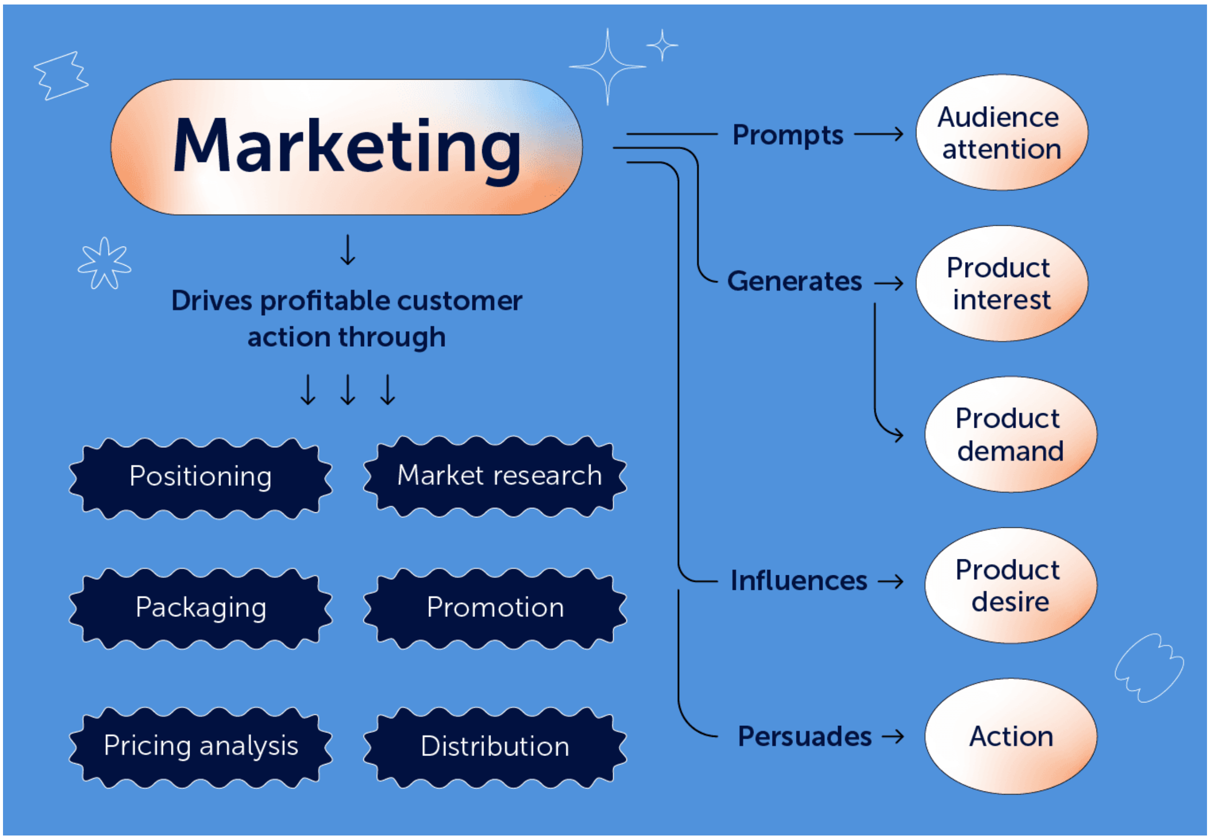
Chapter 05: Marketing

Marketing is a set of processes for creating, communicating, and delivering value to customers and for improving customer relationships.

Marketing isn’t just advertising and selling. It includes everything that organizations do to satisfy customer needs:

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

Marketing raises awareness among consumers of a business’s goods and services, and this involves much more than aimlessly displaying advertisements. Marketing has taken on new meaning as it continues to be innovated to keep up with our fast-paced society. Absolutely: the purpose of every job is satisfying customer needs, and as we’ve seen, identifying and satisfying customer needs is what marketing is all about.



Marketing encompasses a multitude of activities that create, communicate, deliver, and exchange different offers for clients in the hopes of increasing sales and other profitable actions on behalf of customers.

Marketing exists to drive profitable customer action through product and market research, pricing analysis, distribution, promotion, packaging, and positioning. Marketing prompts target audience attention generates product interest and demand, influences product desire, and persuades action.

The Marketing Concept

"The Marketing Concept" is designed to remind you that, to achieve business success, you need to do three things:

1. Find out what customers or potential customers need.

2. Develop products to meet those needs.

3. Engage the entire organization in efforts to satisfy customers.

Figure 1 Marketing Concept

Marketing Strategy

Declaring that you intend to develop products that satisfy customers and that everyone in your organization will focus on customers is easy. The challenge is doing it. As you can see in Figure 2 "Marketing Strategy", to put the marketing concept into practice, you need a marketing strategy—a plan for performing two tasks:

1. Selecting a target market

2. Developing your marketing mix—implementing strategies for creating, pricing, promoting, and distributing products that satisfy customers

We'll use Figure 2 "Marketing Strategy" as a blueprint for our discussion of target market selection, and we'll analyze the concept of the marketing mix in more detail in the next major section of the chapter.

Figure 2 Marketing Strategy

Selecting a Target Market
You need to identify a specific group of consumers who should be particularly interested in your product, who would have access to it, and who have the means to buy it. This group is your target market, and you'll aim your marketing efforts at its members.

Identifying Your Market
"Marketing Strategy" shows, this market can include either or both of two groups:

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

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

You might focus on only one market or both. A bakery, for example, might sell pies, cakes etc. on the consumer market and, on the industrial market, to other sellers or restaurants, cakes, pies, jellies, muffins etc.

Segmenting the Market
The next step in identifying a target market is to divide the entire market into smaller portions, or market segments—groups of potential customers with common characteristics that influence their buying decisions.

Demographic Segmentation

Demographic segmentation divides the market into groups based on such variables as age, marital status, gender, ethnic background, income, occupation, and education. Age, for example, will be of interest to marketers who develop products for children, retailers who cater to teenagers, colleges that recruit students, and assisted-living facilities that promote services among the elderly.

Geographic Segmentation

Geographic segmentation—dividing a market according to such variables as climate, region, and population density (urban, suburban, small-town, or rural)—is also quite common. Climate is crucial for many products: Warm cities don't need snowy products, or cold cities don't need flip flops. Consumer tastes also vary by region.

Behavioral Segmentation

Dividing consumers by such variables as attitude toward the product, user status, or usage rate is called behavioral segmentation. Companies selling technology-based products might segment the market according to different levels of receptiveness to technology.

Some companies segment consumers according to user status, distinguishing among nonusers, potential users, first-time users, and regular users of a product. Depending on the product, they can then target specific groups, such as first-time users.

Psychographic Segmentation

Psychographic segmentation classifies consumers based on individual lifestyles as they're reflected in people's interests, activities, attitudes, and values. If a marketer profiled you according to your lifestyle, what would the result be? Do you live an active life and love the outdoors? If so, you may be a potential buyer of athletic equipment and apparel. Maybe you'd be interested in an ecotour offered by a travel agency.

Clustering Segments

Typically, marketers determine target markets by combining, or "clustering," segmenting criteria. What characteristics does General Motors look for in marketing the Hummer? Two demographic variables come to mind: sex and age. Buyers are likely to be males ranging in age from about thirty to fifty-five. Because the Hummer can go off-road and performs well on rugged terrain, geography could also be a factor. Income—a socioeconomic factor—is clearly important: Hummers are expensive to buy, maintain, and run. As for psychographics, potential Hummer owners could be people who value prestige and the material rewards of success.

MARKETING MIX

After identifying a target market, your next step is developing and implementing a marketing program designed to reach it. As Figure 3 "The Marketing Mix" shows, this program involves a combination of tools called the marketing mix, often referred to as the "four Ps" of marketing:

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

2. Setting a price for the product

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

4. Promoting the product—informing potential buyers about it

Figure 3 Marketing Mix

5.1. DEVELOPING THE PRODUCT

Either a physical commodity or beneficial service that a company sells. Marketers determine how a product will satisfy the customer's needs, the variations of the product needed to satisfy those needs, and how it will be branded.

Conducting Marketing Research

Before settling on a strategy for a product, the marketers at the company should do some homework. First, to zero in on their target market, they had to find out what various people thought of the product. More precisely, they needed answers to questions like the following:

These are all questions that can help you clearly define what you are offering.

- Why would someone choose your product over competitors? For example, does it taste better or is it packaged or priced better?
- What problem does it solve?
- What attracts people to your products or services?
- Is the experience of the user the same as the experience you're selling?
- Who are our potential customers? What are they like?
- Do people like your product? What gets them excited about it? What don't they like? What would they change?
- How much are they willing to pay for the product?
- Where will they probably go to buy the product?
- How should it be promoted? How can we distinguish it from competing products?
- Will enough people buy the product to return a reasonable profit?
- Should we go ahead and launch the product?

They got these answers through marketing research—the process of collecting and analyzing the data that are relevant to a specific marketing situation.

This data had to be collected in a systematic way. Market research seeks two types of data:

1. Marketers generally begin by looking at secondary data—information already collected, whether by the company or by others, that pertains to the target market. You can get secondary data from inside or outside the organization. Internally available data includes sales reports and other information on customers. External data can come from a number of sources.

2. Then, with secondary data in hand, they're prepared to collect primary data—newly collected information that addresses specific questions. By using surveys, personal interviews, focus groups primary data could be gathered.

Branding

Armed with positive feedback from their research efforts, the company was ready for the next step: informing buyers—both consumers and retailers—about their product. The company needed a brand—some word, letter, sound, or symbol that would differentiate their product from similar products on the market.

Branding Strategies

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

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

2. With generic branding, the maker attaches no branding information to a product except a description of its contents. Customers are often given a choice between a brand-name prescription drug or a cheaper generic drug with a similar chemical makeup. (Migros Cheese or Ayşe Nine's Cheese)

3. With manufacturer branding, a company sells one or more products under its own brand names. Adopting a multiproduct-branding approach, it sells all its products under one brand name (generally the company name). Using a multibranding approach, it will assign different brand names to different products. Automakers generally use multibranding. Ford, for example, markets to a wide range of potential customers by offering cars under various brand names (Ford, Lincoln, Mercury, Mazda, Volvo, Jaguar, Land Rover, and Aston Martin).

Building Brand Equity

The company went with the multibranding approach, deciding to market Brave. Was this a good choice? The answer depends, at least in part, on how the product sells. If customers don't like Brave, its failure won't reflect badly on the company's other products. On the other hand, people might like Brave but have no reason to associate it with other products. In this case, the company wouldn't gain much from its brand equity—any added value generated by favorable consumer experiences with Brave. Because of customer loyalty, the value of the Coca-Cola brand (whose brand equity has survived such fiascos as New Coke) is estimated at more than $67 billion.

5.2. PRICING A PRODUCT

The second of the four Ps in the marketing mix is price. Pricing a product involves a certain amount of trial and error because there are so many factors to consider. If you price too high, a lot of people simply won't buy your product. Or you might find yourself facing competition from some other supplier that thinks it can beat your price. On the other hand, if you price too low, you might not make enough profit to stay in business. So how do you decide on a price?

New Product Pricing Strategies

Right now, Brave has little direct competition in its product category. True, there are some "toy" robots available, but they're not nearly as sophisticated. Sony makes a pet dog robot called Aibo, but its price tag of $1,800 is really high. Even higher up the price-point scale is the $3,600 iRobi robot made by the Korean company Yujin Robotics to entertain kids and even teach them foreign languages.

Because the company is introducing an innovative product in an emerging market with few direct competitors, it might consider one of two pricing strategies:

1. With skimming pricing, the company would start off with the highest price that keenly interested customers would pay.
2. Using penetration pricing, the company would initially charge a low price, both to discourage competition and to grab a sizable share of the market.

Other Pricing Strategies

In their search for the best price level, the company's marketing managers could consider a variety of other approaches, such as cost-based pricing, demand-based pricing, target costing, odd-even pricing(9,99 - 10), and prestige pricing. Any of these methods could be used not only to set an initial price but also to establish long-term pricing levels.

Using ***cost-based pricing***, The company's accountants would figure out how much it costs to make Brave and then set a price by adding a profit to the cost. If, for example, it cost $40 to make the robot, The company could add on $10 for profit and charge retailers $50.

Following a ***demand-based pricing*** approach, it will use this information to set the price that it charges retailers. If consumers are willing to pay $120 retail, The company will charge retailers a price that will allow retailers to sell the product for $120. What would that price be? Here's how we would arrive at it: $120 consumer selling price minus a $60 markup by retailers means that The company can charge retailers $60.

With ***target costing***, you work backward. You figure out (again using research findings) how much consumers are willing to pay for a product. You then subtract the retailer's profit. From this price—the selling price to the retailer—you subtract an amount to cover your profit. This process should tell you how much you can spend to make the product. For example, The company determines that it can sell Brave to retailers for $70. The company decides that it wants to make $15 profit on each robot. Thus, The company can spend $55 on the product ($70 selling price to the retailer minus $15 profit means that the company can spend $55 to make each robot).

Some companies adopt a ***prestige-pricing*** approach—setting prices artificially high to foster the impression that they're offering a high-quality product. Competitors are reluctant to lower their prices because it would suggest that they're lower-quality products.

Odd-Even Pricing

Do you think $9.99 sounds cheaper than $10? If you do, you're part of the reason that companies sometimes use odd-even pricing32—pricing products a few cents (or dollars) under an even number. Retailers, for example, might price Brave at $99 (or even $99.99) if they thought consumers would perceive it as less than $100.

5.3. PLACING A PRODUCT

The next element in the marketing mix is place, which refers to strategies for distribution. Distribution entails all activities involved in getting the right quantity of your product to your customers at the right time and at a reasonable cost. Thus, distribution involves selecting the most appropriate distribution channels and handling the physical distribution of products.

Distribution Channels

Companies must decide how they will distribute their products. Will they sell directly to customers (perhaps over the Internet)? Or will they sell through an intermediary—a wholesaler or retailer who helps move products from their original source to the end user?

Figure 4 Distribution Channels

Selling Directly to Customers

Many businesses, especially small ones and those just starting up, sell directly to customers. Michael Dell, for example, started out selling computers from his dorm room. Most service companies sell directly to their customers; it's impossible to give a haircut, fit contact lenses, mow a lawn, or repair a car through an intermediary. Many business-to-business sales take place through direct contact between producer and buyer. Toyota, for instance, buys components directly from suppliers.

The Internet has greatly expanded the number of companies using direct distribution, either as their only distribution channel or as an additional means of selling. Dell sells only online, while Adidas and Apple Computer sell both on Web sites and in stores. The eBay online auction site has become the channel of choice for countless small businesses.

Selling through Retailers

Retailers buy goods from producers and sell them to consumers, whether in stores, by phone, through direct mailings, or over the Internet. Best Buy, for example, buys Braves from The company and sells them to customers in its stores.

Selling through Wholesalers

Selling through retailers works fine if you're dealing with only a few stores (or chains). But what if you produce a product—bandages—that you need to sell through thousands of stores, including pharmacies, food stores, and discount stores. While selling through wholesalers will cut into your profit margins, the practice has several advantages. Even so can make the distribution channel more cost-effective.

Transportation

There are several ways to transport goods from manufacturing facilities to resellers or customers—trucks, trains, planes, ships, and even pipelines. Companies select the best mode (or combination of modes) by considering several factors, including cost, speed, match of transport mode to type of good, dependability, and accessibility. The choice usually involves trade-offs. Planes, for example, are generally faster but cost more than other modes. Sending goods by cargo ship or barge is inexpensive but very slow.

Railroads are moderately priced, generally accessible, and faster than ships but slower than planes. They're particularly appropriate for some types of goods, such as coal, grain, and bulky items (such as heavy equipment and cars). Pipelines are fine if your product happens to be petroleum or natural gas. Trucks, though fairly expensive, work for most goods and can go just about anywhere in a reasonable amount of time.

5.4. PROMOTING A PRODUCT

The best product and the perfect price alone aren't enough. Promotion covers all the communication tactics that you use to tell people about your products and services.

What will the message contain? A promotional message shouldn't just tell people that your product exists. It should provide all the necessary information they might need about the product, such as the problem your product solves and how it benefits users.

- What's the main purpose of the promotion? Am I simply trying to make people aware of my product, or am I trying to get people to buy it right now? Am I trying to develop long-term customers? Am I trying to promote my company's image?
- Which product features (quality, price, service, availability, innovativeness) should I emphasize? How does my product differ from those of competitors?
- Who is your target audience? Are you addressing a 65 year-old retiree, or a teenager?
- What medium is your message in—text, video, or audio?
- What channel are you using to get your message out? Tiktok or a full-page newspaper ad? Podcasts or email newsletters? Online or mobile advertising?
- How much can I afford to invest in a promotion campaign?
- How do my competitors promote their products? Should I take a similar approach?

Shortly promotion—the means by which you communicate with customers—may include advertising, personal selling, sales promotion, and publicity. These are all tools for telling people about your product and persuading potential customers, whether consumers or organizational users, to buy it.

To promote a product, you need to imprint a clear image of it in the minds of your target audience. What do you think of, for instance, when you hear "Hilton"? What about "Radisson"? They're both hotel chains, but the names certainly conjure up different images.

Promotional Tools

We'll now examine each of the elements that can go into the promotion mix—advertising, personal selling, sales promotion, and publicity. Then we'll see how the company has incorporated them into a promotion mix to create a demand for Brave.

Advertising

Advertising is paid, nonpersonal communication designed to create an awareness of a product or company. Ads are everywhere—in print media (such as newspapers, magazines, the Yellow Pages), on billboards, in broadcast media (radio and TV), and on the Internet. It's hard to escape the constant barrage of advertising messages; indeed, it's estimated that the average consumer is confronted by about three thousand each day. For this very reason, ironically, ads aren't as effective as they used to be. Because we've learned to tune them out, companies now have to come up with innovative ways to get through. Campbell Soup, for example, puts ads on parking meters. Even so, advertising is still the most prevalent form of promotion.

Public relations is directed at building the image of the company, and can be either paid or not paid. A common example of non-paid public relations is when a company gets a favorable story in a newspaper, magazine or TV. Larger companies have public relations departments that send press releases to media in the hopes of getting the stories aired or published. Companies will send new product information to appropriate media channel, hoping that the channel will review the new product and present a favorable story.

Direct marketing is when a person (receiver) gets a message through a nonpersonal channel, such as mail, magazine, television, newspaper, or computer and orders the product by mail, phone, or computer.

Sales Promotions

A sales promotion is any activity initiated for the short term to induce sales to any channel member or final consumer. Examples of sales promotion are coupons, rebates and price-off deals to final consumers. Quantity discounts to retailers or distributors are examples of sales promotions to channel members.