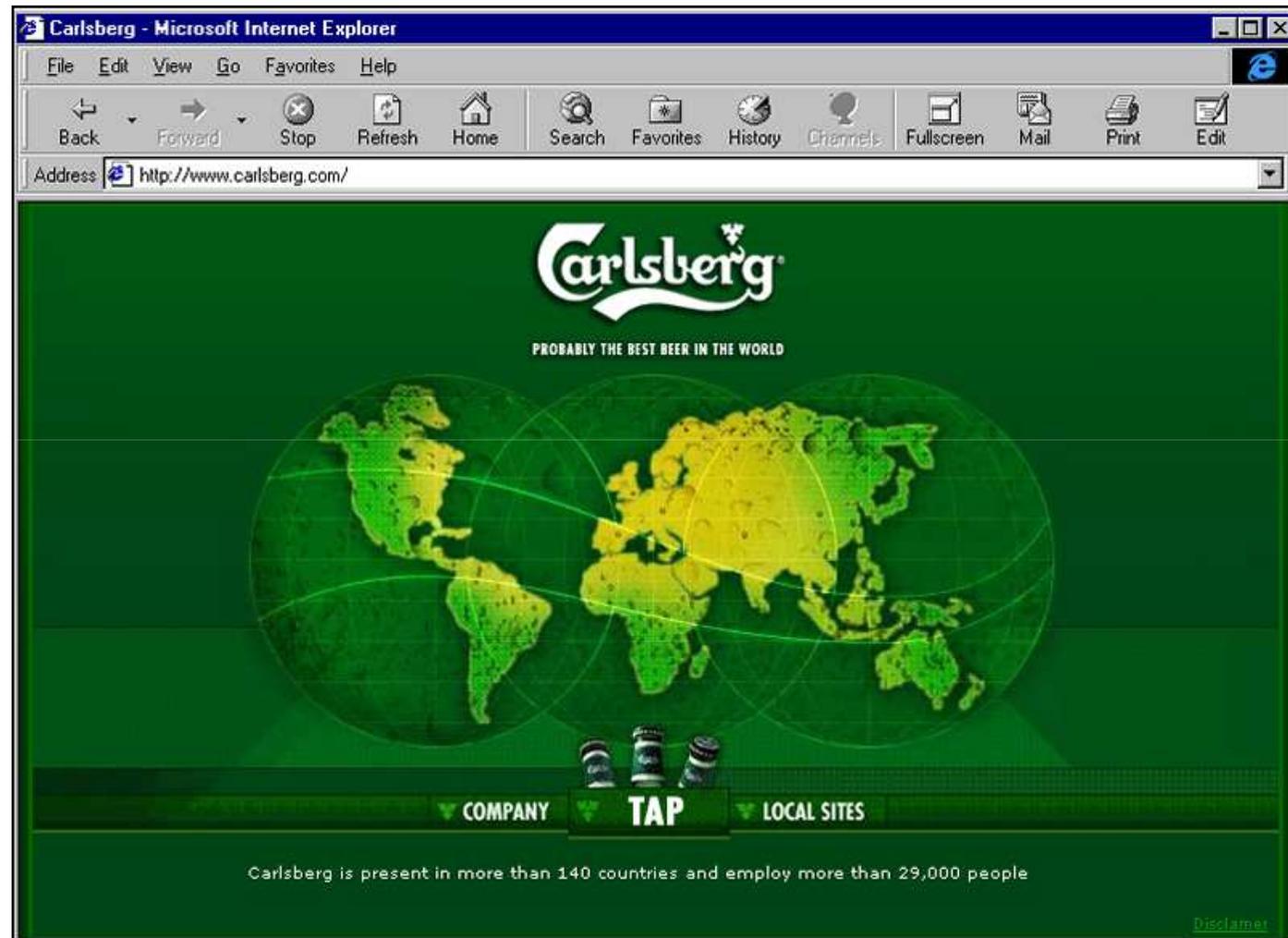
# Deciding on the Marketing Program

- **Price**
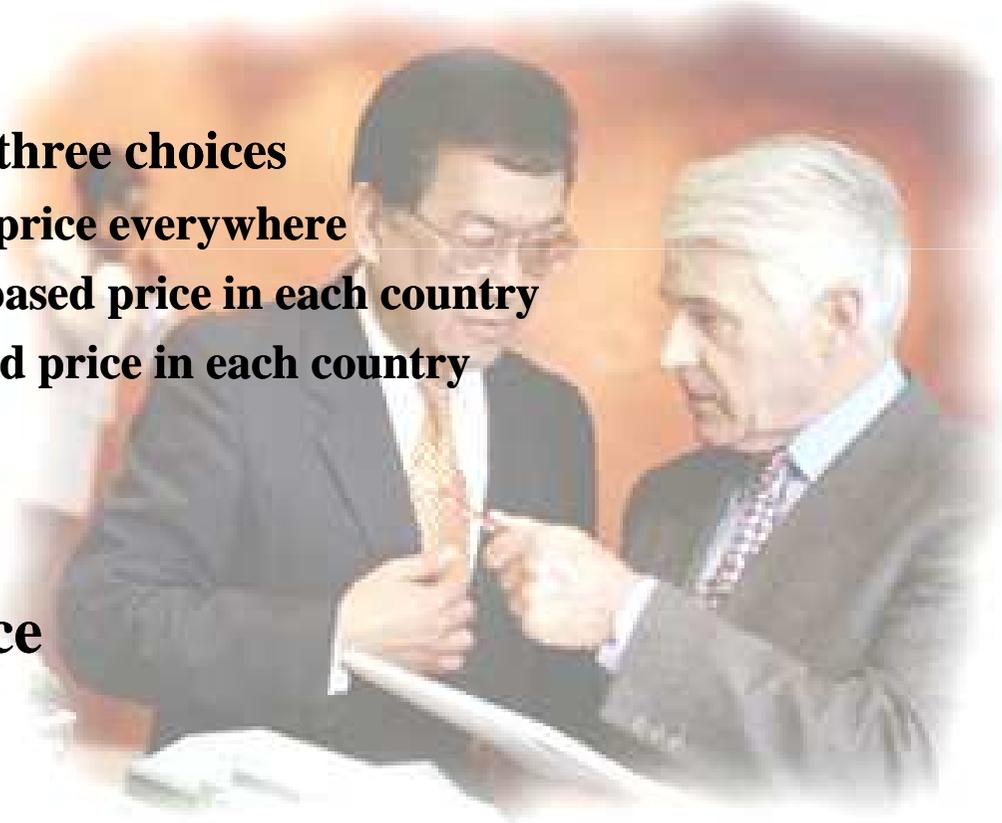  - **Price escalation**
    - Companies have three choices
      - Set a uniform price everywhere
      - Set a market-based price in each country
      - Set a cost-based price in each country
  - **Transfer price**
  - **Dumping**
  - **Arm's-length price**
  - **Gray market**

# Deciding on the Marketing Program

- **Place (distribution channels)**
  - Seller's international marketing headquarters
  - Channels between nations
  - Channels within foreign nations

Figure 13.4:
Whole-Channel Concept for International Marketing

| Seller |
| --- |

↓

| Seller's international marketing headquarters |
| --- |

↓

| Channels between nations |
| --- |

↓

| Channels within foreign nations |
| --- |

↓

| Final buyers |
| --- |
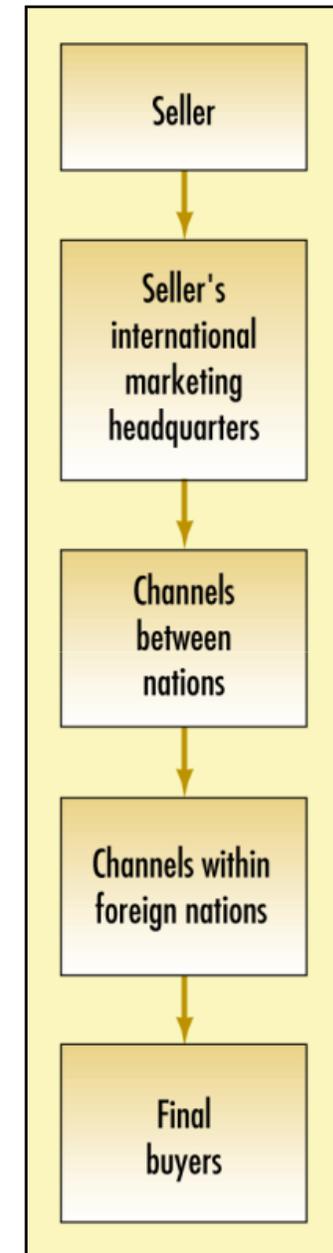
# Discussion Question

One of the most profound political changes in the late 20th century was the fall of the "iron curtain" and the subsequent opening of markets in Eastern Europe. Has this potential marketplace been fully exploited by American companies? European companies? Why or why not?

# Deciding on the Marketing Organization

- **Export department**

- **International division**
  - **Geographical organizations**
  - **World product groups**
  - **International subsidiaries**

# Deciding on the Marketing Organization

- **Global organization**
  - **Bartlett and Ghoshal distinguish three organizational strategies:**
    - **A global strategy treats the world as a single market.**
    - **A multinational strategy treats the world as a portfolio of national opportunities.**
    - **A "glocal" strategy standardizes certain core elements and localizes other elements.**

# Chapter 14
# Setting the Product and Branding Strategy

**by** *Philip Kotler*
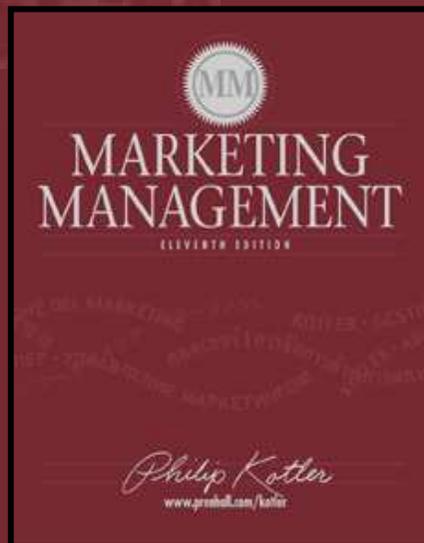
PowerPoint by
Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*The best way to hold customers is to constantly figure out how to give them more for less.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
    - **What are the characteristics of products?**
    - **How can a company build and manage its product mix and product lines?**
    - **How can a company make better brand decisions?**
    - **How can packaging and labeling be used as marketing tools?**

# The Product and the Product Mix

- **Product**
  - **Physical goods**
  - **Services**
  - **Experiences**
  - **Events**
  - **Persons**
  - **Places**
  - **Properties**
  - **Organizations**
  - **Information**
  - **Ideas**

**Figure 14.1: Components of the Market Offering**



Value-based prices

Attractiveness of the market offering

Product features and quality

Services mix and quality
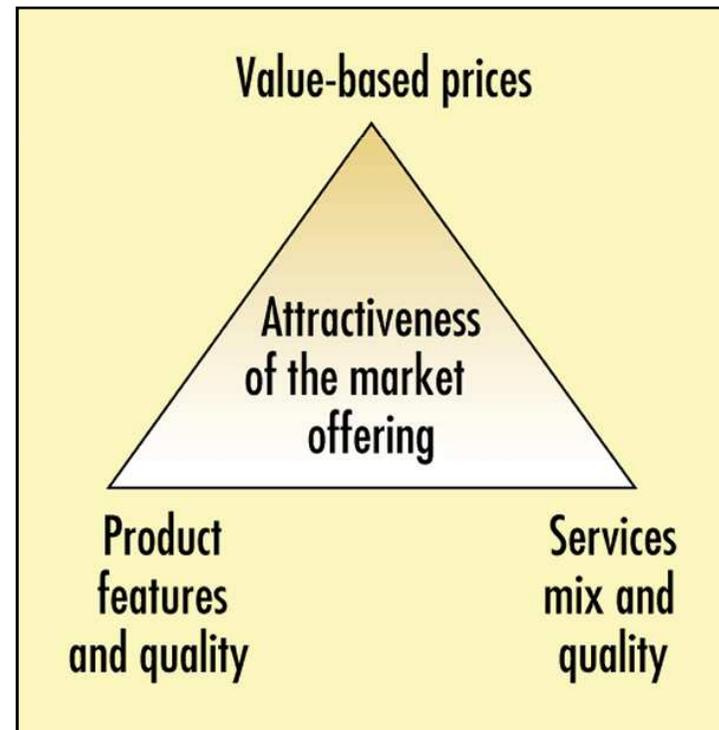
# The Product and the Product Mix

- **Product levels**
  - **Customer value hierarchy**
  - **Core benefit**
  - **Basic product**
  - **Expected product**
  - **Augmented product**

**Figure 14.2: Five Product Levels**
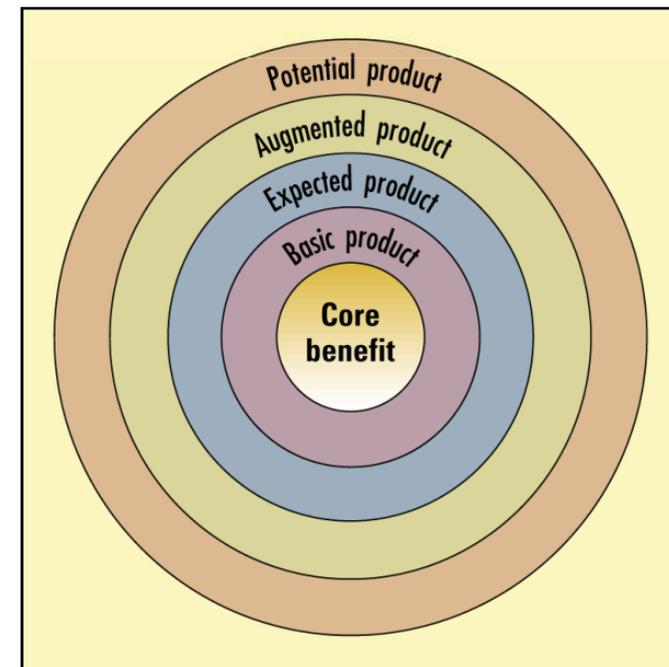
# BabyCenter is not just an online merchant, it's a metamediary

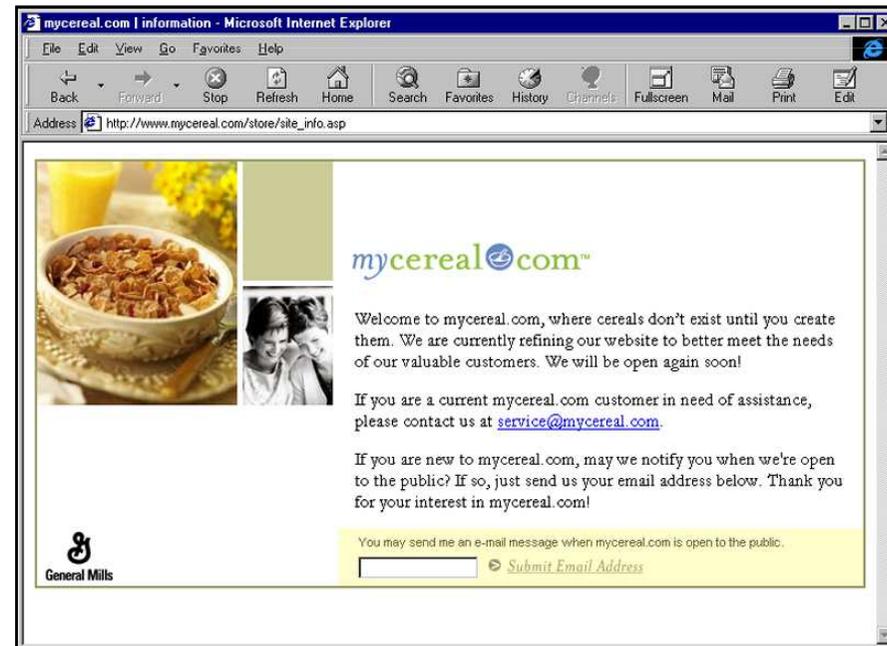# The Product and the Product Mix

- **Consumption system**
- **Potential product**
- **Product hierarchy**
  - **Need family**
  - **Product family**
  - **Product class**
  - **Product line**
  - **Product type**
  - **Item**

**General Mills' Mycereal.com Web site**



**www.bookfiesta4u.blogspot.com**

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# The Product and the Product Mix

- **Product system**
- **Product mix**

- **Product classifications**
  - **Durability and Tangibility Classification:**
    - Nondurable goods
    - Durable goods
    - Services

# The Product and the Product Mix

- **Consumer-Goods Classification:**
  - **Convenience goods**
    - Staples
    - Impulse goods
    - Emergency goods
  - **Shopping goods**
    - Homogeneous shopping goods
    - Heterogeneous shopping goods
  - **Specialty goods**
  - **Unsought goods**

# The Product and the Product Mix

- **Industrial-Goods Classification**
  - **Materials and parts**
    - Farm products
    - Natural products
    - Manufactured materials and parts
    - Component materials
    - Component parts
  - **Capital items**
    - Installations
    - Equipment

# The Product and the Product Mix

- **Supplies and business services**
  - **Maintenance and repair items**
  - **Operating supplies**
  - **Maintenance and repair services**
  - **Business advisory services**

# The Product and the Product Mix

- **Product mix (Product assortment)**
  - **Product mix has a certain:**
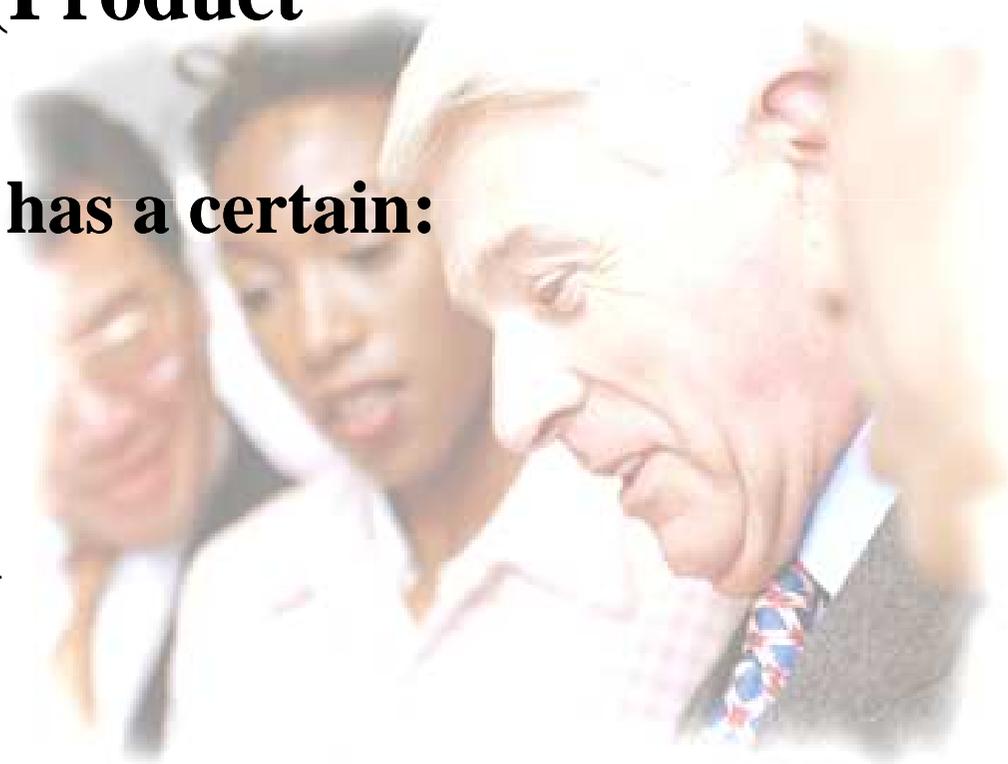    - Width
    - Length
    - Depth
    - Consistency

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# Table 14.1: Product-Mix Width and Product-Line Length for Proctor& Gamble Products

| | Product-Mix Width | | | | |
|---|---|---|---|---|---|
| | Detergents | Toothpaste | Disposable Bar Soap | Diapers | Paper Tissue |
| **PRODUCT-LINE LENGTH** | Ivory Snow (1930) | Gleem (1952) | Ivory (1879) | Pampers (1961) | Charmin (1928) |
| | | Crest (1955) | | | |
| | Dreft (1933) | | Kirk's (1885) | Luvs (1976) | Puffs (1960) |
| | Tide (1946) | | Lava (1893) | | Banner (1982) |
| | Cheer (1950) | | Camay (1926) | | Summit (1992) |

*See text for complete table*

# The Product and the Product Mix

- **Product-line decisions**
  - **Product-line analysis**
    - Sales and Profits
  - **Four types of product classes:**
    - Core product
    - Staples
    - Specialties
    - Convenience items

# The Product and the Product Mix

- **Market profile**

**Figure 14.4: Product Map for a Paper-Product Line**
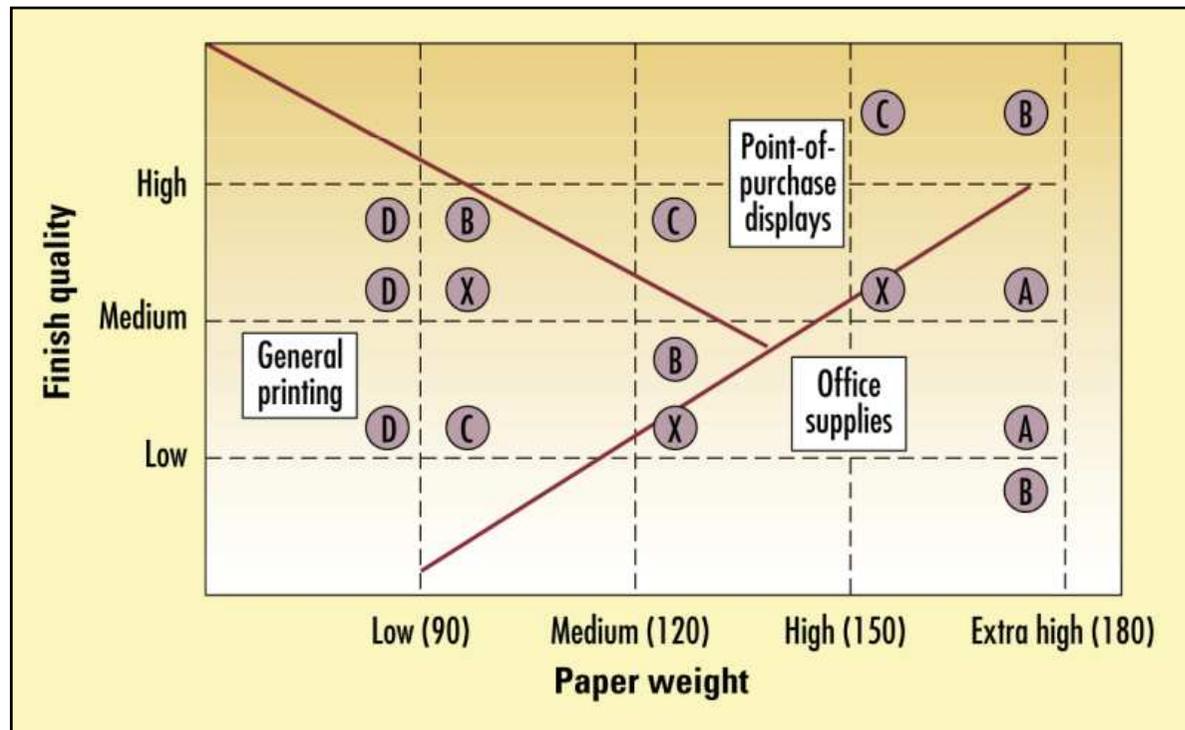
# The Product and the Product Mix

- **Product-line length**
  - **Line Stretching**
    - **Downmarket Stretch**
      - The company may notice strong growth opportunities as mass retailers attract a growing number of shoppers
      - The company may wish to tie up lower-end competitors who might otherwise try to move upmarket
      - The company may find that the middle market is stagnating or declining
    - **Upmarket Stretch**
    - **Two-Way Stretch**

# Discussion Question

**Kmart has entered into branding and distribution agreements with celebrities like Kate Smith for women's apparel and Martha Stewart in house wares, gardening supplies, etc. Is this an upmarket stretch, a downmarket stretch or a two-way stretch for Kmart?**

# The Product and the Product Mix

- **Line Filling**
  - **Just-noticeable difference**
- **Line Modernization, featuring, and pruning**

- **Brand decisions**
  - **What is brand?**
    - Attributes
    - Benefits
    - Values
    - Culture
    - Personality
    - User

# The Product and the Product Mix

- **Commonly used research approaches to determine brand meaning:**
  - **Word associations**
  - **Personifying the brand**
  - **Laddering up the brand essence**
    - Brand essence
    - Laddering up

# The Product and the Product Mix

- **Building Brand Identity**
  - **Brand bonding**
    - Brands are not built by advertising but by the brand experience
    - Everyone in the company lives the brand
    - Three ways to carry on internal branding – Employees must
      - Understand
      - Desire, and
      - Deliver on the brand promise

# The Product and the Product Mix

- **Building Brands in the new economy**
  - **Heidi and Don Schultz urge companies to:**
    - Clarify the corporation's basic values and build the corporate brand.
    - Use brand managers to carry out the tactical work.
    - Develop a more comprehensive brand-building plan.
    - Define the brand's basic essence to be delivered wherever it is sold.
    - Use the brand-value proposition as the key driver of the company's strategy, operations, services, and product development.
    - Measure their brand-building effectiveness, not by the old measures of awareness, recognition, and recall, but by a more comprehensive set of measures including customer-perceived value, customer satisfaction, customer share of wallet, customer retention, and customer advocacy.

# The Product and the Product Mix

- **Brand Equity**
  - **Brand awareness**
  - **Brand acceptability**
  - **Brand preference**
    - **Aaker's five levels of customer attitude:**
      - The customer will change brands, especially for price reasons. No brand loyalty.
      - Customer is satisfied. No reason to change brands.
      - Customer is satisfied and would incur cost by changing brand.
      - Customer values the brand and sees it as a friend.
      - Customer is devoted to the brand.

# The Product and the Product Mix

- **Value of Brand Equity**
  - **Brand valuation**
  - **Competitive advantages of high brand equity:**
    - The company will have more leverage in bargaining with distributors and retailers because customers expect them to carry the brand.
    - The company can charge a higher price than its competitors because the brand has higher perceived quality.
    - The company can more easily launch extensions because the brand name carries high credibility.
    - The brand offers some defense against price competition.

# The Product and the Product Mix

- Managing Brand Equity

- Branding Challenges

  - Branding Decision: To Brand or Not to Brand?

# Discussion Question

When is a brand more than just a brand? Have you ever based a purchasing decision primarily on the brand? Was it because of some perceived quality difference, or was it based on the expectation of how others would see or treat you? Have you ever seen someone buying a given brand of an item in an attempt to be seen as "cool"?

# The Product and the Product Mix

- **Branding gives the seller several advantages:**
  - **Brand name makes it easier for the seller to process orders and track down problems**
  - **Seller's brand name and trademark provide legal protection of unique product features**
  - **Branding gives the seller the opportunity to attract a loyal and profitable set of customers.**
  - **Branding helps the seller segment markets.**
  - **Strong brands help build corporate image, making it easier to launch new brands and gain acceptance by distributors and consumers.**

# The Product and the Product Mix

- **Brand-Sponsor Decisions**
  - **Manufacturer brand**
  - **Distributor brand**
  - **Licensed brand name**
  - **Slotting fee**
  - **Brand ladder**
  - **Brand parity**

# The Product and the Product Mix

- **Brand-Name Decision**
  - **Four available strategies:**
    - **Individual names**
    - **Blanket family names**
    - **Separate family names for all products**
    - **Corporate name combined with individual product names**

# The Product and the Product Mix

- **Desirable qualities for a brand name**
  - It should suggest something about the product's benefits
  - It should suggest the product or service category
  - It should suggest concrete, "high imagery" qualities
  - It should be easy to spell, pronounce, recognize, and remember
  - It should be distinctive
  - It should not carry poor meanings in other countries and languages

# The Product and the Product Mix

- **Brand building tools**
  - Public relations and press releases
  - Sponsorships
  - Clubs and consumer communities
  - Factory visits
  - Trade shows
  - Event marketing
  - Public facilities
  - Social cause marketing
  - High value for the money
  - Founder's or a celebrity personality
  - Mobile phone marketing

# Discussion Question

Nike's arrangement with Michael Jordan has provided an excellent example of a celebrity endorsement.  Can you think of an endorsement campaign that backfired? What did it cost the company in the short term? What, if any, have been the lasting effects?

# The Product and the Product Mix

- **Brand Strategy Decision**
  - **Functional brand**
  - **Image brand**
  - **Experimental brands**
- **Line Extensions**
  - **Branded variants**
- **Brand extensions**
  - **Brand dilution**

# The Product and the Product Mix

- **Multibrands, New Brands, and Co-Brands**
  - **Multibrand**
    - **Flanker Bands**
  - **Co-branding (Dual branding)**
    - **Ingredient co-branding**
    - **Same-company co-branding**
    - **Joint venture co-branding**
    - **Multisponsor co-branding**

# The Product and the Product Mix

- **Brand Asset Management**
- **Brand Auditing and Repositioning**
  - **Brand report card**

# The Product and the Product Mix

- **Packaging and Labeling**
  - Packaging
  - Package
    - Primary Package
    - Secondary Package
    - Shipping Package
  - Factors which have contributed to the growing use of packaging as a marketing tool
    - Self-Service
    - Consumer affluence
    - Company and brand image
    - Innovation opportunity

# The Product and the Product Mix

- **Labeling**
  - **Functions**
    - **Identification**
    - **Grading**
    - **Description**
  - **Consumerists have lobbied for:**
    - **Open dating**
    - **Unit pricing**
    - **Grade labeling**
    - **Percentage labeling**

# Chapter 15
# Designing and Managing Services

**by** *Philip Kotler*
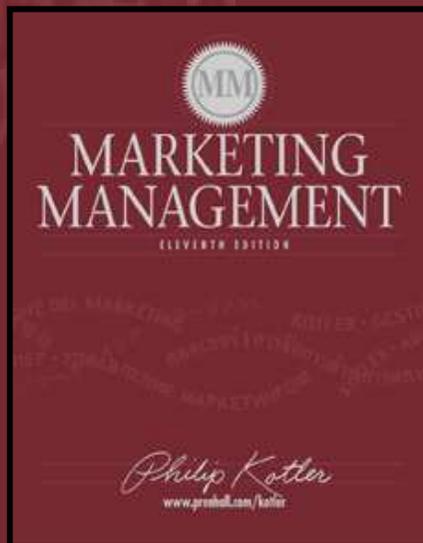


PowerPoint by
Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*Every business is a service business. Does your service put a smile on the customer's face?*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
    - **How are services defined and classified?**
    - **How do services differ from goods?**
    - **How can service firms improve their differentiation, quality, and productivity?**
    - **How can goods-producing companies improve their customer support services?**

# The Nature of Services

- **Government sector**
- **Private non-profit sector**
- **Business sector**
- **Manufacturing sector**
- **Service**

**Keen.com is a virtual advice marketplace**
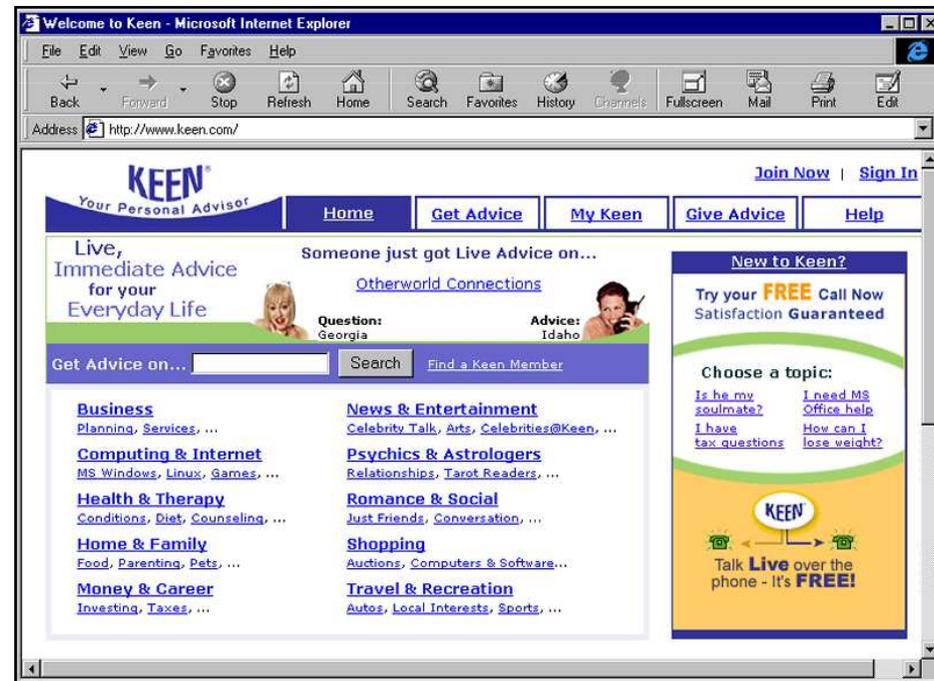
# The Nature of Services

- **Categories of Service Mix**
  - **Pure tangible good**
  - **Tangible good with accompanying services**
  - **Hybrid**
  - **Major service with accompanying minor goods and services**
  - **Pure service**

# The Nature of Services

- **Characteristics of Services and Their Marketing Implications**
  - **Intangibility**
    - Service positioning strategy can be made tangible through:
      - Place
      - People
      - Equipment
      - Communication material
      - Symbols
      - Price

# Discussion Question

Online companies that provide services are often directly impacted by the quality of a customer's computer or the customer's Internet connection. Can you think of another service sector that has so little control over the environment in which their services are provided?

# The Nature of Services

- **Carbone and Haeckel purpose the following for *customer experience engineering***
    - **Performance and context clues**
        - **Humanics**
        - **Mechanics**
    - **Experience blueprint**

# The Nature of Services

- **Inseparability**

- **Variability**

  - **Quality control by:**

    - **Good hiring and training procedures**

    - **Service blueprint**

    - **Monitoring customer satisfaction**

# The Nature of Services

- **Perishability**
  - **Strategies for better matching between demand and supply in a service business**
    - Differential pricing
    - Nonpeak demand
    - Complementary services
    - Reservation systems
    - Part-time employees
    - Peak-time efficiency
    - Increased consumer participation
    - Shared services
    - Facilities for future expansion

# Marketing Strategies for Service Firms

- **Three Additional Ps**
  - **People**
  - **Physical evidence**
    - **presentation**
  - **Process**

# Figure 15.3: Three Types of Marketing in Service Industries



Company

Internal Marketing

External Marketing

Cleaning/ maintenance services

Financial/ banking services

Restaurant industry

Employees — Interactive Marketing → Customers
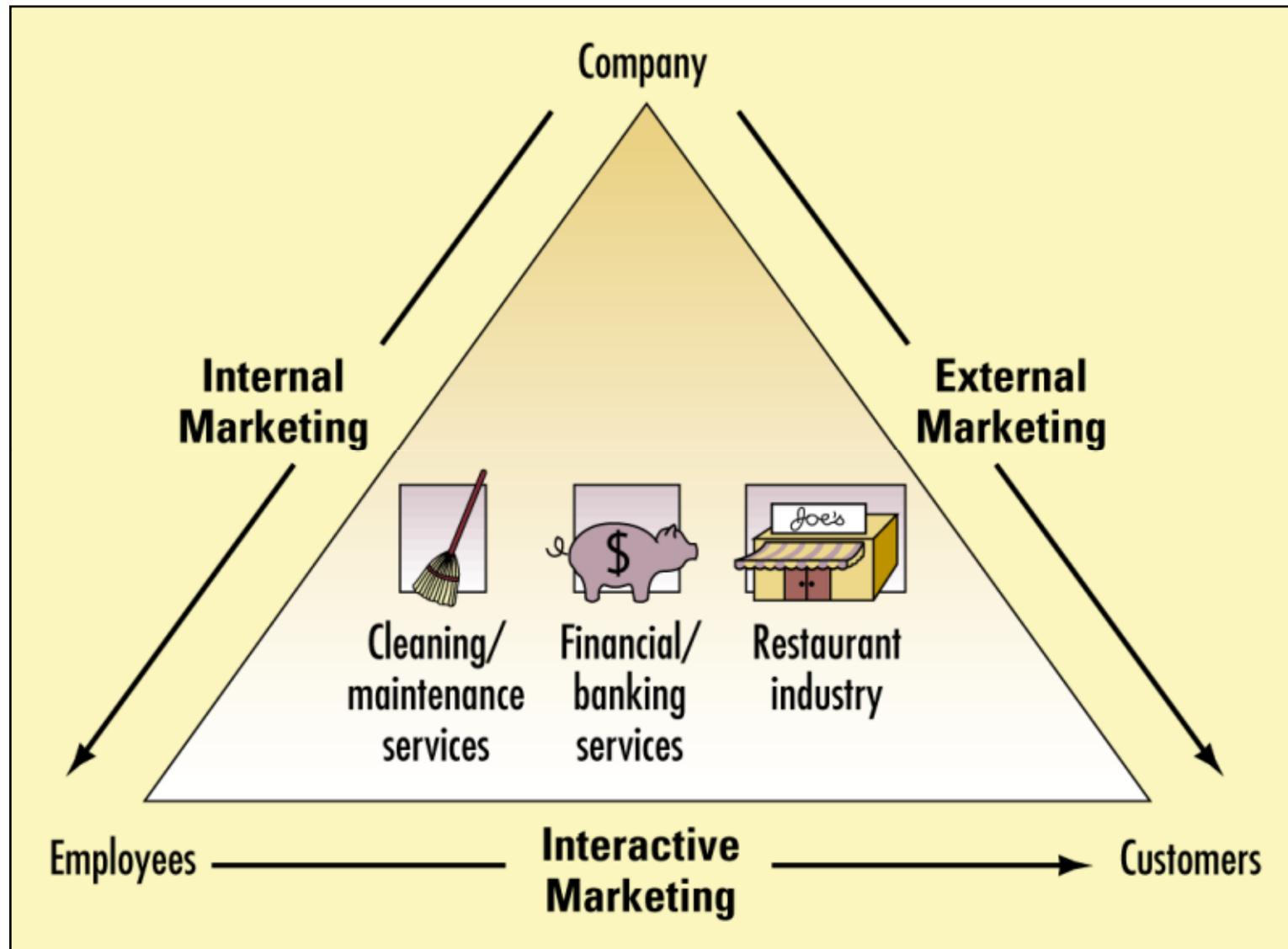
# Marketing Strategies for Service Firms

- **Service Companies face three tasks:**
  - Competitive differentiation
  - Service quality
  - Productivity

- ## Managing differentiation
  - ### Offering
    - Primary service package
    - Secondary service features

# Kaiser Permanente Online has over 30,000 registered users
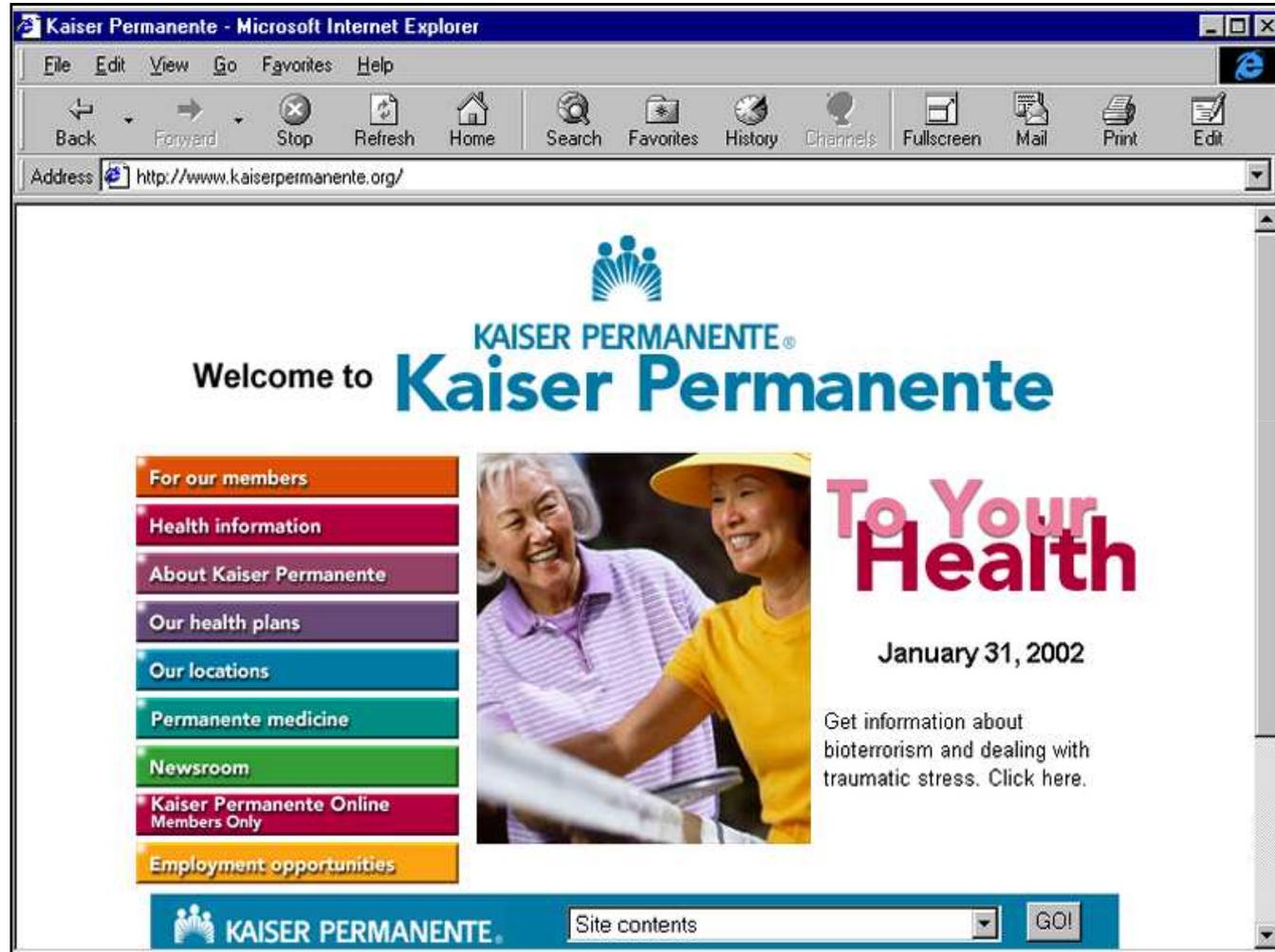
# Marketing Strategies for Service Firms

- **Faster and Better Delivery**
  - **Reliability**
  - **Resilience**
  - **Innovativeness**
- **Image**
- **Managing Service Quality**
  - **Perceived service**
  - **Expected service**

# Discussion Question

FedEx and UPS have taken over much of the US Postal Service's business, mostly through flexibility and innovation that the USPS can't match. Can you think of another governmental service (anywhere in the world) where a private company has been able to take the profitable segment of a service, and leave the less profitable or more risky segment for a government agency?

# Marketing Strategies for Service Firms

- **Five gaps that cause unsuccessful delivery**
  - Gap between consumer expectation and management perception
  - Gap between management perception and service-quality specification
  - Gap between service-quality specification and service delivery
  - Gap between service delivery and external communications
  - Gap between perceived service and expected service

# Marketing Strategies for Service Firms

- Five determinants of service quality
  - Reliability
  - Responsiveness
  - Assurance
  - Empathy
  - Tangibles
- Strategic Concept
- Top-Management Commitment
- High Standards
- Self-Service Technologies (SSTS)

11-474

# Myalert.com provides access to services that users can perform themselves

# Table 15.1 Customer Importance and Performance Ratings for an Auto Dealership

| Attribute Number | Attribute Description | Mean Importance Rating | Mean Performance Rating |
|:---:|:---:|:---:|:---:|
| 1 | Job done right the first time | 3.83 | 2.63 |
| 2 | Fast action on complaints | 3.63 | 2.73 |
| 3 | Prompt warranty work | 3.60 | 3.15 |
| 4 | Able to do any job needed | 3.56 | 3.00 |

*See text for complete table*

# Marketing Strategies for Service Firms

- **Satisfying Customer Complaints**
- **Satisfying Employees As Well As Customers**
- **Managing Productivity**
  - **Seven approaches to improving service productivity:**
    - Have service providers work more skillfully
    - Increase the quantity of service by surrendering some quality
    - "Industrialize the service" by adding equipment and standardizing production
    - Reduce or make obsolete the need for a service by inventing a product solution
    - Design a more effective service
    - Present customers with incentives to substitute their own labor for company labor
    - Harness the power of technology to give customers access to better service and make service workers more productive

# Managing Product Support Services

- **Customers have three worries**
  - **Reliability and failure frequency**
  - **Downtime duration**
  - **Out-of-pocket costs of maintenance and repair**
- **Life-cycle cost**

# Managing Product Support Services

- **To provide the best support for expensive equipment, firms offer:**
    - **Facilitating services**
    - **Value-augmenting services**
- **Herman Miller Office Furniture Company offers:**
    - **Five-year product warranties**
    - **Quality audits after installation**
    - **Guaranteed move-in dates**
    - **Trade-in allowances on systems products**

# Managing Product Support Services

- **Postsale Service Strategy**

- **Major trends in product support service**
  - **Lele has noted the following:**
    - **Equipment manufacturers are building more reliable and more easily fixable equipment**
    - **Customers are becoming more sophisticated about buying product support services**
      - **"Service unbundling"**

# Managing Product Support Services

- **Customers dislike dealing with multiple service providers handling different types of equipment**
  - **Third-party service organizations**
- **Service contracts (extended warranties) may diminish in importance**
- **Customer service choices are increasing rapidly–this is holding down prices and profits**
- **Companies are increasing the quality of their call centers and their customer service representatives (CSRs)**

# Chapter 16
# Developing Price Strategies and Programs

**by** *Philip Kotler*
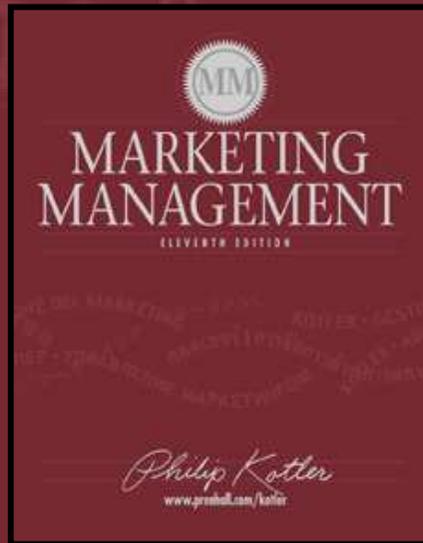
PowerPoint by
Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*Sell value,
not price.*

# Chapter Objectives

- **In this chapter, we focus on three questions:**
    - **How should a price be set on a product or service for the first time?**
    - **How should the price be adapted to meet varying circumstances and opportunities?**
    - **When should the company initiate a price change, and how should it respond to a competitor's price change?**

# Figure 16.1: Nine Price-Quality Strategies

|  | **Price** | | |
|---|---|---|---|
| **Product Quality** | High | Medium | Low |
| High | 1. Premium strategy | 2. High-value strategy | 3. Super-value strategy |
| Medium | 4. Overcharging strategy | 5. Medium-value strategy | 6. Good-value strategy |
| Low | 7. Rip-off strategy | 8. False economy strategy | 9. Economy strategy |

# Figure 16.2: Price Should Align with Value
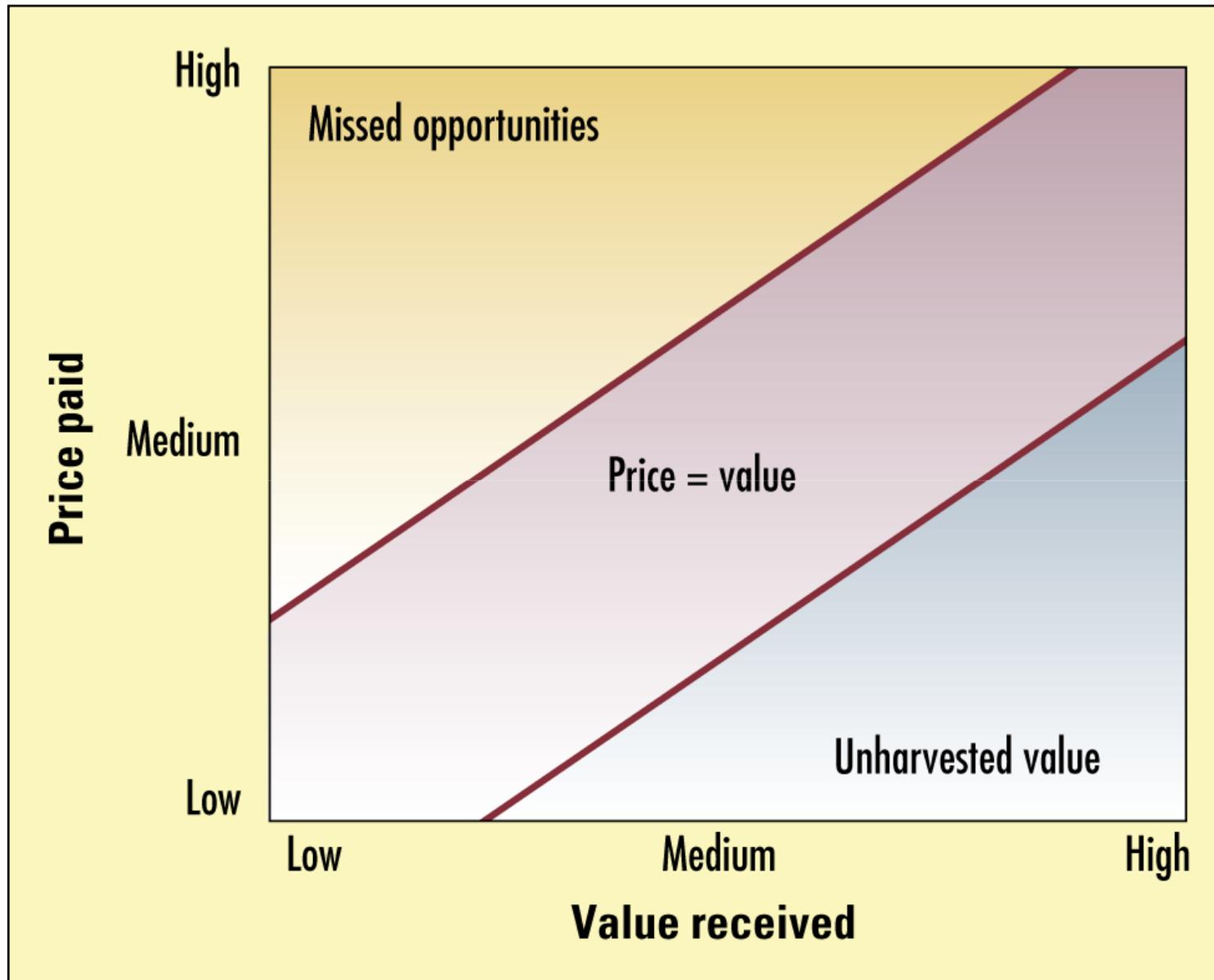
# Setting the Price

- **Step 1: Selecting the pricing objective**
  - **Survival**
  - **Maximize current profits**
  - **Maximize their market share**
- **Market-penetration pricing**
  - **Best when:**
    - Market is highly price-sensitive, and a low price stimulates market growth,
    - Production and distribution costs fall within accumulated production experience, and
    - Low price discourages actual and potential competition

**Discussion Question**

Many companies engage in "market skimming," offering new products at whatever price the market will bear, then over time decreasing the price in order to gain the maximum profit from each market segment. Can you think of any products that wouldn't fit this pricing model?
Why not?

# Maytag's homepage presents its "corporate family of brands"

# Setting the Price

- **Step 2: Determining Demand**
  - **Price sensitivity**
  - **Total Cost of Ownership (TCO)**

# Setting the Price

- **Tom Nagle offers this list of factors associated with lower price sensitivity**
    - **The product is more distinctive**
    - **Buyers are less aware of substitutes**
    - **Buyers cannot easily compare the quality of substitutes**
    - **The expenditure is a smaller part of the buyer's total income**
    - **The expenditure is small compared to the total cost of the end product**
    - **Part of the cost is borne by another party**
    - **The product is used in conjunction with assets previously bought**
    - **The product is assumed to have more quality, prestige, or exclusiveness**
    - **Buyers cannot store the product**

# Setting the Price

- **Estimating Demand Curves**
- **Price Elasticity of Demand**
  - **Inelastic**
  - **Elastic**
  - **Price indifference band**

# Setting the Price

- **Step 3: Estimating Cost**
  - **Types of Cost and Levels of Production**
    - **Fixed costs (overhead)**
    - **Variable cost**
    - **Total cost**
    - **Average cost**
  - **Accumulated Production**
    - **Experience curve (Learning curve)**

# Setting the Price

- **Differentiated Marketing Offers**
  - **Activity-based cost (ABC) accounting**
- **Target costing**

- **Step 4: Analyzing Competitors' Cost, Prices, and Offers**

# Setting the Price

- **Step 5: Selecting a Pricing Method**
  - **Markup Pricing**

    Unit Cost =
      variable cost + (fixed cost/unit sales)

  - **Markup price**

    Markup price=
      unit cost/ (1 – desired return on sales)

  - **Target-Return Pricing**

    Target-return price =

    unit cost + (desired return X investment capital)/unit sales

# Setting the Price
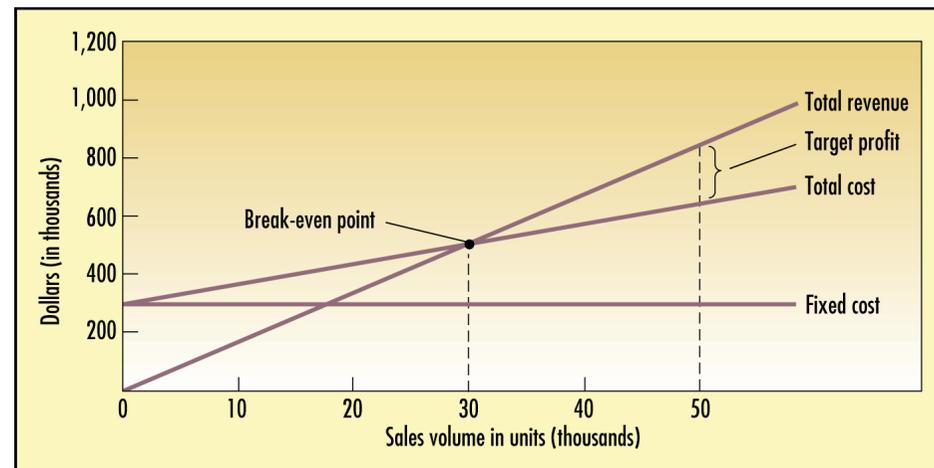
- **Break-even volume**

**Break-even volume = fixed cost / (price – variable cost)**

- **Perceived-Value Pricing**
  - **Perceived value**
  - **Price buyers**
  - **Value buyers**
  - **Loyal buyers**
  - **Value-in-use price**

**Figure 16.8: Break-Even Chart for Determining Target-Return Price and Break-Even Volume**

# Setting the Price

- **Value Pricing**
  - **Everyday low pricing (EDLP)**
  - **High-low pricing**
- **Going-Rate Pricing**
- **Auction-Type Pricing**
  - **English auctions (ascending bids)**
  - **Dutch auctions (descending bids)**
  - **Sealed-bid auctions**
- **Group Pricing**

# Table 16.1: Effect of Different Bids on Expected Profit

| Company's Bid | Company's Profit | Probability of Getting Award with This Bid (Assumed) | Expected Profit |
|---|---|---|---|
| $ 9,500 | $ 100 | 0.81 | $ 81 |
| 10,000 | 600 | 0.36 | 216 |
| 10,500 | 1,100 | 0.09 | 99 |
| 11,000 | 1,600 | 0.01 | 16 |

# volumebuy.com: group or pool pricing

# Discussion Question

Some large entities, both public and private, currently bid online for many products and services. Do you think there will be a market for consumers to bid on electrical power, like major corporate electricity users do? What about oil for heating? Can you think of any other products or services with a potential online auction market for home users?

# Setting the Price

- **Step 6: Selecting the Final Price**
  - **Psychological Pricing**
    - **Reference price**
  - **Gain-and-Risk-Sharing Pricing**
  - **Influence of the Other Marketing Elements**
    - **Brands with average relative quality but high relative advertising budgets charged premium prices**
    - **Brands with high relative quality and high relative advertising budgets obtained the highest prices**
    - **The positive relationship between high advertising budgets and high prices held most strongly in the later stages of the product life cycle for market leaders**

# Setting the Price

- **Brands with average relative quality but high relative advertising budgets charged premium prices**
- **Brands with high relative quality and high relative advertising budgets obtained the highest prices**
- **The positive relationship between high advertising budgets and high prices held most strongly in the later stages of the product life cycle for market leaders**

- **Company Pricing Policies**

- **Impact of Price on Other Parties**

# Adapting the Price

- **Geographical Pricing (Cash, Countertrade, Barter)**
    - **Countertrade**
    - **Barter**
    - **Compensation deal**
    - **Buyback arrangement**
    - **Offset**
  - **Price Discounts and Allowances**

# Table 16.2:  Price Discounts and Allowances

| | |
|---|---|
| **Cash Discount:** | **A price reduction to buyers who pay bills promptly. A typical example is "2/10, net 30," which means that payment is due within 30 days and that the buyer can deduct 2 percent by paying the bill within 10 days.** |
| **Quantity Discount:** | **A price reduction to those who buy large volumes. A typical example is "$10 per unit for less than 100 units; $9 per unit for 100 or more units." Quantity discounts must be offered equally to all customers and must not exceed the cost savings to the seller. They can be offered on each order placed or on the number of units ordered over a given period.** |

*See text for complete table*

# Adapting the Price

- **Promotional Pricing**
  - **Loss-leader pricing**
  - **Special-event pricing**
  - **Cash rebates**
  - **Low-interest financing**
  - **Longer payment terms**
  - **Warranties and service contracts**
  - **Psychological discounting**

# Adapting the Price

- **Discriminatory Pricing**
  - **Customer segment pricing**
  - **Product-form pricing**
  - **Image pricing**
  - **Channel pricing**
  - **Location pricing**
  - **Time pricing**
    - **Yield pricing**

# Adapting the Price

- **Product-mix pricing**
  - **Product-Line Pricing**
  - **Optional-Feature Pricing**
  - **Captive-Product Pricing**
    - **Captive products**
  - **Two-Part Pricing**
  - **By-Product Pricing**
  - **Product-Bundling Pricing**
    - **Pure bundling**
    - **Mixed bundling**

# personify.com provides software that helps Web merchants find target customers

# Initiating and Responding to Price Changes

- **Initiating Price Cuts**
  - **Drive to dominate the market through lower costs**
  - **Low quality trap**
  - **Fragile-market-share trap**
  - **Shallow-pockets trap**

# Table 16.3:  Marketing-Mix Alternatives

| Strategic Options | Reasoning | Consequences |
|---|---|---|
| 1. Maintain price and perceived quality. Engage in selective customer pruning. | Firm has higher customer loyalty. It is willing to lose poorer customers to competitors. | Smaller market share. Lowered profitability. |
| 2. Raise price and perceived quality. | Raise price to cover rising costs. Improve quality to justify higher prices. | Smaller market share. Maintained profitability. |
| 3. Maintain price and raise perceived quality. | It is cheaper to maintain price and raise perceived quality. | Smaller market share. Short-term decline in profitability. Long-term increase in profitability. |

*See text for complete table*

# Initiating and Responding to Price Changes

## Table 16.4:  Profits Before and After a Price Increase

|  | Before | After |  |
|---|---|---|---|
| Price | $ 10 | $10.10 | (a 1 percent price increase) |
| Units sold | 100 | 100 |  |
| Revenue | $1000 | $1010 |  |
| Costs | -970 | -970 |  |
| Profit | $ 30 | $ 40 | (a 33 1/3 percent profit increase) |

# Initiating and Responding to Price Changes

- **Initiating Price Increases**
  - Cost inflation
  - Anticipatory pricing
  - Overdemand
  - Delayed quotation pricing
  - Escalator clauses
  - Unbundling
  - Reduction of discounts

# Initiating and Responding to Price Changes

- **Possible responses to higher costs or overhead without raising prices include:**
  - Shrinking the amount of product instead of raising the price
  - Substituting less expensive materials or ingredients
  - Reducing or removing product features
  - Removing or reducing product services, such as installation or free delivery
  - Using less expensive packaging material or larger package sizes
  - Reducing the number of sizes and models offered
  - Creating new economy brands

# Initiating and Responding to Price Changes

- **Reactions to Price Changes**
  - **Customer Reactions**
  - **Competitor Reactions**
- **Responding to Competitors' Price Changes**
  - Maintain price
  - Maintain price and add value
  - Reduce price
  - Increase price and improve quality
  - Launch a low-price fighter line

# Chapter 17
# Designing and Managing Value Networks and Marketing Channels

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

Philip Kotler
www.prenhall.com/kotler
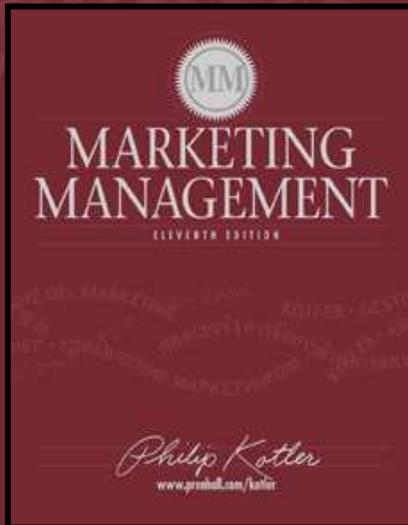
PowerPoint by

Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*Establish channels for different target markets and aim for efficiency, control, and adaptability.*

# Chapter Objectives

- **In this chapter, we focus on the following channel questions from the viewpoint of the manufacturers:**

    - **What is the value network and marketing channel system?**

    - **What work is performed by marketing channels?**

    - **What decisions do companies face in designing, managing, evaluating, and modifying their channels?**

    - **What trends are taking place in channel dynamics?**

    - **How can channel conflict be managed?**

# What is a Value Network and Marketing-Channel System?

- **Value Network**
- **Marketing channel**

# Oracle's home page

# What is a Value Network and Marketing-Channel System?

- **"Go-to-market" or *hybrid* channels**
  - **IBM's sales force sells to large accounts, outbound telemarketing sells to medium-sized accounts, direct mail sells to small accounts, retailers sell to still smaller accounts, and the Internet to sell specialty items**
  - **Charles Schwab enables its customers to do transactions in branch offices, over the phone, or via the Internet**
  - **Staples markets through traditional retail, direct-response Internet site, virtual malls, and 30,000 linked affiliated sites**
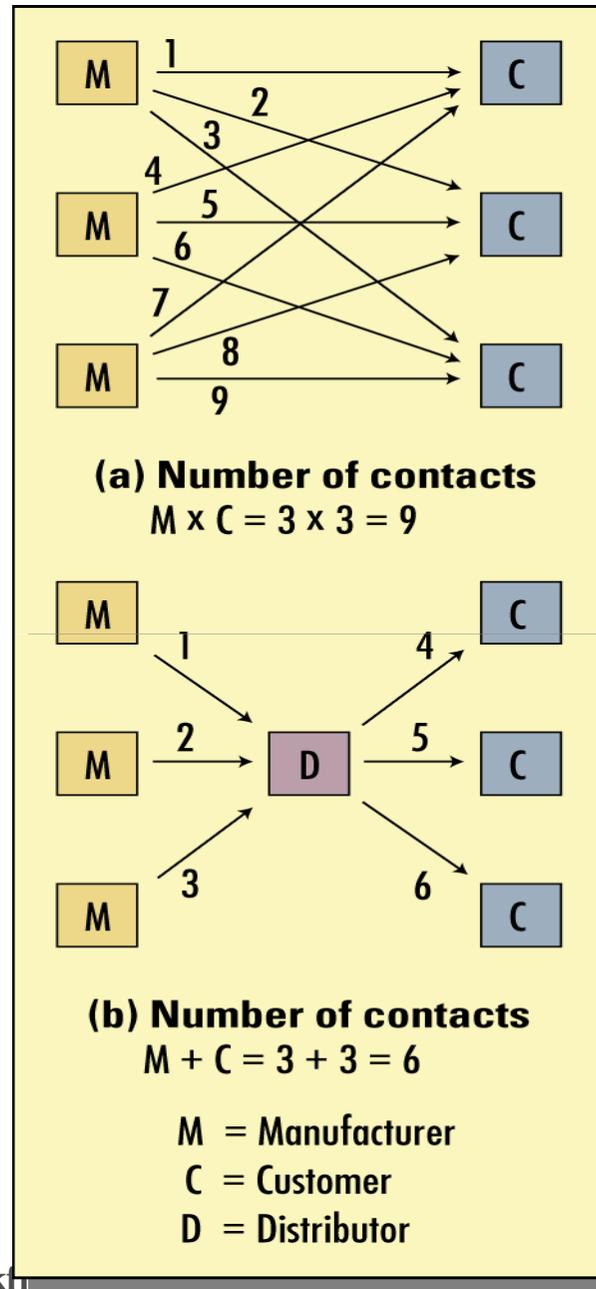
# What is a Value Network and Marketing-Channel System?

- **Channel integration characteristics:**
  - **Ability to order a product online, and pick it up at a convenient retail location**
  - **Ability to return an online-ordered product to a nearby store**
  - **Right to receive discounts based on total of online and off-line purchases**

# What Work is Performed by Marketing Channels?

- **Many producers lack the financial resources to carry out direct marketing**

- **In some cases direct marketing simply is not feasible**

- **Producers who do establish their own channels can often earn a greater return by increasing their investment in their main business.**

**Figure 17.1: How a Distributor Effects an Economy of Effort**



(a) Number of contacts
M × C = 3 × 3 = 9

(b) Number of contacts
M + C = 3 + 3 = 6

M = Manufacturer
C = Customer
D = Distributor

# Discussion Question

As more retailers develop a web presence, they often move from a "brick-and-mortar" to a "click-and-mortar" business model where customers expect channel integration. Can you identify any potential problems for these companies? Can you identify any unique marketing opportunities that such a change would offer these companies?

# What Work is Performed by Marketing Channels?

- **Channel Functions and Flows**
  - **Key functions include:**
    - **Gather information about potential and current customers, competitors, and others**
    - **Develop and disseminate persuasive communications to stimulate purchasing**
    - **Reach agreements on price and other terms so that transfer of ownership or possession can be effected**
    - **Place orders with manufacturers**

# What Work is Performed by Marketing Channels?

- **Acquire funds to finance inventories at different levels in the marketing channel**

- **Assume risk connected with carrying out channel work**

- **Provide for the successive storage and movement of physical products**

- **Provide for buyers' payment of their bills through banks and other financial institutions**

- **Oversee actual transfer of ownership from one organization or person to another**

# Figure 17.2: Five Marketing Flows in the Marketing Channel for Forklift Trucks
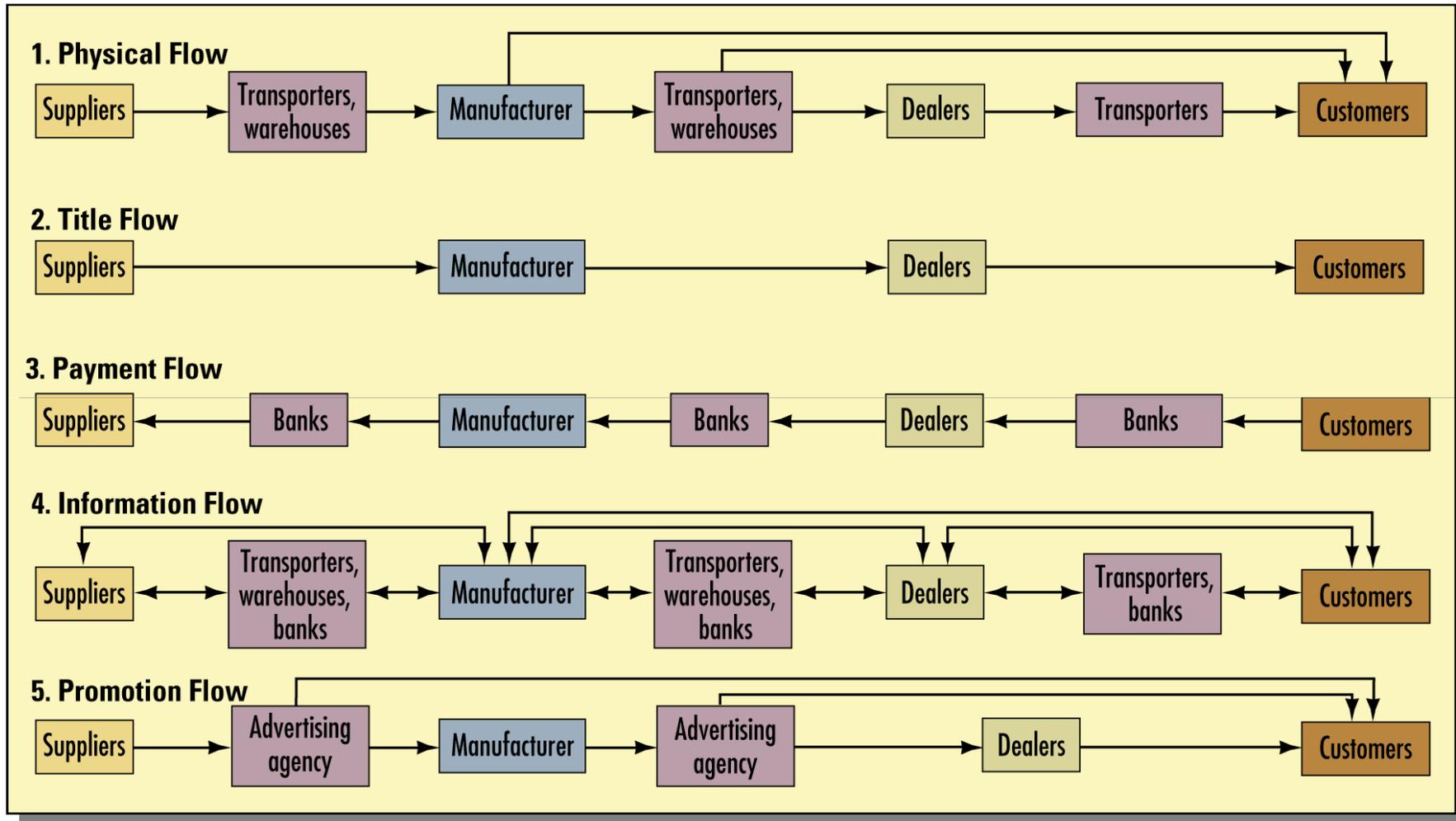
# What Work is Performed by Marketing Channels?

- **Forward flow**
- **Backward flow**

11-528

# What Work is Performed by Marketing Channels?

- **Channel levels**
    - **Zero-level channel (a.k.a. direct-marketing channel)**
    - **One-level channel**
    - **Two-level channel**
    - **Three-level channel**
    - **Reverse-flow channel**
- **Service Sector Channels**
- **Information Highway Channels**

## Discussion Question

The advent of print media, the telephone, radio, television, and the Internet have all provided new ways for marketers to get their message to their intended audience. As various technologies advance, these information channels offer more precise delivery of a message. Can you identify an emerging information distribution channel?

# The People's Bank Internet site

# Channel-Design Decisions

- ▪ **Push strategy**
- ▪ **Pull strategy**
- ▪ **Designing a channel system involves four steps:**
  - ▪ **Analyzing customer needs**
  - ▪ **Establishing channel objectives**
  - ▪ **Identifying major channel alternatives**
  - ▪ **Evaluating major channel alternatives**

# Channel-Design Decisions

- **Analyze Customers' Desired Service Output Levels**
    - **Lot size**
    - **Waiting time**
    - **Spatial convenience**
    - **Product variety**
    - **Service backup**

# Channel-Design Decisions

- **Establish Objectives and Constraints**
- **Identify Major Channel Alternatives**
  - **Types of Intermediaries**
  - **Number of Intermediaries**
    - **Exclusive distribution**
      - **Exclusive dealing**
    - **Selective distribution**
    - **Intensive distribution**
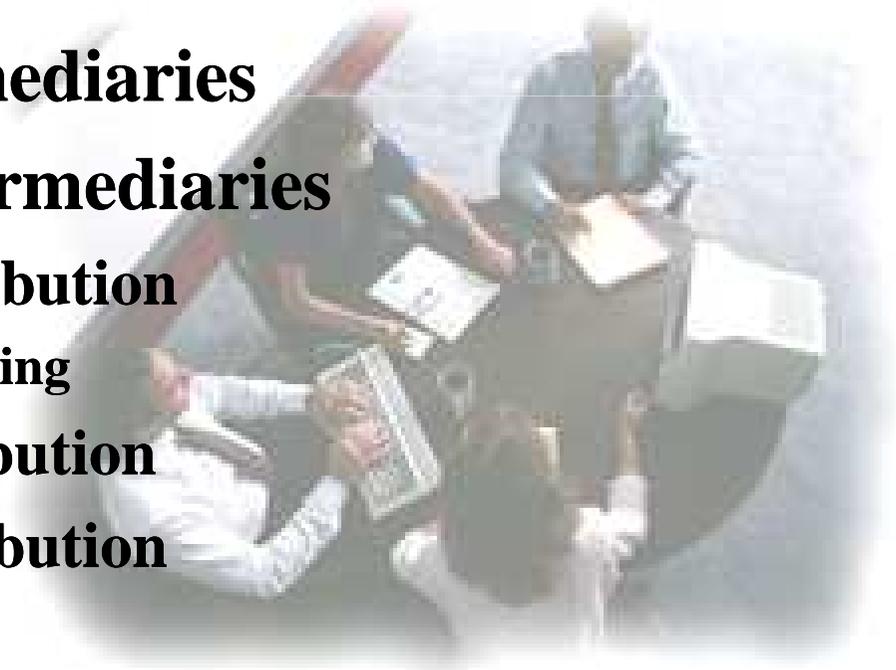
# Channel-Design Decisions

- **Terms and Responsibilities of Channel Members**
  - Price policy
  - Conditions of sale
  - Distributors' territorial rights
- **Evaluate the Major Alternatives**
  - **Economic Criteria**

# Figure 17.4: The Value-Adds versus Costs of Different Channels
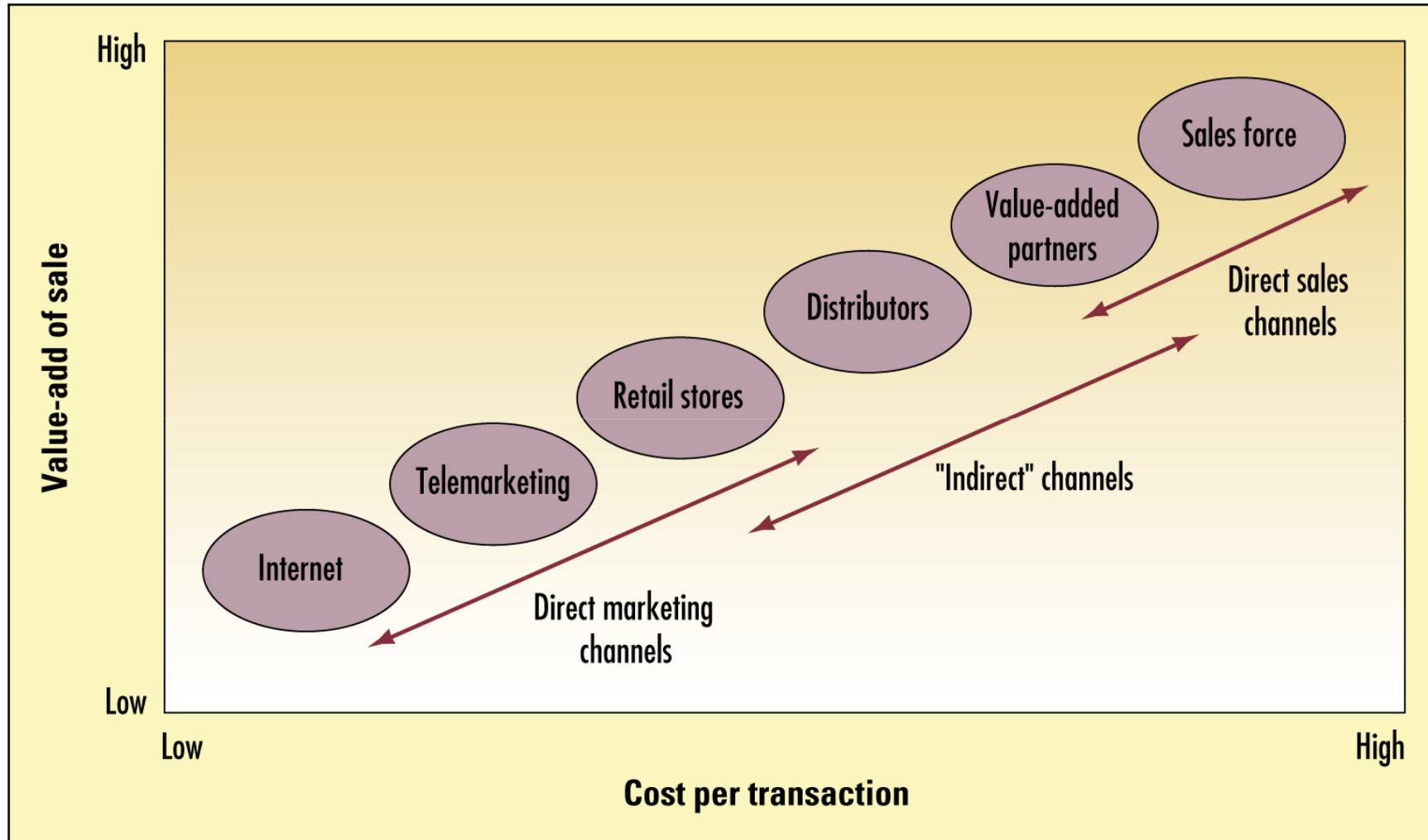
# Channel-Design Decisions

- **Channel advantage**
- **Control and Adaptive Criteria**

**Figure 17.5:
Break-even
Cost Chart**
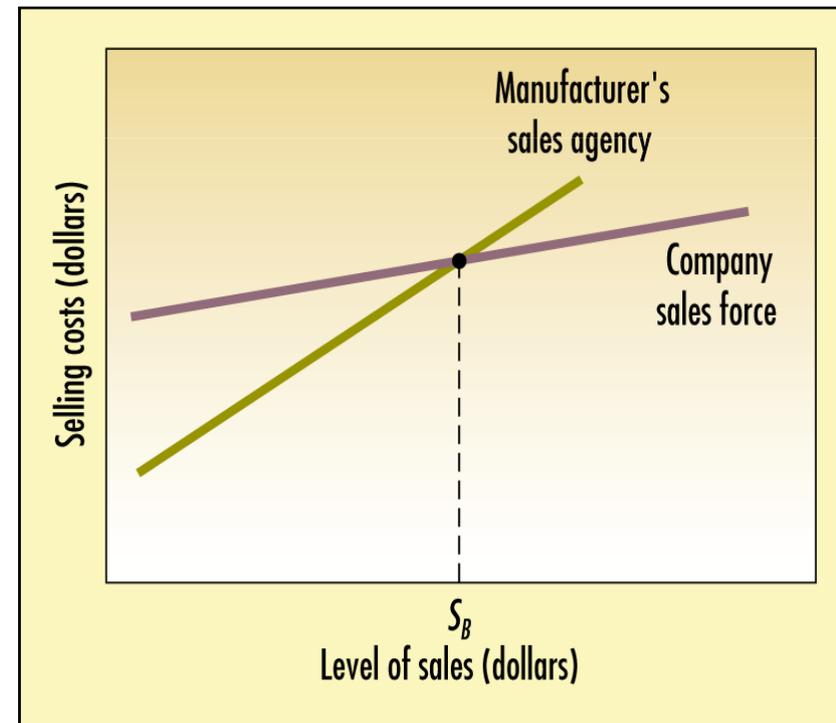
# Channel-Management Decisions

- **Selecting Channel Members**
- **Training Channel Members**
- **Motivating Channel Members**
  - **Producers can use:**
    - Coercive power
    - Reward power
    - Legitimate power
    - Expert power
    - Referent power

# Channel-Management Decisions

- **Distribution programming**
  - **Distributor-relations planning**

## Evaluating Channel Members

## Modifying Channel Arrangements

# Channel Dynamics

- **Vertical Marketing Systems**
  - **Conventional marketing channel**
  - **Vertical marketing systems (VMS)**
- **Corporate and Administered VMS**
  - **Corporate VMS**
  - **Administered VMS**

# Channel Dynamics

- **Contractual VMS**
  - **Wholesaler-sponsored voluntary chains**
  - **Retailer cooperatives**
  - **Franchise organizations**
- **Manufacturer-sponsored retailer franchise**
- **Manufacturer-sponsored wholesaler franchise**
- **Service-firm-sponsored retailer franchise**

# Channel Dynamics

- The New Competition in Retailing
- Horizontal Marketing Systems
- Multichannel Marketing Systems

# Channel Dynamics

- **Roles of Individual Firms**
  - **Insiders**
  - **Strivers**
  - **Complementers**
  - **Transients**
  - **Outside innovators**

# Channel Dynamics

- **Conflict, Cooperation, and Competition**
  - **Types of Conflict and Competition**
    - Vertical channel conflict
    - Horizontal channel conflict
    - Multichannel conflict
  - **Causes of Channel Conflict**
    - Goal incompatibility
    - Unclear roles and rights
      - Differences in perception

# Channel Dynamics

- **By adding new channels, a company faces the possibility of channel conflict which may include:**
  - Conflict between the national account managers and field sales force
  - Conflict between the field sales force and the telemarketers
  - Conflict between the field sales force and the dealers

# Channel Dynamics

- **Managing Channel Conflict**
  - **Diplomacy**
  - **Mediation**
  - **Arbitration**
- **Legal and Ethical Issues in Channel Distribution**
  - **Exclusive distribution**
  - **Exclusive dealing**
  - **Tying agreements**

# Chapter 18
# Managing Retailing, Wholesaling, and Market Logistics
**by** *Philip Kotler*
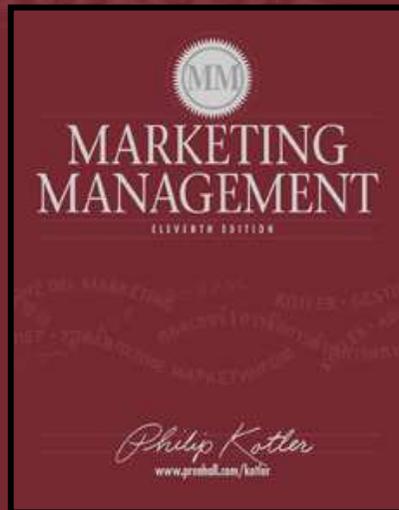
PowerPoint by
Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*Successful "go-to-market" strategies require integrating retailers, wholesalers, and logistical organizations.*

# Chapter Objectives

- **In this chapter, we focus on the following questions about each marketing intermediary:**
  - **What major types of organizations occupy this sector?**
  - **What marketing decisions do organizations in this sector make?**
  - **What are the major trends in this sector?**

# Retailing

- **Types of Retailers**
  - **Retail life cycle**

# Table 18.1: Major Retailer Types

**Specialty Store:** Narrow product line with a deep assortment. A clothing store would be a *single-line* store; a men's clothing store would be a *limited-line* store; and a men's custom-shirt store would be a *superspecialty* store. Examples: Athlete's Foot, Tall Men, The Limited, The Body Shop.

**Department Store:** Several product lines—typically clothing, home furnishings, and household goods—with each line operated as a separate department managed by specialist buyers or merchandisers. *Examples*: Sears, JCPenney, Nordstrom, Bloomingdale's.

**Supermarket:** Relatively large, low-cost, low-margin, high volume, self-service operation designed to serve total needs for food, laundry, and household products. *Examples*: Kroger, Food Emporium, Jewel.

**Convenience Store:** Relatively small store located near residential area, open long hours, seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices, plus takeout sandwiches, coffee, soft drinks. *Examples*: 7-Eleven, Circle K.

*See text for complete table*

# Retailing

- **Levels of Service**
  - **Wheel-of-retailing**
  - **Four levels of service:**
    - **Self-service**
    - **Self-selection**
    - **Limited service**
    - **Full service**

**Figure 18.1: Retail Positioning Map**
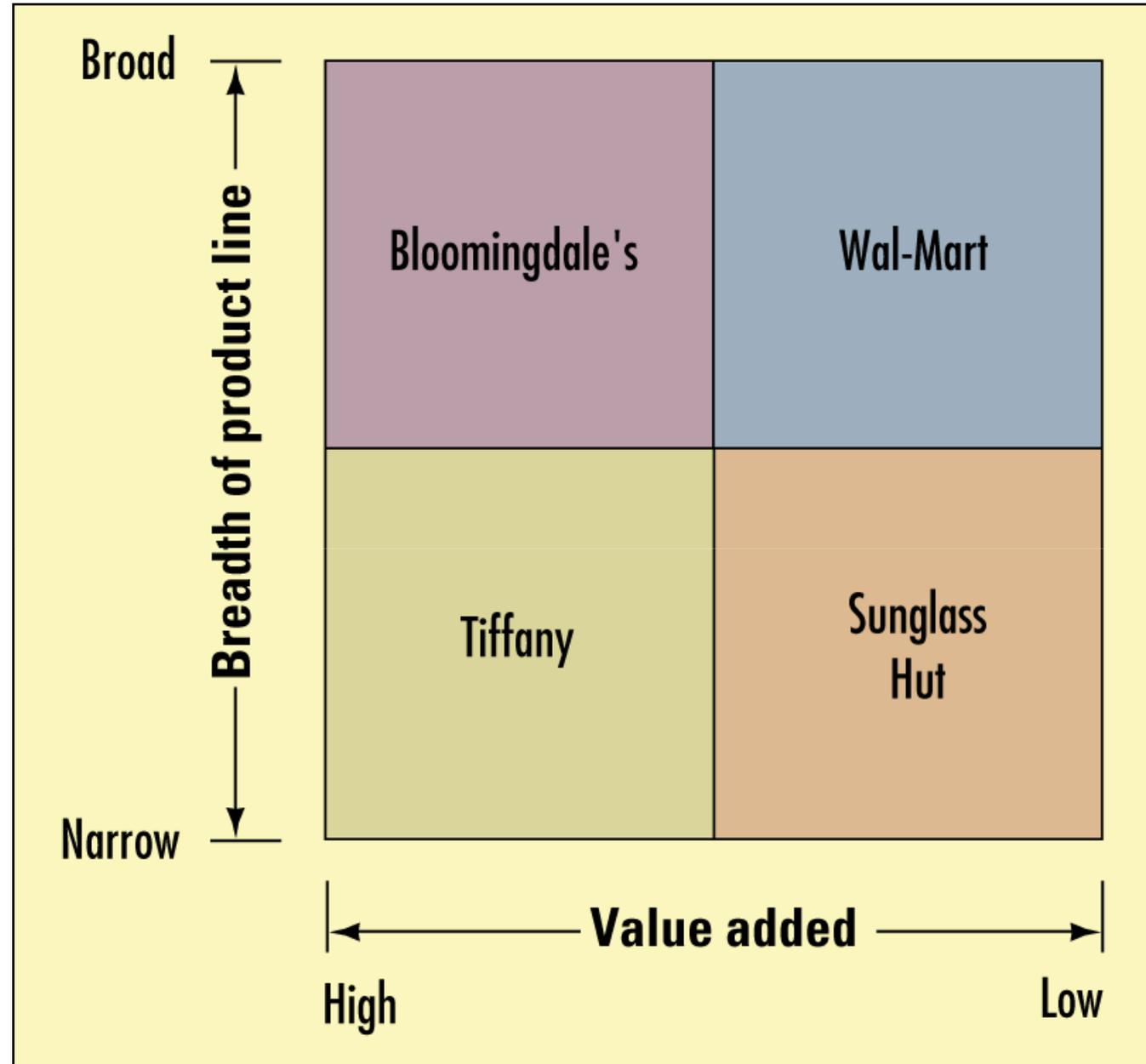
# Retailing

- **Nonstore retailing**
- **Categories of nonstore retailing**
  - **Direct selling**
  - **Direct marketing**
    - **Telemarketing**
    - **Television direct-response marketing**
    - **Electronic shopping**
  - **Automatic vending**
  - **Buying service**
- **Corporate Retailing**

# Table 18.2: Major Types of Retail Organizations

**Corporate Chain Store:** Two or more outlets commonly owned and controlled, employing central buying and merchandising, and selling similar lines of merchandise. Their size allows them to buy in large quantities at lower prices, and they can afford to hire corporate specialists to deal with pricing, promotion, merchandising, inventory control, and sales forecasting. *Examples*: Tower Records, GAP, Pottery Barn.

**Voluntary Chain:** A wholesaler-sponsored group of independent retailers engaged in bulk buying and common merchandising. *Examples*: Independent Grovers Alliance (IGA), True Value Hardware.

**Retailer Cooperative:** Independent retailers who set up a central buying organization and conduct joint promotion efforts. *Examples*: Associated Grocers, ACE Hardware.

**Consumer Cooperative**: A retail firm owned by its customers. In consumer coops residents contribute money to open their own store, vote on its policies, elect a group to manage it, and receive patronage dividends.

*See text for complete table*

# Retailing

- **Marketing Decisions**
- **Target Market**
- **Product Assortment and Procurement**
  - Breadth
  - Depth

# Retailing

- **Product-differentiation Strategy Possibilities**
  - **Feature exclusive national brands that are not available at competing retailers**
  - **Feature mostly private branded merchandise**
  - **Feature blockbuster distinctive merchandise events**
  - **Feature surprise or ever-changing merchandise**
  - **Feature the latest or newest merchandise first**
  - **Offer merchandise customizing services**
  - **Offer a highly targeted assortment**

# Discussion Question

Wal-Mart has for the first time moved into the number one position on Fortune magazine's "Fortune 500" list, passing up such companies as GM and Exxon. How has their target market identification helped put them into this position? What can Wal-Mart's chief rivals, K-Mart and Target, do to try to close the gap?

# Retailing

- **Merchandise managers**
- **Direct product profitability (DPP)**

- **Services and Store Atmosphere**
  - **Prepurchase services include accepting telephone and mail orders, etc.**
  - **Postpurchase services include shipping and delivery, etc.**
  - **Ancillary services include general information, check cashing, parking, etc.**

- **Price Decision**
  - **High-markup, lower volume**
  - **Low-markup, high volume**

# Retailing

- **Promotion Decision**
- **Place Decision**
  - **General business districts**
  - **Regional shopping centers**
  - **Community centers**
  - **Strip malls (a.k.a. shopping strips)**
  - **A location within a larger store**

# Retailing

- **Trends in Retailing**
    1. New retail forms and combinations
    2. Growth of intertype competition
    3. Growth of giant retailers
    4. Growing investment in technology
    5. Global presence of major retailers
    6. Selling an experience, not just goods
    7. Competition between store-based and non-store-based retailing

# Discussion Question

How have the "television age," the "information age," and the emergence of a world consumer culture affected market targeting decisions of retailers? What effect do you think trade entities like NAFTA and the European Union have had on retailing?

# Wholesaling

- **Wholesalers' functions:**
  - **Selling and promoting**
  - **Buying and assortment building**
  - **Bulk breaking**
  - **Warehousing**
  - **Transportation**
  - **Financing**
  - **Risk bearing**
  - **Market information**
  - **Management services and counseling**
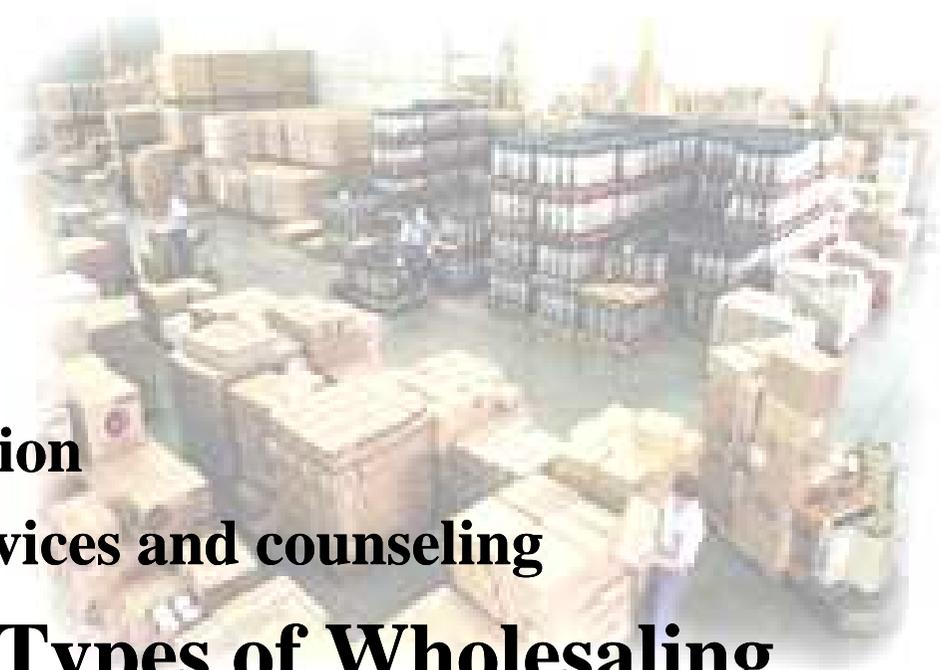- **The Growth and Types of Wholesaling**

# Table 18.3: Major Wholesaler Types

**Merchant Wholesalers:** Independently owned businesses that take title to the merchandise they handle. They are called *jobbers, distributors*, or *mill supply houses* and fall into two categories: full service and limited service.

**Full-Service Wholesalers**: Carry stock, maintain a sales force, offer credit, make deliveries, and provide management assistance. There are two types of full-service wholesalers: (1) Wholesale merchants sell primarily to retailers and provide a full range of services. General-merchandise wholesalers carry several merchandise lines. General-line wholesalers carry one or two lines. Specialty wholesalers carry only part of a line. (2) Industrial distributors sell to manufacturers rather than to retailers and provide several services—carrying stock, offering credit, and providing delivery.

*See text for complete table*

# Wholesaling

- **Wholesaler Marketing Decisions**
  - **Target Market**
  - **Product Assortment and Services**
  - **Price Decision**
  - **Promotion Decision**
  - **Place Decision**

# McKesson offers online supply management

# Wholesaling

- **Trends in Wholesaling**
  - **Narus and Anderson identified four ways to strengthen relationships with manufacturers**
    - Sought clear agreement about their expected function in the marketing channel
    - Gained insight into the manufacturers' requirements by visiting their plants
    - Fulfilled commitments by meeting volume targets
    - Identified and offered value-added services to help their suppliers

# Market Logistics

- **Supply chain management (SCM)**

- **Value network**

- **Demand chain planning**

- **Market logistics**

  - **Market logistics planning has four steps:**

    - **Deciding on the company's value proposition to its customers**

    - **Deciding on the best channel design and network strategy for reaching the customers**

    - **Developing operational excellence in sales forecasting, warehouse management, transportation management, and materials management**

    - **Implementing the solution with the best information systems, equipment, policies, and procedures**

- **Integrated logistics systems (ILS)**

# The IKEA-USA home page

# Market Logistics

- **Market-logistics Objectives**

- **Market-logistics Decisions**
  - **Order Processing**
    - **Order-to-payment cycle**
  - **Warehousing**
    - **Storage warehouses**
    - **Distribution warehouses**
    - **Automated warehouses**

# Market Logistics

- **Inventory**
  - **Inventory cost increases at an accelerating rate as the customer service level approaches 100%**
  - **Order (reorder) point**
  - **Order-processing costs**
  - **Inventory-carrying costs**

# Figure 18.2: Determining Optimal Order Quantity
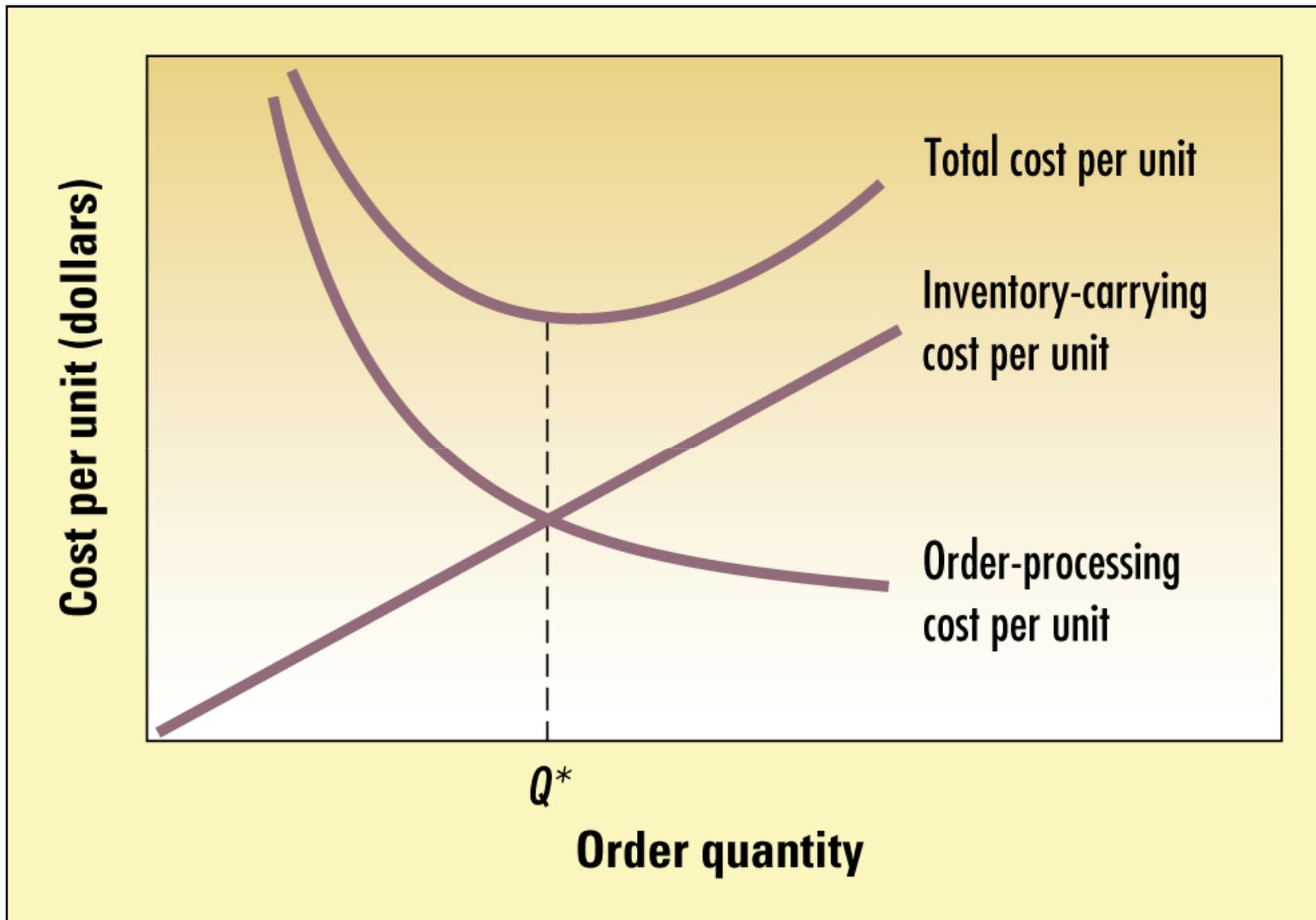
# Market Logistics

- **Just-In-Time production (JIT)**
- **Transportation**
  - **Containerization**
    - **Piggyback**
    - **Fishyback**
    - **Trainship**
    - **Airtruck**
    - **Private carrier**
    - **Contract carrier**
    - **Common carrier**

# The 1-800-Flowers.com site makes online ordering easy

# Market Logistics

- **Organizational Lessons**
  - Companies should appoint a senior vice president of logistics to be the single point of contact for all logistical elements
  - The senior vice president of logistics should hold periodic meetings with sales and operations people to review inventory, etc.
  - New software and systems are the key to achieving competitively superior logistics performance in the future

# Chapter 19
# Managing Integrated Marketing Communications

**by** *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
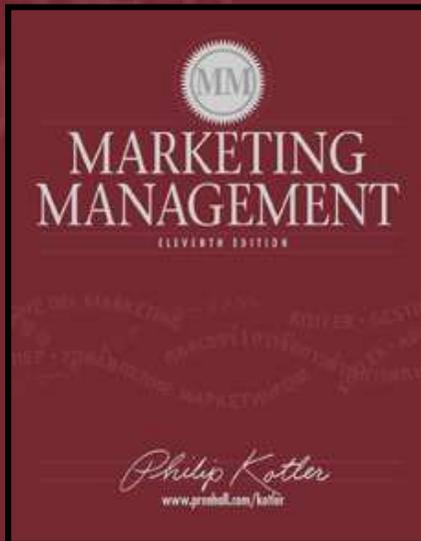
PowerPoint by
Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*Integrated marketing communications is a way of looking at the whole marketing process from the viewpoint of the customer.*

# Chapter Objectives

- **In this chapter, we focus on three major questions:**
  - **How does communication work?**
  - **What are the major steps in developing an integrated marketing communications program?**
  - **Who should be responsible for marketing communication planning?**

# Marketing Communications Mix

- **Advertising**
- **Sales Promotion**
- **Public Relations and Publicity**
- **Personal Selling**
- **Direct and Interactive Marketing**

# The Communication Process

## Table 19.1: Common Communication Platforms

| Advertising | Sales Promotion | Public Relations | Personal Selling | Direct Marketing |
|---|---|---|---|---|
| Print and broadcast ads | Contests, games, sweepstakes, lotteries | Press kits | Sales presentation | Catalogs |
| Packaging-outer | Premiums and gifts | Speeches | Sales meetings | Mailings |
| Packaging inserts | Sampling | Seminars | Incentive programs | Telemarketing |
| Motion pictures | Fairs and trade shows | Annual reports | Samples | Electronic shopping |

*See text for complete table*

# Figure 19.1: Elements in the Communication Process
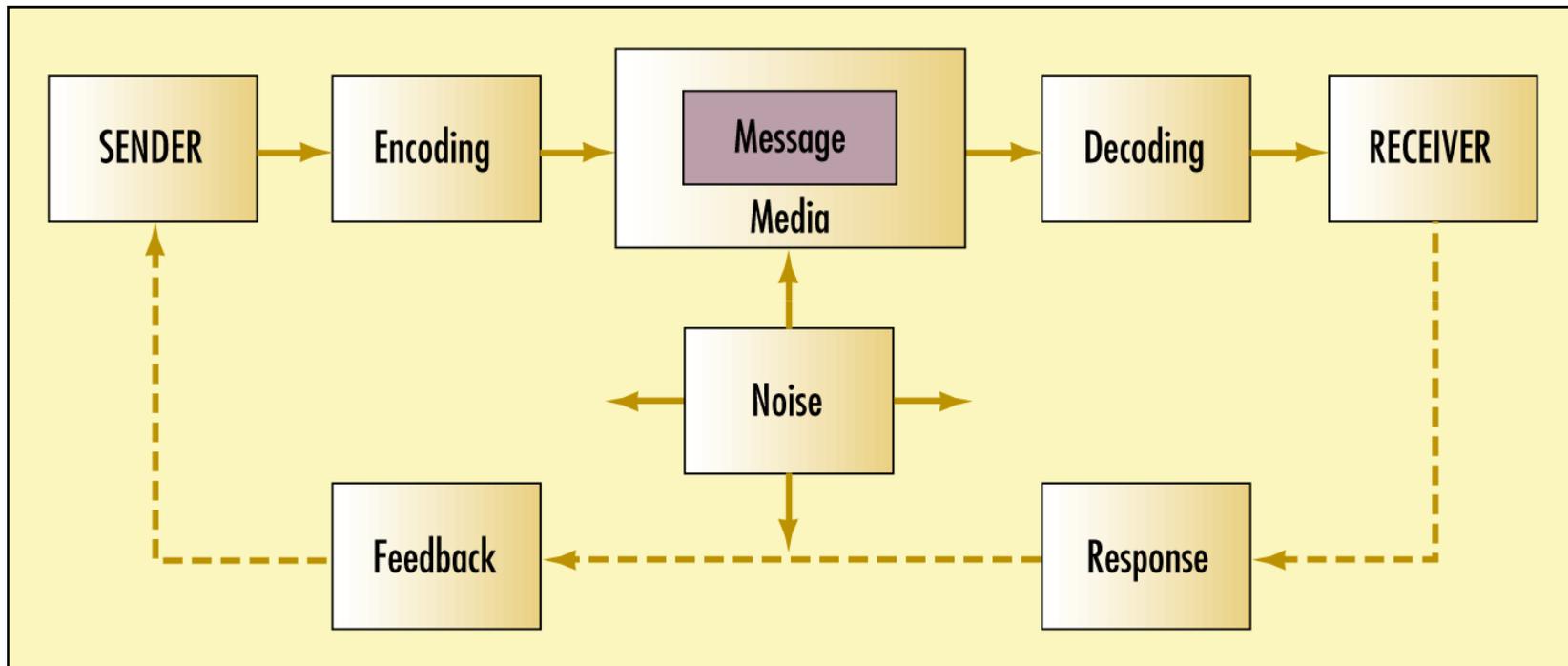
# The Communication Process

- **Target audience may not receive the intended message for any of three reasons:**
  - **Selective attention**
  - **Selective distortion**
  - **Selective retention**

# The Communication Process

- **Fiske and Hartley have outlined factors that influence communication:**
  - **The greater the influence of the communication source, the greater the effect on the recipient**
  - **Communication effects are greatest when they are in line with existing opinions, beliefs, and dispositions**

# The Communication Process

- **Communication can produce the most effective shifts on unfamiliar, lightly felt, peripheral issues that do not lie at the core of the recipient's value system.**

- **Communication is more likely to be effective if the source is believed to have expertise, high status, objectivity, or likeability, but particularly if the source has power and can be identified with.**

- **The social context, group, or reflective group will mediate the communication and influence whether or not the communication is accepted.**

**Figure 19.2: Steps in Developing Effective Communication**

Identify target audience

↓

Determine objectives

↓

Design message

↓

Select channels

↓

Establish budget

↓

Decide on media mix

↓

Measure results

↓

Manage integrated marketing communications
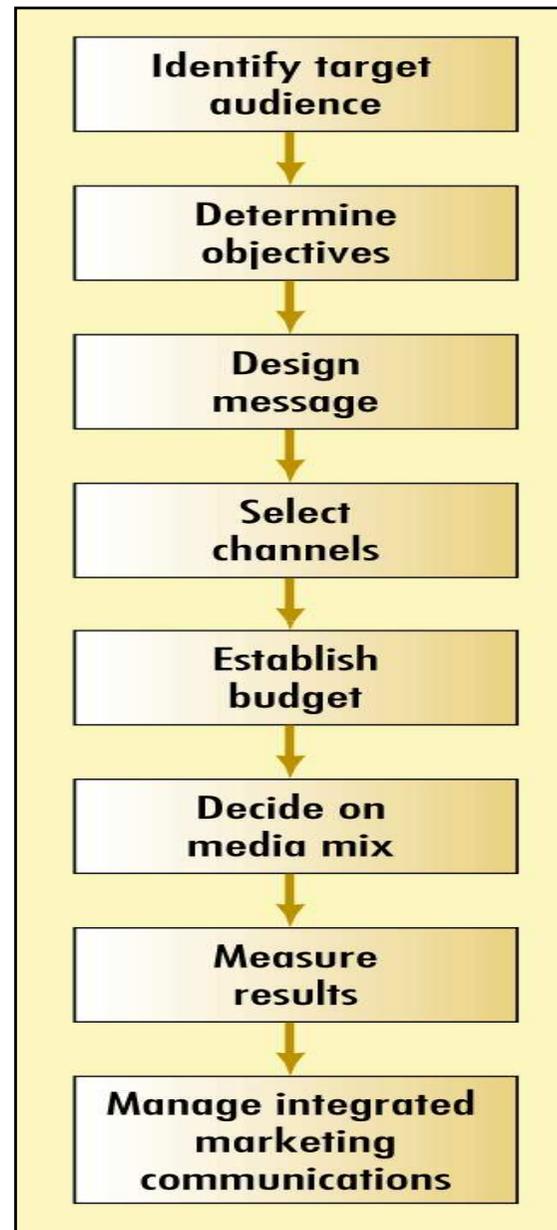
# Developing Effective Communications

- **Identify the Target Audience**
  - **Image analysis**
    - **Familiarity scale**

| Never Heard of | Heard of Only | Know a Little Bit | Know a Fair Amount | Know Very Well |
|---|---|---|---|---|

  - **Favorability scale**

| Very Unfavorable | Somewhat Unfavorable | Indifferent | Somewhat Favorable | Very favorable |
|---|---|---|---|---|

Some companies spend a significant portion of their advertising budget on a single high profile event. In recent years, commercial time during the Superbowl broadcast has become such an occasion. While some companies have used such events to launch successful, long-running campaigns, others have seen little benefit from these ads. Can you remember the name of the firm whose critically acclaimed Superbowl ad featured cowboys herding cats?

# Figure 19.3: Familiarity-Favorability Analysis
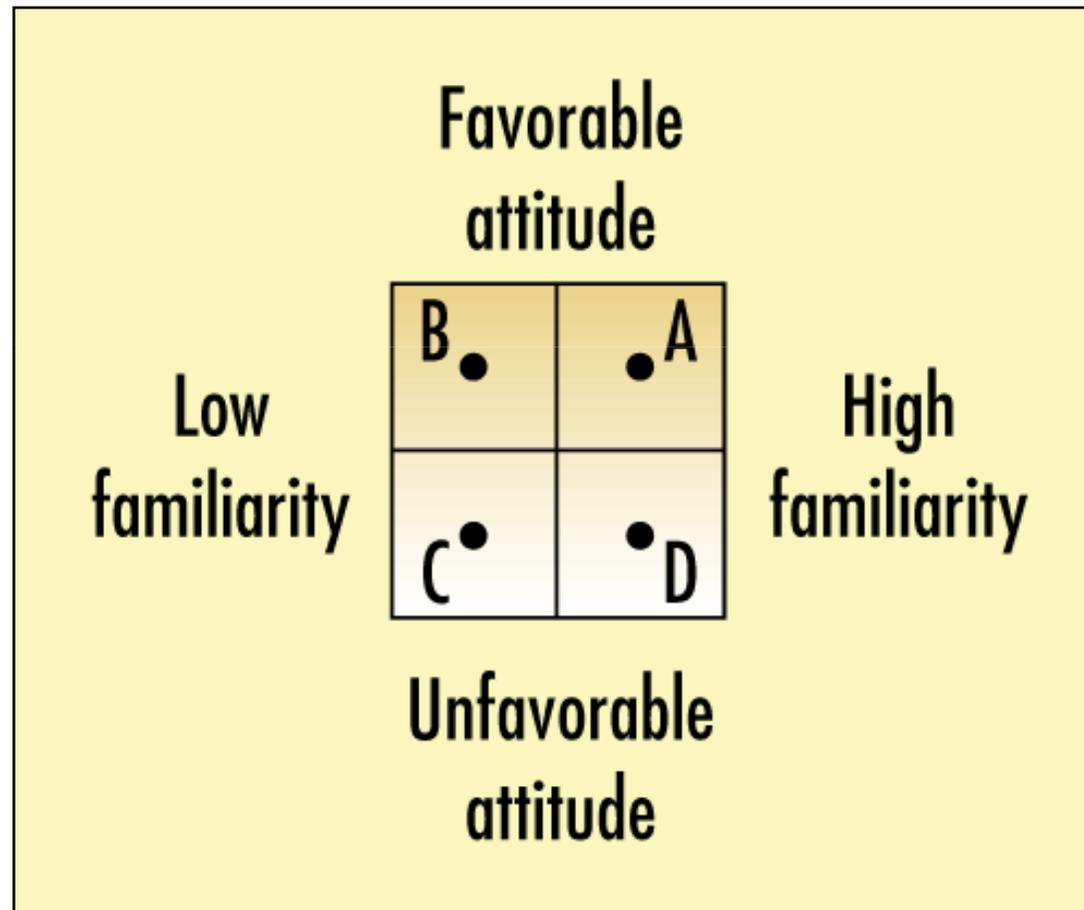
# Developing Effective Communications

- **Semantic differential**
    - **Developing a set of relevant dimensions**
    - **Reducing the set of relevant dimensions**
    - **Administering the instrument to a sample of respondents**
    - **Averaging the results**
    - **Checking on the image variance**

# Developing Effective Communications

- **Determine the Communication Objective**
  - **Cognitive**
  - **Affective**
  - **Behavioral**
  - **Response-hierarchy models**
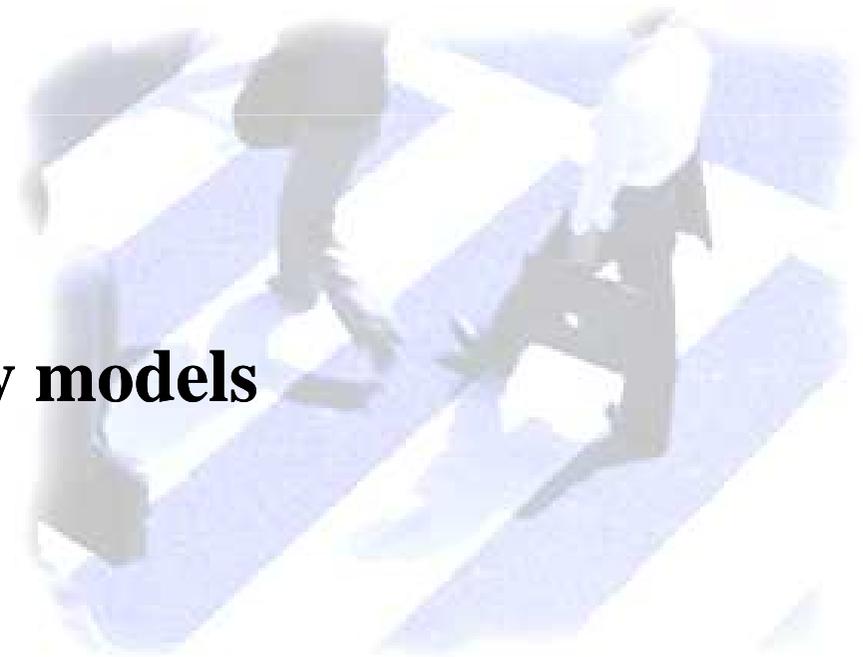
# Figure 19.5: Response Hierarchy Models

| | Models | | | |
|---|---|---|---|---|
| **Stages** | **AIDA Model[a]** | **Hierarchy-of-Effects Model[b]** | **Innovation-Adoption Model[c]** | **Communications Model[d]** |
| **Cognitive stage** | Attention | Awareness ↓ Knowledge | Awareness | Exposure ↓ Reception ↓ Cognitive response |
| **Affective stage** | Interest ↓ Desire | Liking ↓ Preference ↓ Conviction | Interest ↓ Evaluation | Attitude ↓ Intention |
| **Behavior stage** | Action | Purchase | Trial ↓ Adoption | Behavior |
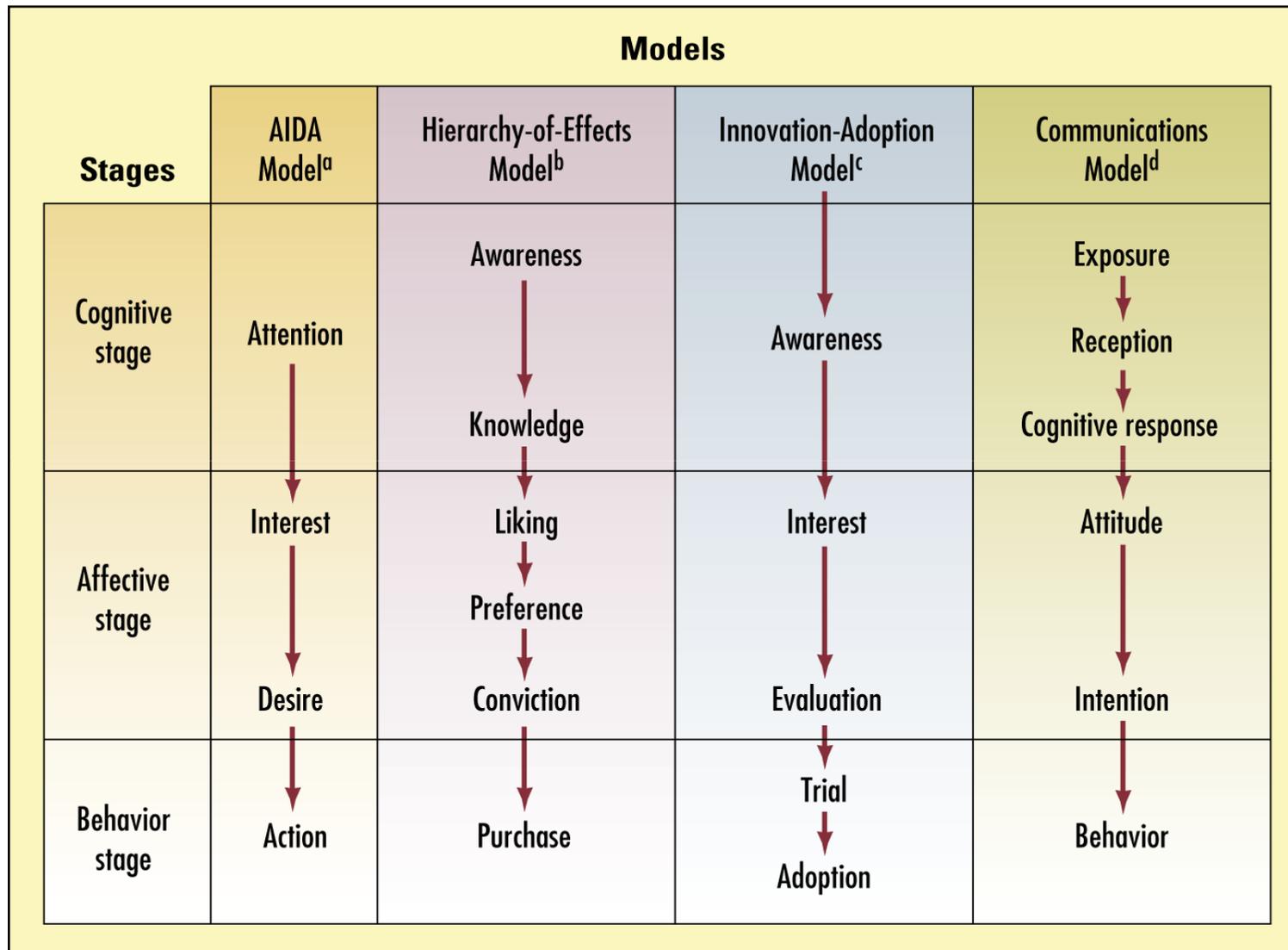
# Developing Effective Communications

- **Hierarchy-of effects model**
  - **Awareness**
  - **Knowledge**
  - **Liking**
  - **Preference**
  - **Conviction**
  - **Purchase**

# Developing Effective Communications

- **Design the Message**
  - **AIDA model**
    - **Gain *attention***
    - **Hold *interest***
    - **Arouse *desire***
    - **Elicit *action***
  - **Message Content**
    - **Rational appeals**
    - **Emotional appeals**
    - **Moral appeals**

# Developing Effective Communications

- **Message Structure**
- **Message Format**
- **Message Source**
  - **Factors underlying source credibility**
    - **Expertise**
    - **Trustworthiness**
    - **Principle of congruity**

# bmwfilms.com

The Hire. Short films featuring award-winning directors. - Microsoft Internet Explorer

File   Edit   View   Go   Favorites   Help

Back   Forward   Stop   Refresh   Home   Search   Favorites   History   Channels   Fullscreen   Mail   Print   Edit

Address  http://www.bmwfilms.com/site_layout/index.asp

**ABOUT POWDER KEG**

Soldiers, fingers on triggers, patrol a coup-ravaged city in South America. Their mission: Find a photojournalist who has snapped a picture certain to enrage the world against their leader. Alejandro González Iñárritu directs Clive Owen as the photographer's driver and only hope of getting him and his film beyond a fiercely guarded border.

Five films plus two features are now showing. View them.

**View the Film** →

View the film with DVD-like features. BMW Film Player now available.

**POWDER KEG**
Directed by Alejandro González Iñárritu

**FILMS** →
*The Hire Film Series* includes five films. Click to view available films.

**BMW INTERACTIVE FILM PLAYER** →
For maximum enjoyment, we recommend the free BMW Player. It ha DVD-like features and allows access larger-format films, compelling Sub-Stories, Director Commentaries, and detailed highlights of the vehicles drive in the series. Download now.

**DIRECTORS** →
BMW Films feature the work of award winning movie directors. Click here to learn more about the directors.

**MACHINES** →
The Machines section of the BMW Player provides photos and key information about the BMWs driven in the films. Click here to learn more abou the machines.

Help  |  E-Mail a Friend  |  Sign Up

# Developing Effective Communications

- **Select the Communication Channels**
  - **Personal Communication Channels**
    - **Advocate channels**
    - **Expert channels**
    - **Social channels**

# Developing Effective Communications

- **Steps to stimulate personal influence channels to work on the companies' behalf**
  - **Devote extra effort to influential individuals and companies**
  - **Create opinion leaders by providing the product at attractive terms to certain people**
  - **Work through community influentials such as local disk jockeys, class presidents, and presidents of women's organizations**
  - **Use influential or believable people in testimonial advertising**
  - **Develop advertising with high "conversation value"**

# Developing Effective Communications

- Develop word-of-mouth referral channels to build business
- Establish an electronic forum
- Use viral marketing
- Nonpersonal Communication Channels
  - Media
  - Atmospheres
  - Events
  - Social-structure view of interpersonal communication
    - Liaison
    - Bridge

# Developing Effective Communications

- **Establish the Total Marketing Communications budget**
  - **Affordable Method**
  - **Percentage-of-Sales Method**
  - **Competitive-Parity Method**

# Developing Effective Communications

- **Objective-and-Task Method**
  - **Establish the market-share goal**
  - **Determine the percentage of the market that should be reached by advertising**
  - **Determine the percentage of aware prospects that should be persuaded to try the brand**
  - **Determine the number of advertising impressions per 1 percent trial rate**
  - **Determine the number of gross rating points that would have to be purchased**
  - **Determine the necessary advertising budget on the basis of the average cost of buying a gross rating point**

# Deciding on the Marketing Communications Mix

- **The Promotional tools**
  - **Advertising**
    - **General Qualities:**
      - Public presentation
      - Pervasiveness
      - Amplified expressiveness
      - Impersonality
  - **Sales Promotion**
    - **Benefits:**
      - Communication
      - Incentive
      - Invitation

# Deciding on the Marketing Communications Mix

- **Public Relations and Publicity**
  - **Distinctive qualities:**
    - **High credibility**
    - **Ability to catch buyers off guard**
    - **Dramatization**
- **Personal Selling**
  - **Distinctive qualities:**
    - **Personal confrontation**
    - **Cultivation**
    - **Response**

# Deciding on the Marketing Communications Mix

- **Direct Marketing**
  - **Distinctive qualities:**
    - Nonpublic
    - Customized
    - Up-to-date
    - Interactive

# Deciding on the Marketing Communications Mix

- **Factors in setting the Marketing Communications Mix**
  - **Type of Product Market**
    - **Advertising's role in business markets:**
      - Advertising can provide an introduction to the company and its products
      - If the product embodies new features, advertising can explain them
      - Reminder advertising is more economical than sales calls

# Deciding on the Marketing Communications Mix

- Advertisements offering brochures and carrying the company's phone number are an effective way to generate leads for sales representatives.
- Sales representatives can use tear sheets of the company's ads to legitimize their company and products.
- Advertising can remind customers of how to use the product and reassure them about their purchase.
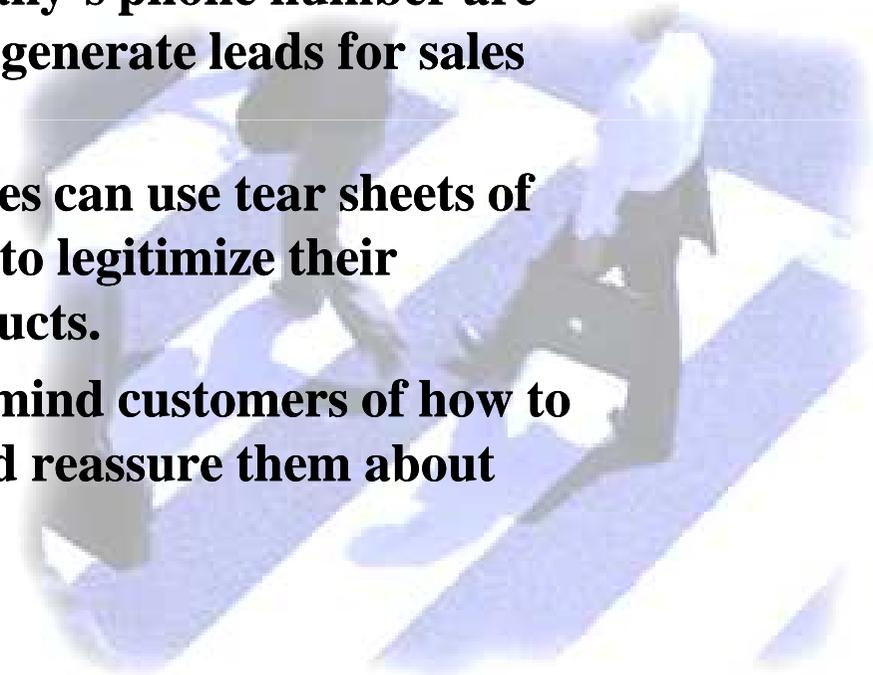
# Deciding on the Marketing Communications Mix

- **Levitt found that:**
  - Corporate advertising that can build up the company's reputation will help the sales representatives
  - Sales representatives from well-known firms have an edge, but a highly effective presentation from a lesser known company's rep can overcome that edge
  - Company reputation helps most when the product is complex

# Deciding on the Marketing Communications Mix

- **Gary Lilien found that:**
  - The average industrial company sets its marketing budget at 7 percent of sales
  - Industrial companies spent a higher-than-average amount on advertising if their products had higher quality, uniqueness, or purchase frequency, or if there was customer growth
  - Industrial companies set a higher-than-average marketing budget when their customers were more dispersed or the customer growth rate was higher

# Deciding on the Marketing Communications Mix

- **Effectively trained consumer sales force can make four important contributions:**
  - **Increased stock position**
  - **Enthusiasm building**
  - **Missionary selling**
  - **Key account management**
- **Buyer-Readiness Stage**

# Figure 19.6: Cost-Effectiveness of Different Promotional Tools
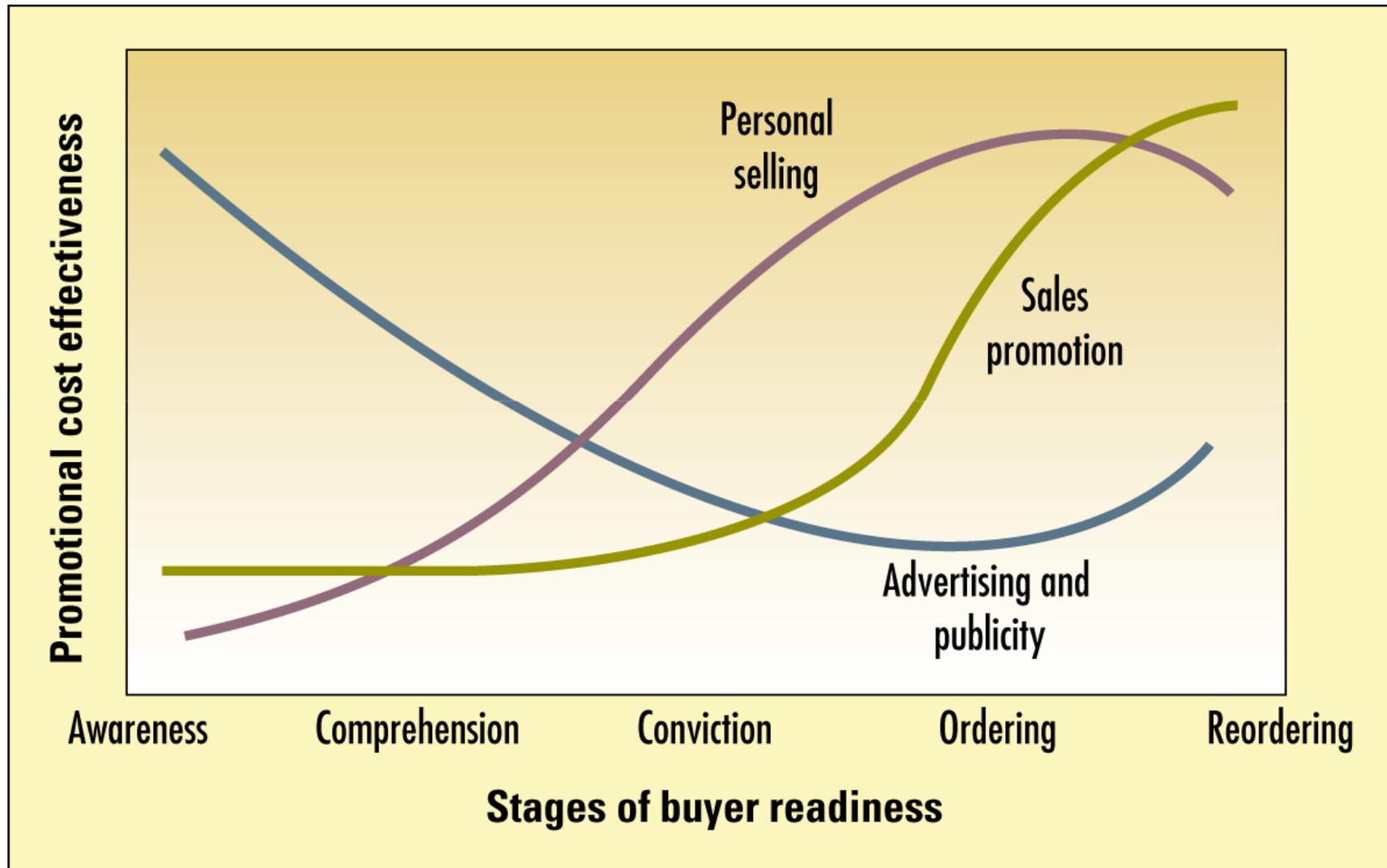
# Deciding on the Marketing Communications Mix

- **Product Life-Cycle Stage**
- **Measure the Communications' Result**

# Discussion Question

While traditional communication methods make measurement of results difficult, Internet communications offer different, more immediate measures. How can analysis of web site visitors' behavior be used to evaluate the effectiveness of a company's marketing communications strategy?

# Managing the Integrated Marketing Communications Process

- **Integrated Marketing Communications (IMC)**

# Chapter 20
# Managing Advertising, Sales Promotion, Public Relations, and Direct Marketing

**by** *Philip Kotler*
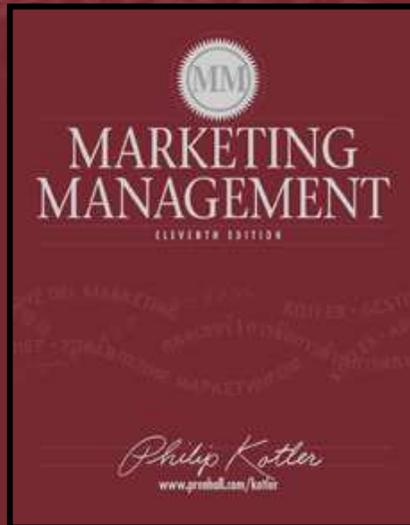
PowerPoint by

Milton M. Pressley

University of New Orleans

# Kotler on Marketing

*The best advertising is done by satisfied customers.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
  - **What steps are involved in developing an advertising program?**
  - **What explains the growing use of sales promotion, and how are sales-promotion decisions made?**
  - **How can companies exploit the potential of public relations and publicity?**
  - **How can companies use integrated direct marketing for competitive advantage?**
  - **How can companies do effective e-marketing?**

# Developing and Managing an Advertising Program

- **Setting the Advertising Objectives**
  - **Advertising goal (Objective)**
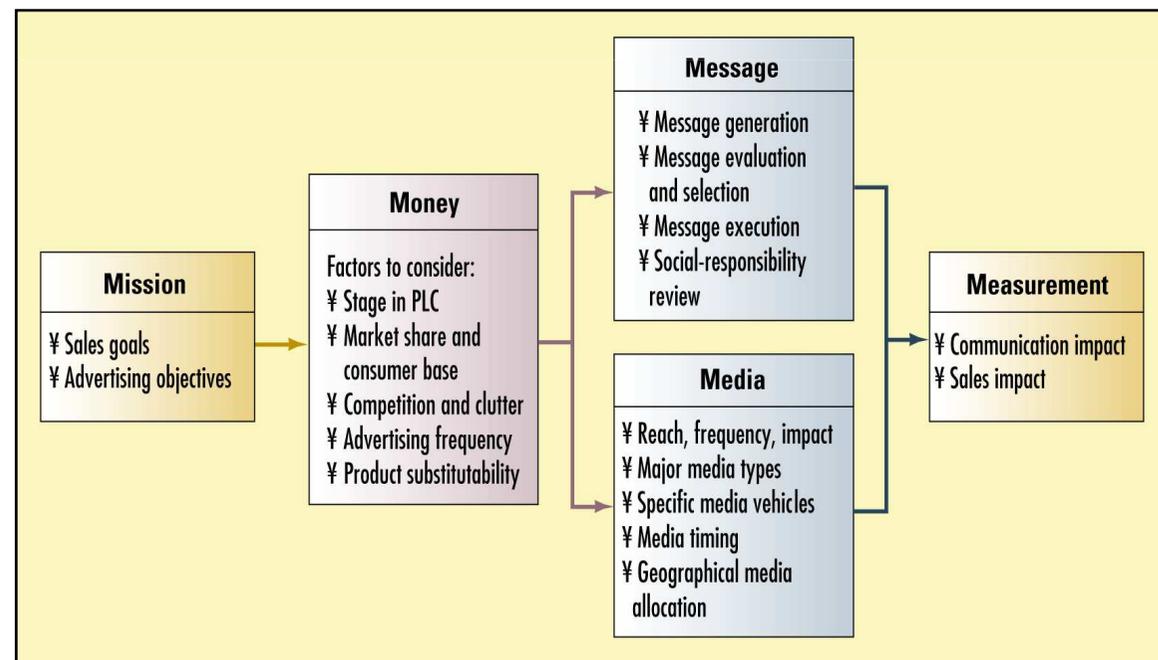
Figure 20.1:
The Five Ms of
Advertising



The diagram shows the Five Ms of Advertising:

**Mission**
- ¥ Sales goals
- ¥ Advertising objectives

**Money**
Factors to consider:
- ¥ Stage in PLC
- ¥ Market share and consumer base
- ¥ Competition and clutter
- ¥ Advertising frequency
- ¥ Product substitutability

**Message**
- ¥ Message generation
- ¥ Message evaluation and selection
- ¥ Message execution
- ¥ Social-responsibility review

**Media**
- ¥ Reach, frequency, impact
- ¥ Major media types
- ¥ Specific media vehicles
- ¥ Media timing
- ¥ Geographical media allocation

**Measurement**
- ¥ Communication impact
- ¥ Sales impact

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# Developing and Managing an Advertising Program

- **Advertising objectives at different stages in Hierarchy of Effects**
  - **Informative advertising**
  - **Persuasive advertising**
  - **Reminder advertising**
  - **Reinforcement advertising**
- **Brand equity**

# Developing and Managing an Advertising Program

- **Deciding on the Advertising Budget**
  - **Five factors to consider when setting the advertising budget:**
    - Stage in the product life cycle
    - Market share and consumer base
    - Competition and clutter
    - Advertising frequency
    - Product substitutability

# Developing and Managing an Advertising Program

- **Choosing the Advertising Message**
  - **Message generation**
  - **Message evaluation and selection**
    - Twedt rates messages on:
      - Desirability
      - Exclusiveness
      - Believability
    - Creative brief
      - Positioning statement
  - **Message execution**
    - Rational positioning
    - Emotional positioning
  - **Social responsibility review**

# Ethical Funds' homepage

# Deciding on Media and Measuring Effectiveness

- **Deciding on Reach, Frequency, and Impact**
  - **Media selection**
  - **How many exposures, E*, will produce audience awareness A* depends on the exposures':**
    - **Reach (R)**
    - **Frequency (F)**
    - **Impact (I)**
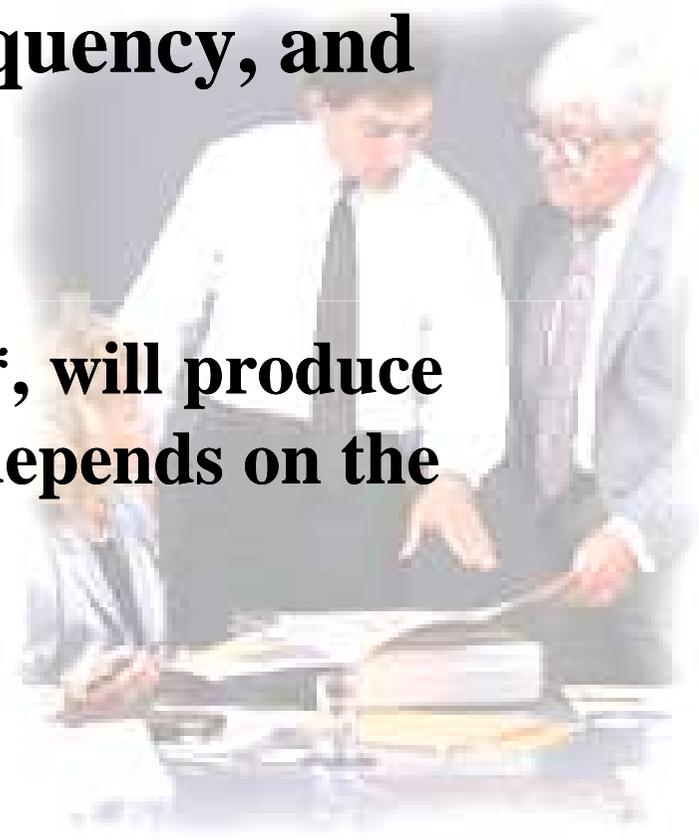
# Figure 20.2: Relationship Among Trial, Awareness, and the Exposure Function



(a) Relationship between product trial rate and audience awareness level

(b) Relationship between audience awareness level and exposure reach and frequency
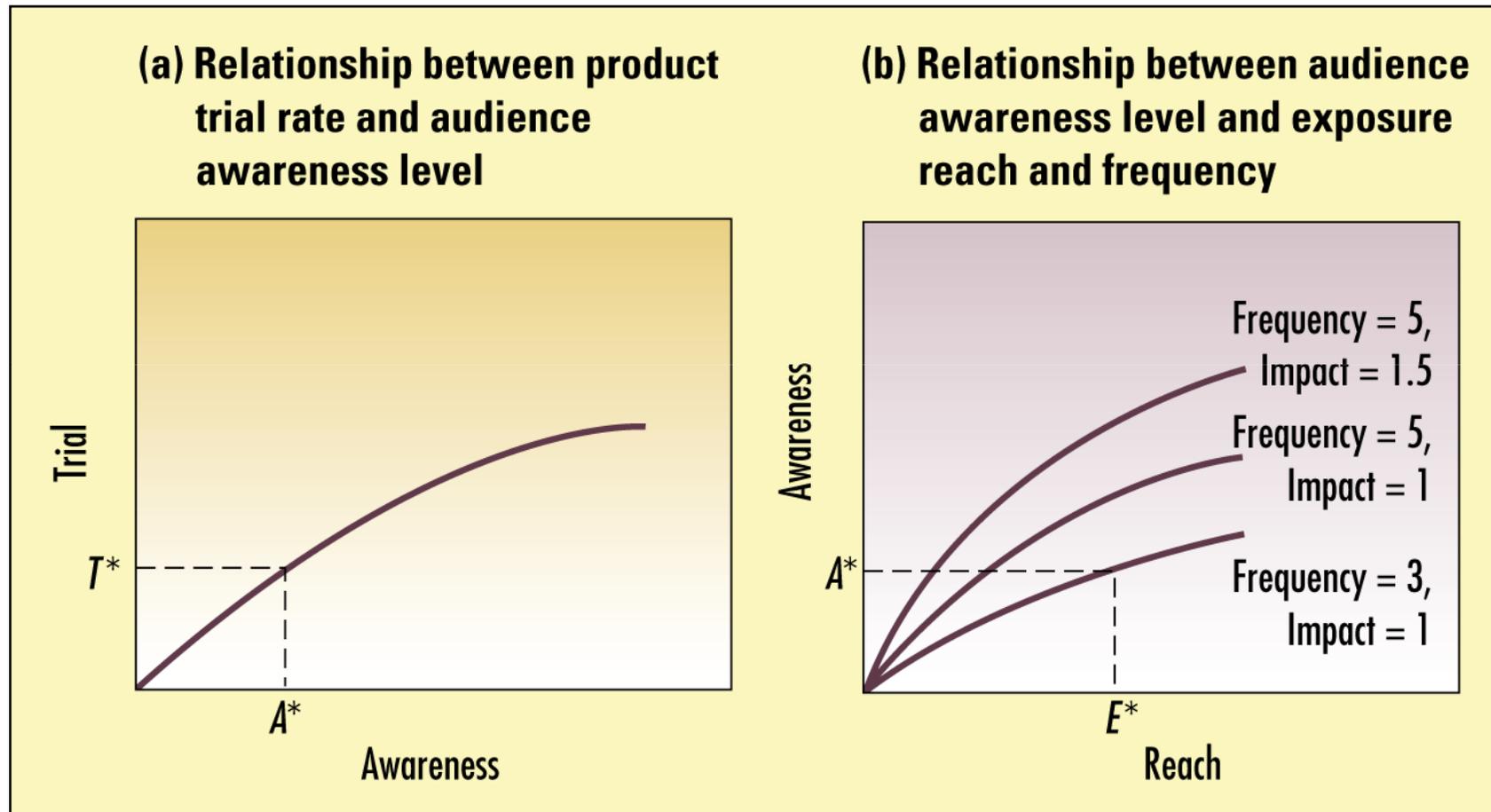
# Deciding on Media and Measuring Effectiveness

- **Total Number of Exposures (E)**

$$E = R \text{ x } F$$

where R = reach, F = frequency

Known as Gross Rating Points (GRP)

- **Weighted Number of Exposures (WE)**

$$WE = R \text{ x } F \text{ x } I$$

where R = reach, F = frequency,
I = average impact
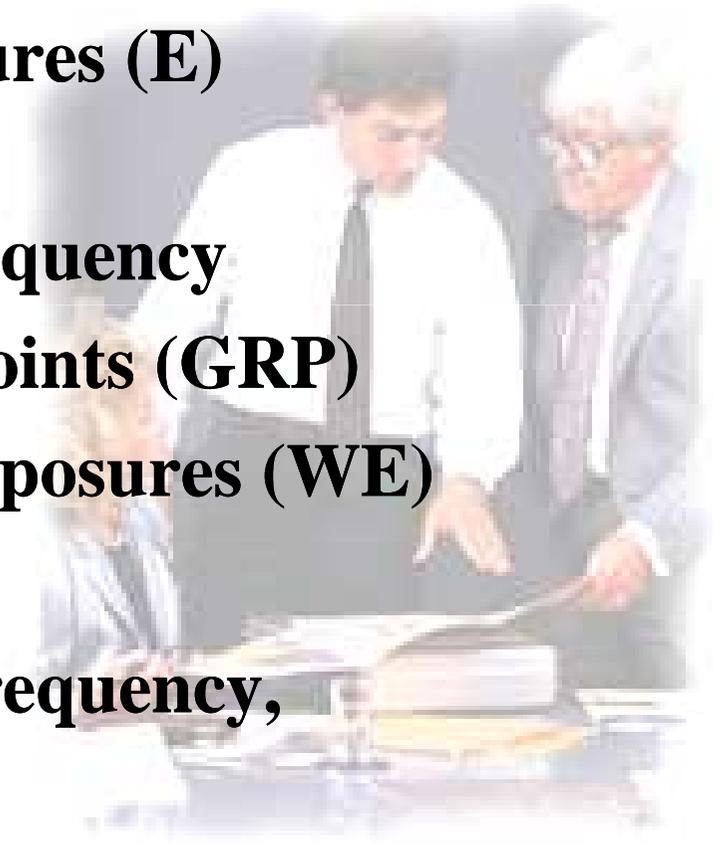
# Deciding on Media and Measuring Effectiveness

■ **Choosing Among Major Media Types**

### Table 20.1: Profiles of Media Types

| Medium | Advantages | Limitations |
|--------|-----------|-------------|
| Newspapers | Flexibility; timeliness; good local market coverage; broad acceptance; high believability | Short life; poor reproduction quality; small "passalong" audience |
| Television | Combines sight, sound, and motion; appealing to the senses; high attention; high reach | High absolute cost; high clutter; fleeting exposure; less audience selectivity |
| Direct mail | Audience selectivity; flexibility; no ad competition within the same medium; personalization | Relatively high cost; "junk mail" image |

*See text for complete table*

# Deciding on Media and Measuring Effectiveness

- **Media planners consider:**
  - **Target-audience media habits**
  - **Product characteristics**
  - **Message characteristics**
  - **Cost**
- **New Media**
  - **Advertorials**
  - **Infomercials**

# Discussion Question

**More manufacturers are using new technologies to move toward "mass customization" in their product offerings. Have you seen a similar move among marketers?**

# Earthlink: High-speed Internet Service Provider

# Deciding on Media and Measuring Effectiveness

- **Allocating the Budget**

- **Audience size measures:**
  - **Circulation**
  - **Audience**
  - **Effective audience**
  - **Effective ad-exposed audience**

# Deciding on Media and Measuring Effectiveness

- ## Deciding on Media Timing
    - ### Carryover
    - ### Habitual behavior

**Figure 20.3: Classification of Advertising Timing Patterns**
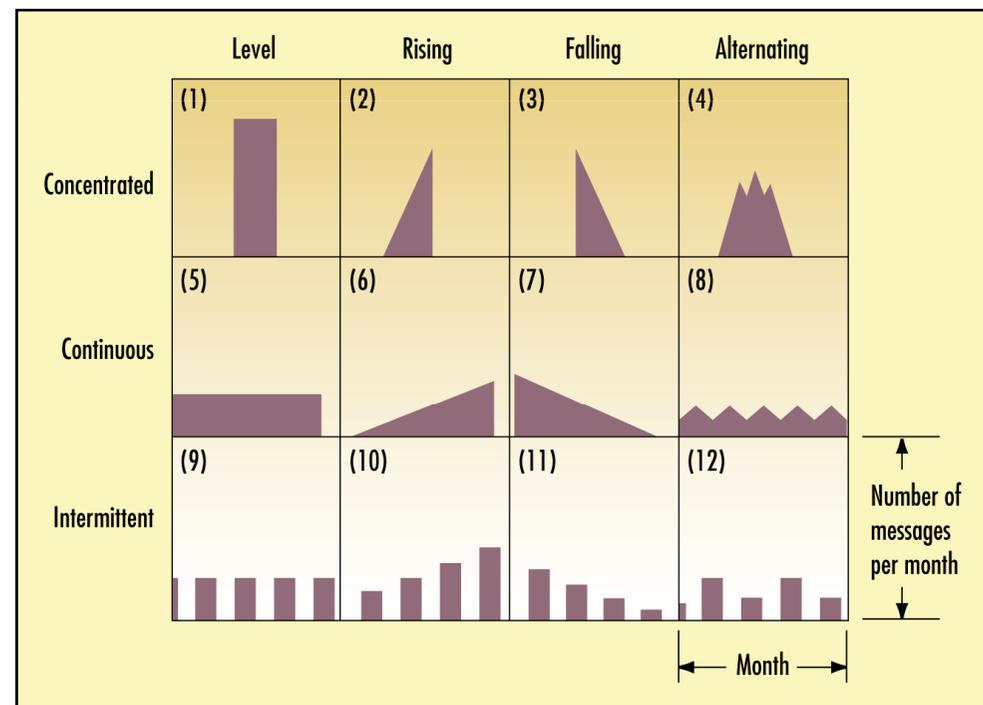
# Deciding on Media and Measuring Effectiveness

- Buyer turnover
- Purchase frequency
- Forgetting rate
- **Continuity**
- **Concentration**
- **Flighting**
- **Pulsing**
- **Deciding on Geographical Allocation**
  - Areas of dominant influence (ADIs) or designated marketing areas (DMAs)

# Deciding on Media and Measuring Effectiveness

- **Evaluating Advertising Effectiveness**
  - **Communication-Effect Research**
    - **Copy testing**
    - **Consumer feedback method**
      - Example questions:
        - What is the main message you get from this ad?
        - What do you think they want you to know, believe, or do? How likely is it that this ad will influence you to undertake the implied action?
        - What works well in the ad and what works poorly?
        - How does the ad make you feel?
        - Where is the best place to reach you with this message?

# Deciding on Media and Measuring Effectiveness

- **Portfolio test**
- **Laboratory test**

**Table 20.2: Advertising Research Techniques**

**For Print Ads.** Starch and Gallup & Robinson, Inc. are two widely used print pretesting services. Test ads are placed in magazines, which are then circulated to consumers. These consumers are contacted later and interviewed. Recall and recognition tests are used to determine advertising effectiveness.

**For Broadcast Ads.** *In-home tests*: A videotape is taken into the homes of target consumers, who then view the commercials.

*Trailer test*: In a trailer in a shopping center, shoppers are shown the products and given an opportunity to select a series of brands. They then view commercials and are given coupons to be used in the shopping center. Redemption rates indicate commercials' influence on purchase behavior.

*See text for complete table*

# Deciding on Media and Measuring Effectiveness

- ## Sales-Effect Research

  - ### Share of advertising expenditures
  - ### Share of voice
  - ### Share of consumers' minds and hearts
  - ### Share of market
  - ### Historical approach
  - ### Experimental design

**Figure 20.4: Formula for Measuring Sales Impact of Advertising**



Share of expenditures → Share of voice → Share of mind and heart → Share of market
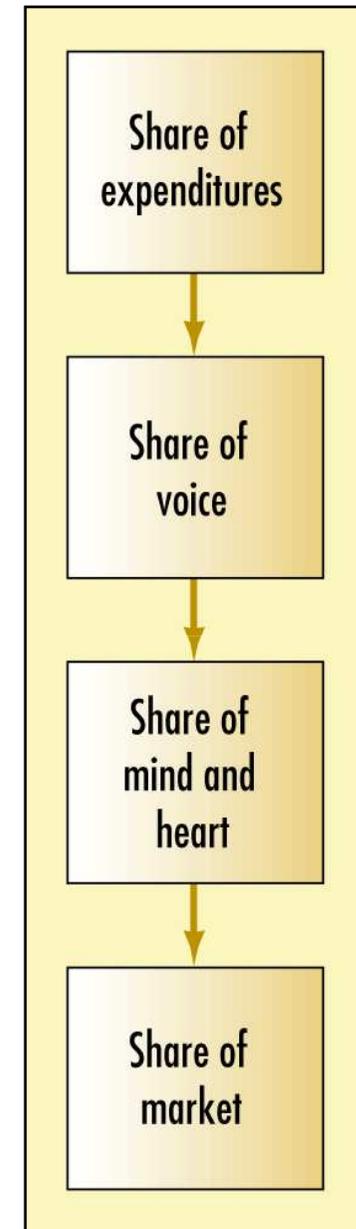
# Sales Promotion

- **Promotion offers incentive to buy**
- **Consumer promotion**
- **Trade promotion**
- **Sales-force promotion**
- **Purpose of Sales Promotion**

# Discussion Question

Many companies offer free samples as part of a promotional campaign. This approach extends beyond the grocery store or retail outlet into large organizations like universities. Can you identify any products or services that are provided to students or faculty at your school as part of a promotional campaign?

# Sales Promotion

- **Major Decisions in Sales Promotion**
  - **Establishing Objectives**
  - **Selecting Consumer-Promotion Tools**
    - **Manufacturer promotions**
    - **Retailer promotions**

# Table 20.3: Major Consumer-Promotion Tools

**Samples:** Offer of a free amount of a product or service delivered door to door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer.

**Coupons:** Certificates entitling the bearer to a stated saving on the purchase of a specific product: mailed, enclosed in other products or attached to them, or inserted in magazines and newspaper ads.

**Cash Refund Offers (rebates):** Provide a price reduction after purchase rather than at the retail shop: consumer sends a specified "proof of purchase" to the manufacturer who "refunds" part of the purchase price by mail.

**Price Packs (cents-off deals):** Offers to consumers of savings off the regular price of a product, flagged on the label or package. A *reduced-price pack* is a single package sold at a reduced price (such as two for the price of one). A *banded pack* is two related products banded together (such as a toothbrush and toothpaste).

*See text for complete table*

# Coolsavings.com's home page

# Sales Promotion

- **Selecting Trade-Promotion Tools**

**Table 20.4: Major Trade-Promotion Tools**

**Price-Off(off-invoice or off-list):** A straight discount off the list price on each case purchased during a stated time period.

**Allowance:** An amount offered in return for the retailer's agreeing to feature the manufacturer's products in some way. An *advertising allowance* compensates retailers for advertising the manufacturer's product. A *display allowance* compensates them for carrying a special product display.

**Free Goods:** Offers of extra cases of merchandise to intermediaries who buy a certain quantity or who feature a certain flavor or size.

*Source:* **For more information, see Betsy Spethman, "Trade Promotion Redefined," Brandweek, March 13, 1995, pp. 25-32.**

# Sales Promotion

- **Selecting Business-and Sales-Force-Promotion Tools**

## Table 20.5: Major Business-and Sales-Force-Promotion Tools

**Trade Shows and Conventions:** Industry associations organize annual trade shows and conventions. Business marketers may spend as much as 35 percent of their annual promotion budget on trade shows. Over 5,600 trade shows take place every year, drawing approximately 80 million attendees. Trade show attendance can range from a few thousand people to over 70,000 for large shows held by the restaurant or hotel-motel industries. Participating vendors expect several benefits, including generating new sales leads, maintaining customer contacts, introducing new products, meeting new customers, selling more to present customers, and educating customers with publications, videos, and other audiovisual materials.

**Sales Contests:** A sales contest aims at inducing the sales force or dealers to increase their sales results over a stated period, with prizes (money, trips, gifts, or points) going to those who succeed.

*See text for complete table*

# Sales Promotion

- **Developing the Program**
  - **Incentive Considerations**
    - Size of incentive
    - Conditions for participation
    - Duration of promotion
    - Distribution vehicle
- **Presenting, Implementing, Controlling, and Evaluating the Program**
  - Lead time
  - Sell-in time

# Public Relations

- **Public**
- **Public Relations**
- **Public Relations Department Functions Include:**
  - Press relations
  - Product publicity
  - Corporate communication
  - Lobbying
  - Counseling

# Public Relations

- **Marketing Public Relations (MPR)**
  - **Publicity vs. MPR**
  - **MPR assists in the following tasks:**
    - Assisting in the launch of new products
    - Assisting in repositioning a mature product
    - Building interest in a product category
    - Influencing specific target groups
    - Defending products that have encountered public problems
    - Building the corporate image in a way that reflects favorably on its products

# Public Relations

- ## Major Decisions in Marketing PR

### Table 20.6: Major Tools in Marketing PR

**Publications:** Companies rely extensively on published materials to reach and influence their target markets. These include annual reports, brochures, articles, company newsletters and magazines, and audiovisual materials.

**Events:** Companies can draw attention to new products or other company activities by arranging special events like news conferences, seminars, outings, trade shows, exhibits, contests and competitions, and anniversaries that will reach the target publics.

**Sponsorships:** Companies can promote their brands and corporate name by sponsoring sport and cultural events and highly regarded causes.

**News:** One of the major tasks of PR professionals is to find or create favorable news about the company, its products, and its people, and get the media to accept press releases and attend press conferences.

*See text for complete table*

# Public Relations

- **Establishing the Marketing Objectives**
  - **MPR can:**
    - **Build awareness**
    - **Build creditability**
    - **Hold down promotional cost**

# Public Relations

- **Thomas L. Harris offers the following suggestions:**
    - Build marketplace excitement before media advertising breaks
    - Build a core customer base
    - Build a one-to-one relationship with consumers
    - Turn satisfied customers into advocates
    - Influence the influentials
- **Choosing Messages and Vehicles**
    - **Event Creation**
- **Implementing the Plan and Evaluating Results**

# Direct Marketing

- **Direct-Order Marketing**
- **Customer Relationship Marketing**
- **The Growth of Direct Marketing**
  - **Market Demassification**
- **The Benefits of Direct Marketing**
- **Integrated Direct Marketing**

# Direct Marketing

- **Major Channels for Direct Marketing**
    - **Face-To-Face Selling**
    - **Direct Mail**
        - New Forms of Mail Delivery
            - Fax mail
            - E-mail
            - Voice mail

# Direct Marketing

- **Direct marketing has passed through a number of stages:**
  - Carpet bombing
  - Database marketing
  - Interactive marketing
  - Real-time personalized marketing
  - Lifetime value marketing
- **Constructing a Direct-Mail Campaign**
  - **Objectives**
  - **Target Markets and Prospects**
  - **Offer Elements**
  - **Testing Elements**
  - **Measuring Campaign Success: Lifetime Value**

# Direct Marketing

- **Catalog Marketing**
  - **Telemarketing and M-Commerce**
    - **Inbound telemarketing**
    - **Outbound telemarketing**
    - **Four types of telemarketing:**
      - **Telesales**
      - **Telecoverage**
      - **Teleprospecting**
      - **Customer service and technical support**

# Direct Marketing

- **Other Media for Direct-Response Marketing**
  - Direct-response advertising
  - At-home shopping channels
  - Videotext and interactive TV
- **Kiosk Marketing**

# Direct Marketing

- **E-Marketing**
  - **Permission Marketing**
    - **Levels of Permission Marketing:**
      - **No permission level**
      - **Low permission level**
      - **Medium permission level**
      - **High permission level**
      - **Transaction level**
  - **E-Marketing Guidelines**
    - **Give the customer a reason to respond**
    - **Personalize the content of your e-mails**
    - **Offer something the customer could not get via direct mail**
    - **Make it easy for the customer to "unsubscribe"**

# Chapter 21
# Managing The Sales Force
**by** *Philip Kotler*

MM

MARKETING
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*Philip Kotler*
www.prenhall.com/kotler
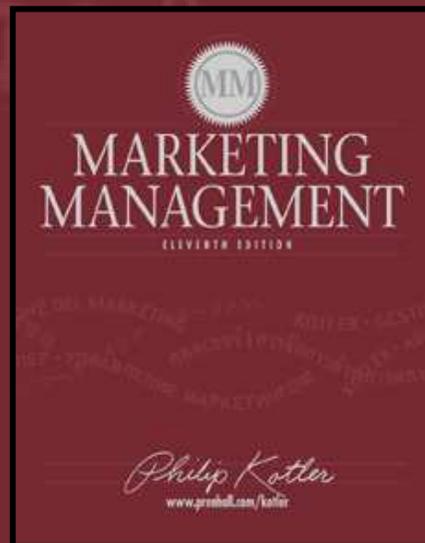
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Milton M. Pressley
University of New Orleans

# Kotler on Marketing

*The successful salesperson cares first for the customer, second for the products.*

# Chapter Objectives

- **In this chapter, we answer the following questions:**
    - **What decisions do companies face in designing a sales force?**
    - **How do companies recruit, select, train, supervise, motivate, and evaluate a sales force?**
    - **How can salespeople improve their skills in selling, negotiation, and carrying on relationship marketing?**

# Sales Representative

- **Robert McMurry's sales representative types:**
  - **Deliverer**
  - **Order taker**
  - **Missionary**
  - **Technician**
  - **Demand creator**
  - **Solution vendor**

# Designing the Sales Force

- **Sales-Force Objectives and Strategy**
- **Common tasks for salespeople**
    - **Prospecting**
    - **Targeting**
    - **Communicating**
    - **Selling**
    - **Information gathering**
    - **Allocating**

# Designing the Sales Force

- **Leveraged sales force**
- **Direct (company) sales force**
- **Contractual sales force**

# Sales-Force Structure

# Table 21.1: Sales-Force Structures

**Territorial:** Each sales representative is assigned an exclusive territory. This sales structure results in a clear definition of responsibilities. It increases the rep's incentive to cultivate local business and personal ties. Travel expenses are relatively low because each rep travels within a small area.

**Territory size:** Territories can be designed to provide equal sales potential or equal workload. Territories of equal potential provide each rep with the same income opportunities and provide the company with a means to evaluate performance. Territories can also be designed to equalize the sales workload so that each rep can cover the territory adequately.

**Territory shape:** Territories are formed by combining smaller units, such as counties or states, until they add up to a territory of a given potential or workload. Companies can use computer programs to design territories that optimize such criteria as compactness, equalization of workload or sales potential, and minimal travel time.

*See text for complete table*

# Designing the Sales Force

- **Sales-Force Size**
  - **Workload approach:**
    - Customers are grouped into size classes
    - Desirable call frequencies are established for each class
    - The number of accounts in each size class is multiplied by the corresponding call frequency
    - The average number of calls a sales representative can make per year is determined
    - The total number of sales representatives needed is determined

# Discussion Question

The Internet has allowed many companies to shift sales support for small accounts to e-commerce sites and away from sales personnel. Additionally, many regularly occurring functions have become automated, allowing customers with any size organization to use web-based systems to place orders and submit warranty requests. Can you think of any other areas where Internet-based technologies could change the way a sales force interacts with their customers?

# Designing the Sales Force

- **Sales-Force Compensation**
  - **Four Components:**
    - **Fixed amount**
    - **Variable amount**
    - **Expense allowances**
    - **Benefits**

# Managing the Sales Force

- **Recruiting and Selecting Reps**
- **Training Sales Reps**

# Managing the Sales Force

- **Training Programs Have Several Goals**
  - **Sales representatives need to:**
    - Know and identify with the company
    - Know the company's products
    - Know customers' and competitors' characteristics
    - Know how to make effective sales presentations
    - Understand field procedures and responsibilities

# Managing the Sales Force

- **Supervising Sales Reps**
- **Norms for Customer Calls**
  - **Norms for Prospect Calls**
  - **Using Sales Time Efficiently**

# DAA Solutions' home page describes its Design-to-Order® Software application

# Managing the Sales Force

- **Time-and-duty analysis**
  - **Preparation**
  - **Travel**
  - **Food and breaks**
  - **Waiting**
  - **Selling**
  - **Administration**

# Company Web site as a prospecting tool

# Managing the Sales Force

- **Motivating Sales Reps**
  - **Churchill, Ford, & Walker Motivation Model:**
    - Sales managers must be able to convince salespeople that they can sell more by working harder or being trained to work smarter
    - Sales managers must be able to convince salespeople that the rewards for better performance are worth the extra effort
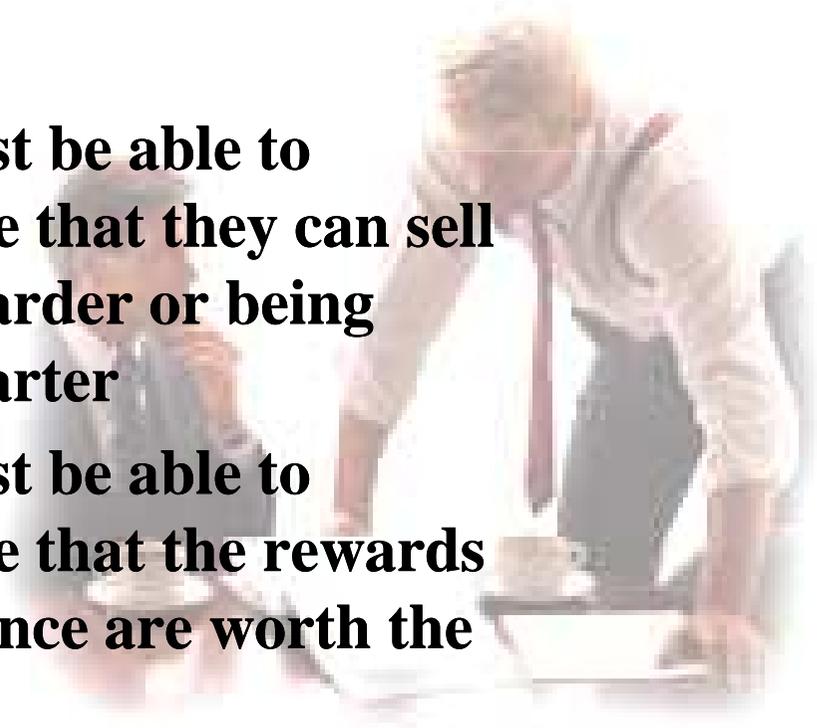
# Managing the Sales Force

- **Sales Quotas**
- **Supplementary Motivators**
  - **Sales meetings**
  - **Sales contests**
- **Evaluating Sales Representatives**
  - **Sources of Information**
  - **Formal Evaluation**

# Table 21.2: Form for Evaluating Sales Representative's Performance

**Territory: Midland Sales**

**Representative: John Smith**

|  | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| 1. Net sales product A | $251,300 | $253,200 | $270,000 | $263,100 |
| 2. Net sales product B | 423,200 | 439,200 | 553,900 | 561,900 |
| 3. Net sales total | 674,500 | 692,400 | 823,900 | 825,000 |
| 4. Percent of quota product A | 95.6 | 92.0 | 88.0 | 84.7 |
| 5. Percent of quota product B | 120.4 | 122.3 | 134.9 | 130.8 |
| 6. Gross profits product A | $50,260 | $50,640 | $54,000 | $52,620 |
| 7. Gross profits product B | 42,320 | 43,920 | 55,390 | 56,190 |
| 8. Gross profits total | 92,580 | 94,560 | 109,390 | 108,810 |

*See text for complete table*

# Principles of Personal Selling

**Figure 21.3:
Managing the Sales
Force: Improving
Effectiveness**



Improving sales force effectiveness

Training in selling techniques and sales professionalism

Negotiation skills

Relationship-building skills
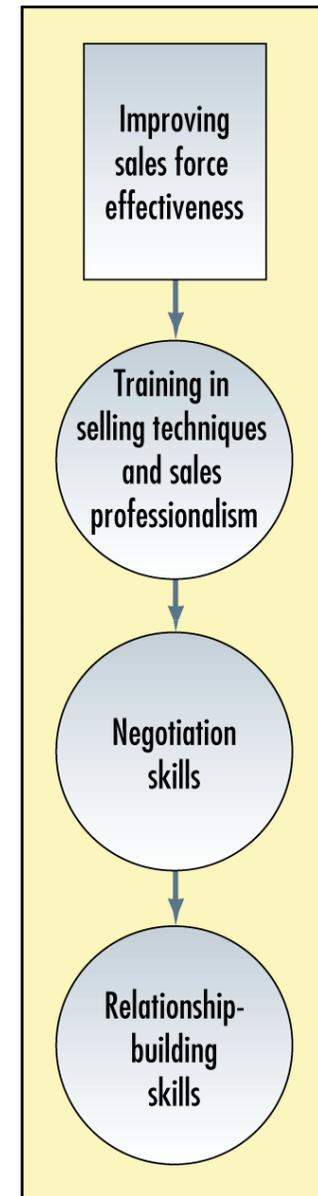
# Principles of Personal Selling

- **Professionalism**
  - **Sales-oriented approach**
  - **Customer-oriented approach**
    - **Rackham's questions for prospects**
      - **Situation questions**
      - **Problem questions**
      - **Implication questions**
      - **Need-payoff questions**

# Figure 21.4: Major Steps in Effective Selling



- Prospecting and qualifying
- Preapproach
- Approach
- Presentation and demonstration
- Overcoming objections
- Closing
- Follow-up and maintenance
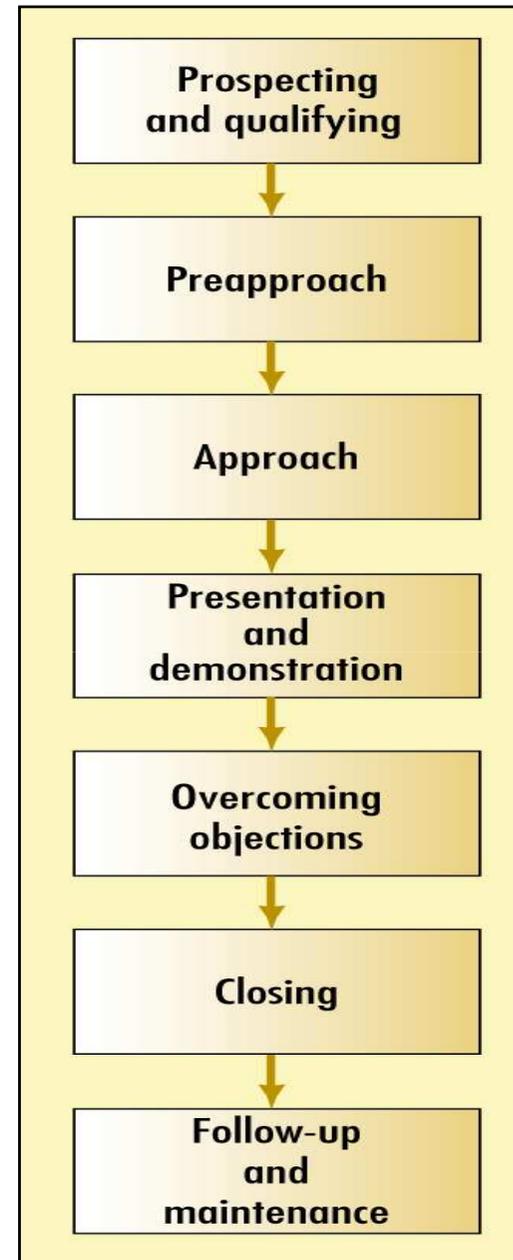
# Principles of Personal Selling

- **Major Steps in an Effective Sales Process:**
  - **Prospecting and Qualifying**
  - **Preapproach**
  - **Approach**
  - **Presentation and Demonstration**
  - **Overcoming Objections**
  - **Closing**
  - **Follow-up and Maintenance**

# iPhysicianNet's home page shows a video detailing session
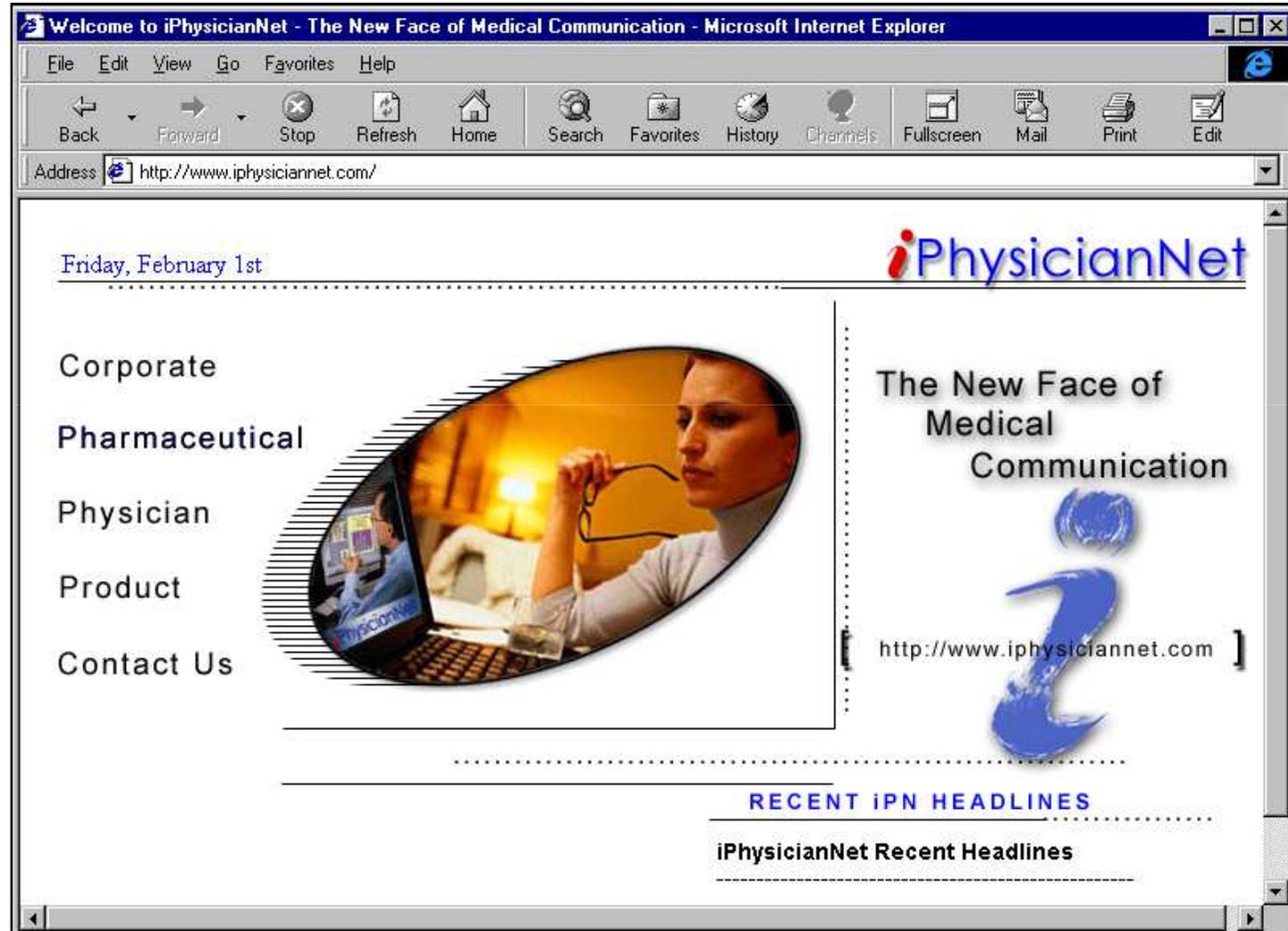
# Principles of Personal Selling

- ## Negotiation
  - ### When to negotiate
    - When factors bear not only on price, but also on quality of service
    - When business risk cannot be accurately predetermined
    - When a long period of time is required to produce the items purchased
    - When production is interrupted frequently because of numerous change orders
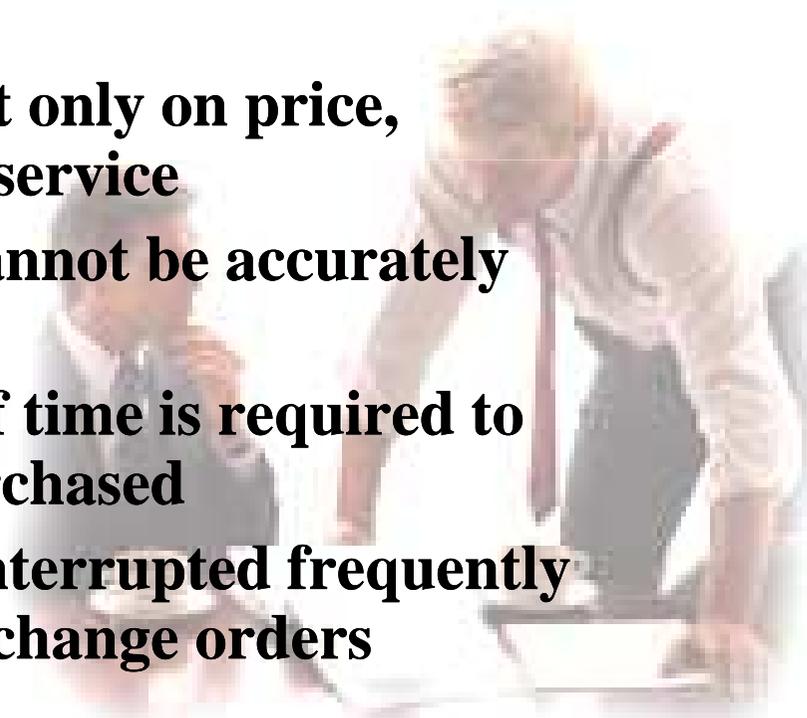
# Figure 21.5: The Zone Agreement
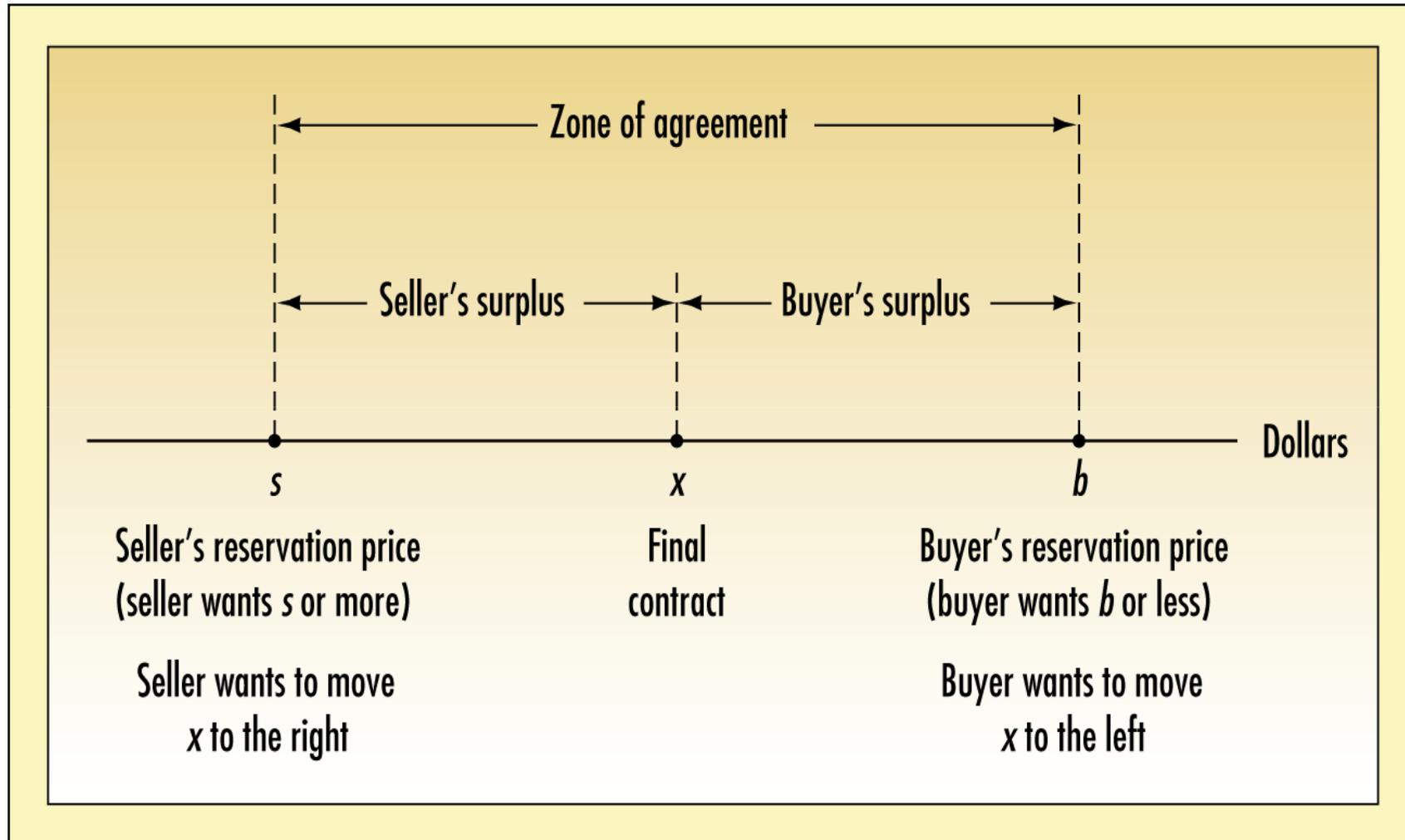
# Principles of Personal Selling

- **Formulating a Negotiation Strategy**

# Table 21.3: Classic Bargaining Tactics

| | |
|---|---|
| **Acting Crazy** | **Put on a good show by visibly demonstrating your emotional commitment to your position. This increases your credibility and may give the opponent a justification to settle on your terms.** |
| **Big Pot** | **Leave yourself a lot of room to negotiate. Make high demands at the beginning. After making concessions, you will still end up with a larger payoff than if you started too low.** |
| **Get a Prestigious Ally** | **The ally can be a person or a project that is prestigious. You try to get the opponent to accept less because the person/object he or she will be involved with is prestigious.** |
| **The Well Is Dry** | **Take a stand and tell the opponent you have no more concessions to make.** |

*See text for complete table*

# Principles of Personal Selling

- **Relationship Marketing**

# Discussion Question

For many organizations, relationship marketing is more important than any individual transaction, because these long-term relationships can yield greater overall profitability. Would it be easier to convince a company to enter into a long term supplier-customer relationship if you offered them *savings through vertical integration of product offerings*, or *ease of use derived from a broad range of product offerings*?

# Chapter 22
# Managing the Total Marketing Effort

**by** *Philip Kotler*

MARKETING
MANAGEMENT
ELEVENTH EDITION

*Philip Kotler*
www.prenhall.com/kotler
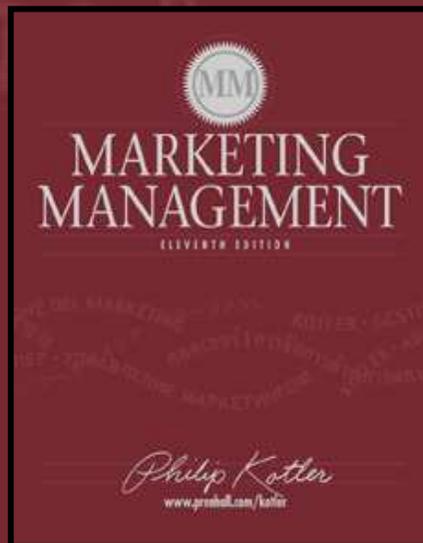
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University of New Orleans

# Kotler on Marketing

*The marketing organization will have to redefine its role from managing customer interactions to integrating and managing all the company's customer-facing processes.*

# Chapter Objectives

- **In this chapter, we focus on the following questions:**
    - **What are the trends in company organization?**
    - **How are marketing and sales organized in companies?**
    - **What steps can a company take to build a stronger customer focused culture?**
    - **How can a company improve its marketing-implementation skills?**
    - **What tools are available to help companies monitor and improve their marketing activities?**

# Trends in Company Organization

- **Main responses of companies to a changing environment**
  - Reengineering
  - Outsourcing
  - Benchmarking
  - Supplier partnering
  - Customer partnering
  - Merging
  - Globalizing
  - Flattening
  - Focusing
  - Empowering

# Discussion Question

Outsourcing can save companies money by passing on to another firm the overhead involved with maintaining specialized staff positions, or eliminating the need to maintain specialized equipment that does not directly support their core business.
What are the potential risks associated with outsourcing?

# Marketing Organization

- **The Evolution of the Marketing Department**

**Figure 22.1: Stages in the Evolution of the Marketing Department**



(a) Stage 1: Simple Sales Department

President → Sales VP → Sales force / Other marketing functions (hired from outside)

(b) Stage 2: Sales Department with Ancillary Marketing Functions

President → Sales VP → Sales force / ¥Marketing Director ¥Other marketing functions (internal staff and external support)

11-688
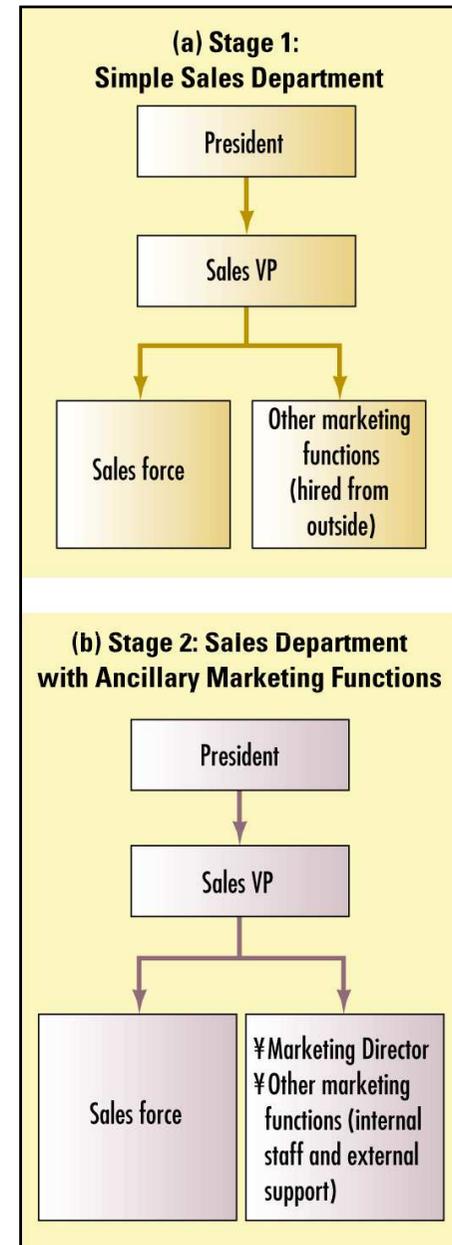
# Marketing Organization

- **Simple Sales Department**

- **Sales Department With Ancillary Marketing Functions**

- **Separate Marketing Department**

- **Modern Marketing Department / Effective Marketing Company**

- **Process-And Outcome-Based Company**

# Marketing Organization

- **Organizing the Marketing Department**
  - **Functional Organization**
    - **Field sales**
    - **Customer service**
    - **Product management**
  - **Geographic Organization**
    - **Area market specialist**

# Discussion Question

Organizing a marketing organization geographically can allow marketing managers to focus on regional and cultural differences in their market segments. What are the reasons why geographical segmentation might be a bad idea? What could be done to minimize these problems in geographically organized marketing departments?

# Krispy Kreme's Web site promotes new store openings



Krispy Kreme Doughnuts - Microsoft Internet Explorer

File  Edit  View  Go  Favorites  Help

Back  Forward  Stop  Refresh  Home  Search  Favorites  History  Channels  Fullscreen  Mail  Print  Edit

Address http://www.krispykreme.com/index.htm

HISTORY

STORE LOCATIONS

TASTE/ NUTRITIONAL

FUNDRAISING

COLLECTIBLES

INVESTOR RELATIONS

FRANCHISE OPPORTUNITIES

## Openings

When a Krispy Kreme store opens in a new neighborhood it's a big deal! It seems like everyone comes out to see what all the excitement is about and to taste something out of this world. What we get is a lot of great testimonials, some fun photos and a whole lot of converts, soon to be regular Krispy Kremers!

# Marketing Organization

- **Product- or Brand-Management Organization**
  - **Product and brand managers have these tasks:**
    - Develop a long-range and competitive strategy for the product
    - Preparing an annual marketing plan and sales forecast
    - Working with advertising and merchandising agencies to develop copy, programs, and campaigns
    - Stimulating support of the product among the sales force and distributors
    - Gathering continuous intelligence on the product's performance, customer and dealer attitudes, and new problems and opportunities
    - Initiating product improvements to meet changing market needs

**Figure 22.3:
The Product
Manager's
Interactions**

# Marketing Organization

- **Pearson and Wilson's five steps to make the product-management system work better**
  - Clearly delineate the limits of manager's role
  - Build a strategy-development-and-review process
  - Take into account areas of potential conflict
  - Set up a formal process that forces to the top all conflict-of-interest situations
  - Establish a system for measuring results

# Marketing Organization

- **A Second Alternative is to switch from product managers to product teams**
  - Vertical product team
  - Triangular product team
  - Horizontal product team
- **Third Alternative:  Brand Asset Management Team (BAMT)**

# Figure 22.5: Managing Through Teams at Kraft



**Process teams**
(dedicated to each product category)

**Category teams**
(dedicated to each product category)

**Customer teams**
(dedicated to each major customer)
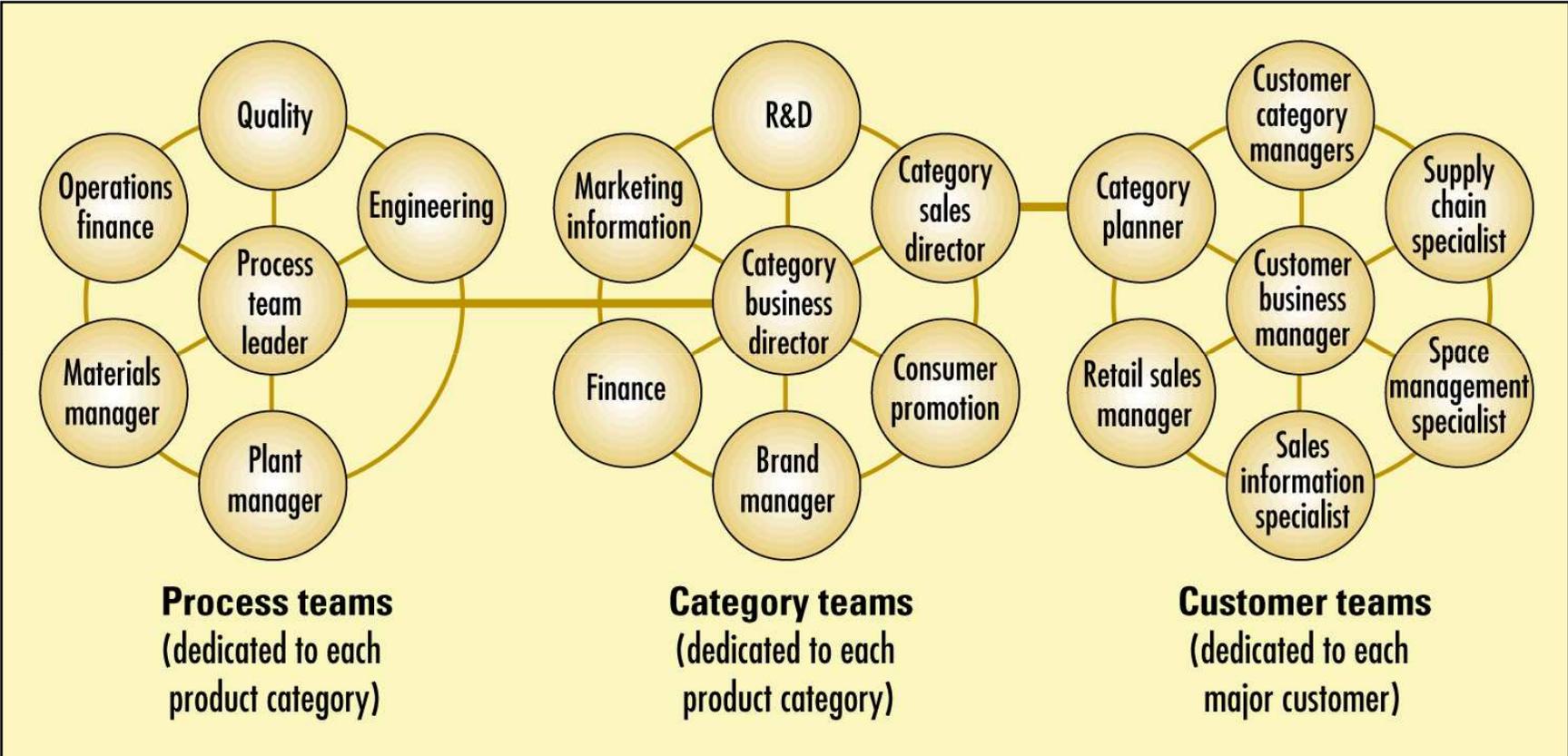
# Marketing Organization

- **Market-Management/Customer Management Organization**
  - **Market-management Organization**
    - **Markets manager**
  - **Customer-management Organization**
- **Product-Management/ Market-Management Organization**

# Marketing Organization

- **Corporate-Divisional Organization**
  - **No corporate marketing**
  - **Moderate marketing**
  - **Strong corporate marketing**
- **Marketing Relations With Other Departments**
  - **R&D**
  - **Engineering and Purchasing**
  - **Manufacturing and Operations**
  - **Finance**
  - **Accounting and Credit**

# Marketing Organization

- **Building a Companywide Marketing Orientation**
  - **Transforming into a true market-driven firm requires:**
    - Developing a companywide passion for customers
    - Organizing around customer segments instead of around products
    - Developing a deep understanding of customers through qualitative and quantitative research

# Marketing Organization

- **What steps can a CEO take to create a market and customer focused company?**
    1. Convince senior management of the need
    2. Appoint a senior marketing officer and a marketing task force
    3. Get outside help and guidance
    4. Change the company's reward measurement and system
    5. Hire strong marketing talent
    6. Develop strong in-house marketing training programs
    7. Install a modern marketing planning system
    8. Establish an annual marketing excellence recognition program
    9. Shift from a department focus to a process-outcome focus
    10. Empower the employees

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# Marketing Organization

- **Injecting More Creativity Into the Organization**

**Strategic innovation resource: Brighthouse**
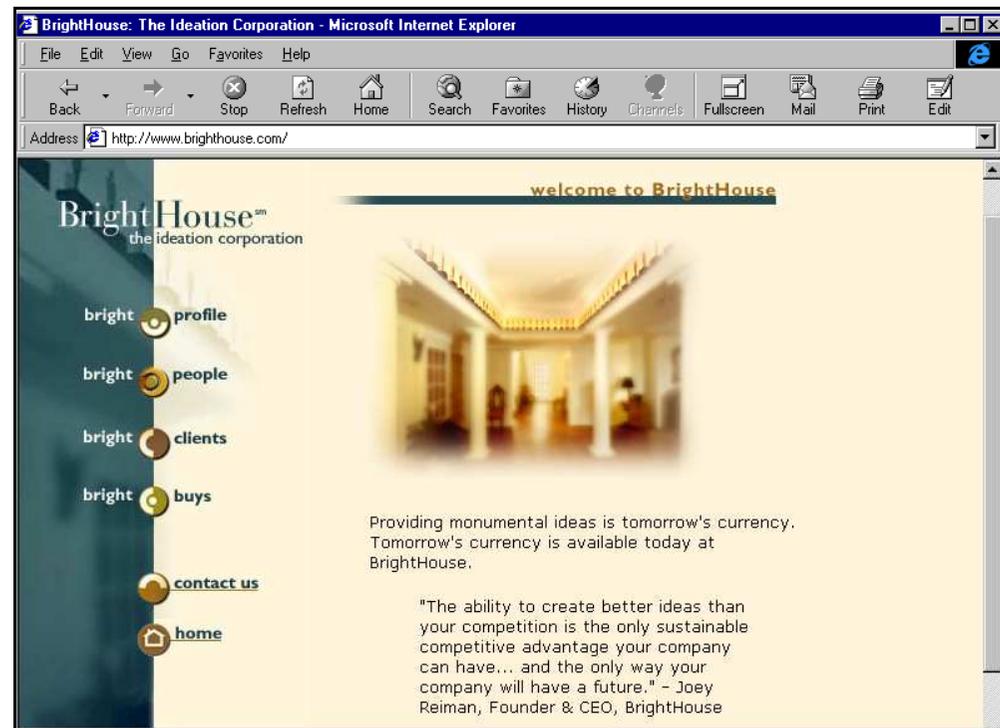
# Marketing Implementation

- **Thomas Bonoma's four sets of skills for implementing marketing programs**
  - **Diagnostic skills**
  - **Identification of company level**
  - **Implementation skills**
  - **Evaluation skills**

**Aprimo helps companies "manage the business of marketing"**

# Evaluation and Control

## Table 22.1: Types of Marketing Control

| Type of Control | Prime Responsibility | Purpose Of Control | Approaches |
|---|---|---|---|
| I. Annual-plan control | Top management<br>Middle management | To examine whether the planned results are being achieved | ▪Sales analysis<br>▪Market-share analysis<br>▪Sales-to-expense ratios<br>▪Financial analysis<br>▪Market-based scorecard analysis |

*See text for complete table*

# Evaluation and Control

- **Annual-Plan Control**
  - **Sales Analysis**
    - **Sales variance analysis**
    - **Microsales analysis**

**Figure 22.7: The Control Process**



Goal setting — What do we want to achieve?

Performance measurement — What is happening?

Performance diagnosis — Why is it happening?

Corrective action — What should we do about it?
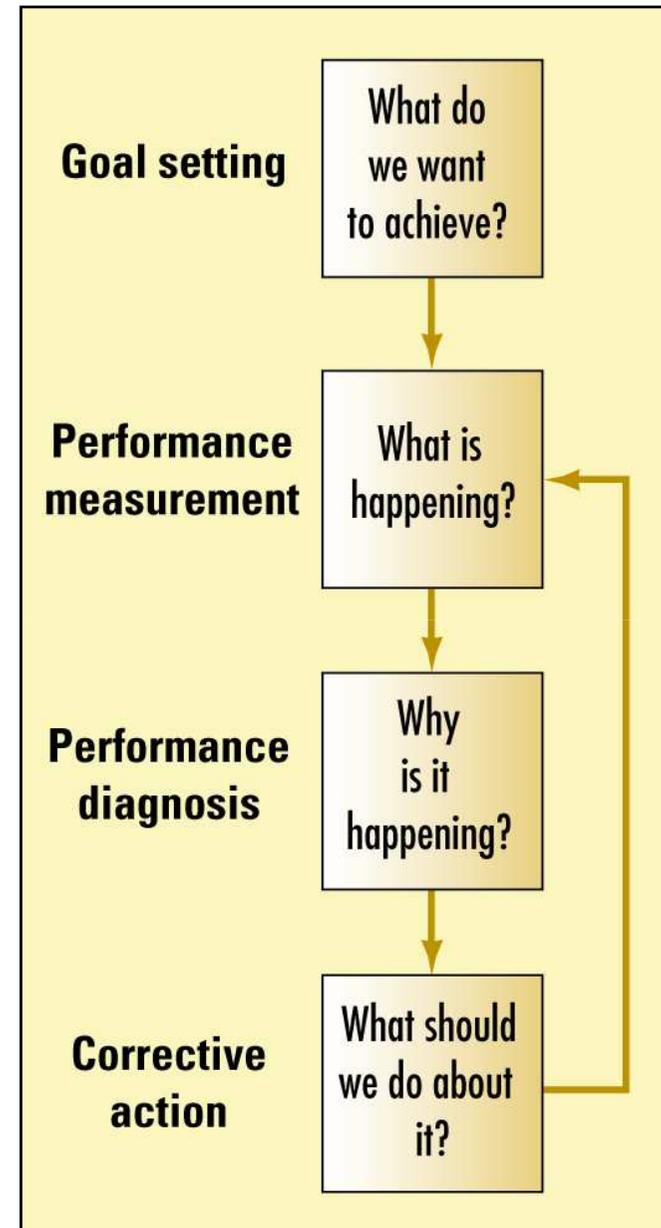
# Evaluation and Control

- **Market-Share Analysis**
  - **Overall market share**
  - **Served market share**
  - **Relative market share**
- **Marketing Expense-To-Sales Analysis**

# Evaluation and Control

- **Financial Analysis**

# Evaluation and Control

- **Market-Based Scorecard Analysis**
  - Customer-performance scorecard
  - Stakeholder-performance scorecard
- **Profitability Control**
  - **Marketing-Profitability Analysis**

# Table 22.2: A Simplified Profit-and-Loss Statement

| | | |
|---|---|---|
| **Sales** | | **$60,000** |
| **Cost of goods sold** | | **39,000** |
| **Gross margin** | | **$21,000** |
| | | |
| **Expenses** | | |
| **Salaries** | **$9,300** | |
| **Rent** | **3,000** | |
| **Supplies** | **3,500** | |
| | | **15,800** |
| **Net profit** | | **$5,200** |

# Evaluation and Control

- **Step 1: Identifying Functional Expenses**

## Table 22.3: Mapping Natural Expenses into Functional Expenses

| Natural Accounts | Total | Selling | Advertising | Packing and Delivery | Billing and Collecting |
|---|---|---|---|---|---|
| Salaries | $9,300 | $5,100 | $1,200 | $1,400 | $1,600 |
| Rent | 3,000 | — | 400 | 2,000 | 600 |
| Supplies | 3,500 | 400 | 1,500 | 1,400 | 200 |
| | $15,800 | $5,500 | $3,100 | $4,800 | $2,400 |

# Evaluation and Control

- **Step 2: Assigning Functional Expenses to Marketing Entities**

## Table 22.4: Bases for Allocating Functional Expenses to Channels

| Channel Type | Selling | Advertising | Packing and Delivery | Billing and Collecting |
|---|---|---|---|---|
| Hardware | 200 | 50 | 50 | 50 |
| Garden Supply | 65 | 20 | 21 | 21 |
| Department stores | 10 | 30 | 9 | 9 |
| | 275 | 100 | 80 | 80 |
| Functional expense | $5,500 | $3,100 | $4,800 | $2,400 |
| % No. of Units | 275 | 100 | 80 | 80 |
| Equals | $    20 | $    31 | $    60 | $    30 |

# Evaluation and Control

- Step 3: Preparing a Profit-and-Loss Statement for Each Marketing Entity

## Table 22.5: Profit-and-Loss Statements for Channels

|  | Hardware | Garden Supply | Dept. Stores | Whole Company |
|---|---|---|---|---|
| Sales | $30,000 | $10,000 | $20,000 | $60,000 |
| Cost of goods sold | 19,500 | 6,500 | 13,000 | 39,000 |
| Gross margin | $10,500 | $ 3,500 | $ 7,000 | $21,000 |
| Expenses |  |  |  |  |
| Selling ($20 per call) | $ 4,000 | $ 1,300 | $ 200 | $ 5,500 |
| Advertising ($31 per advertisement) | 1,550 | 620 | 930 | 3,100 |

*See text for complete table*

# Evaluation and Control

- **Determine Corrective Action**
- **Direct Versus Full Costing**
  - Direct costs
  - Traceable common costs
  - Nontraceable common cost
- **Activity-based Cost Accounting (ABC)**
- **Efficiency control**
  - **Marketing Controller**
  - **Sales-Force Efficiency**
  - **Advertising Efficiency**
  - **Sales-Promotion Efficiency**
  - **Distribution Efficiency**

# Evaluation and Control

- **Strategic control**
  - **The Marketing Effectiveness Review**
  - **The Marketing Audit**
    - **Marketing audit's four characteristics:**
      - Comprehensive
      - Systematic
      - Independent
      - Periodic

# Table 22.6: Components of a Marketing Audit

**Part I. Marketing Environment Audit**

**Macroenvironment**

| | |
|---|---|
| A. Demographic | What major demographic developments and trends pose opportunities or threats to this company? What actions has the company taken in response to these developments and trends? |
| B. Economic | What major developments in income, prices, savings, and credit will affect the company? What actions has the company been taking in response to these developments and trends? |
| C. Environmental | What is the outlook for the cost and availability of natural resources and energy needed by the company? What concerns have been expressed about the company's role in pollution and conservation, and what steps has the company taken? |

*See text for complete table*

# Evaluation and Control

- **The Marketing Excellence Review**

# Table 22.7: The Marketing Excellence Review: Best Practices

| Poor | Good | Excellent |
|---|---|---|
| Product-Driven | Market-Driven | Market-Driven |
| Mass-Market Oriented | Segment Oriented | Niche Oriented and Customer Oriented |
| Product Offer | Augmented Product Offer | Oriented |
| Average Product Quality | Better Than Average | Customer Solutions Offer |
| Average Service Quality | Better Than Average | Legendary |
| End-Product Oriented | Core-Product Oriented | Legendary |

*See text for complete table*

# Evaluation and Control

- **The Ethical and Social Responsibility Review**

# Loads of Management Stuff at

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