

# Marketing

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# 1 Basics

## 1.1 Foundations

- Innovations that seem to be successful in theory, can fail in the real world ... (E10)
- The firm and marketing is driven by the customers needs and wishes
- Marketing is about meeting customers wants and needs better than other firms
- Success comes from repeat business with customers, not from one-time sales! Marketing aims at long-term customer relationships!
- Marketing starts by developing superior market offerings, not by promoting products. Marketing comprises much more than advertising.
- Good Marketing is not about betraying people, because word-of-mouth is the best advertisement and betrayed customers will not recommend.
- Marketing is not only what the Marketing Department does! All activities are market-driven in modern firms.
- Marketing is not only “blabla”. A lot of analytical and systematical marketing research is needed
- Marketing is an exchange between Buyer and Seller. Buyer → Money, credit, labor, goods → Seller → Goods, services, ideas → Buyer
- SWOT Analysis = Strengths, Weaknesses, Opportunities and Threats. Opportunities and threats (external analysis) and strengths and weaknesses (internal analysis)
- Microenvironmental analysis (Porter’s Five Forces)
  1. New Entrants
  2. Buyers
  3. Substitutes
  4. Suppliers
  5. Industry Competitors

## 1.2 The “4 Ps” of the Marketing-Mix

- Product (Variety, Quality, Design, Features, Brand Name, Packaging, Sizes, Services, Warranties, Returns)
- Price (List price, Discounts, Allowances, Payment period, Credit terms)

- Promotion (Advertisement, Personal selling, sales promotion, public relations)
- Place (Channels, coverage, Assortment, Locations, Inventory, Transportation, Logistics)

The “3 new Ps”

1. People (Employees, Customers, Communicating culture and value, Employee research)
2. Physical Evidence (Facility Design, Equipment, Signage, Employee Dress, Other tangibles)
3. Processes (Flow of activities, number of steps, level of customer involvement)

### 1.3 Relationship Management Basics

The “3 Rs”

1. Recruitment (“Kundengewinnung”)
2. Retention (“Kundenbindung”)
3. Recovery (“Kundenrckgewinnung”)

Important for firms: **Customer Equity** (aggregated over all customers and **Customer Lifetime Value** (value per customer)

$$CLV_j = \sum_{t=0}^T \frac{V_{j,t} \cdot p_{j,t}}{(1+i)^t}$$

- $v_{j,t}$  = Predicted value generated by customer  $j$  in period  $t$
- $p_{j,t}$  = Predicted probability that customer  $j$  is active after  $t$  periods (survival rate = 1-hazard rate)
- $(1+i)^t$  = Discount rate

## 2 Marketing Research and Buyer Behavior

### 2.1 A General Model of Consumer Behavior

Stimuli → Customer (Black box) → Buyer’s Behavior. Marketing Managers try to find out what happens in the black box.

Stimuli:

- Marketing Stimuli (Product, Price, Promotion, Place)

- Other stimuli (Economic, Technological, Political, Cultural, Natural)

Customer:

- Buyer's Characteristics (Cultural, Social, Personal, Psychological)
- Buyer's Decision Process (Need recognition, Information search, Evaluation, Decision)

Buyer's Behavior

- Product Choice
- Brand choice
- Dealer choice
- Purchase timing
- Purchase amount

## 2.2 Marketing Research

1. Defining the Problem
2. Determine Research Design (Exploratory Research Design, Descriptive Design, Experimental Design)
3. Design Data Collection Method and Form
4. Design Sample and Collect Data
5. Analyze and Interpret Data
6. Prepare Research Report/Thesis/Paper

Research Designs

- Exploratory Research Design:
  - Overview: typically small sample, no statistical tests,
  - Methods: Expert surveys, pilot surveys, secondary data, qualitative research, Observations, interviews, group discussions
  - Goal: generate first insights
- Descriptive Design:
  - Overview: Representative sampling, infer from sample onto population
  - Methods: Secondary Data, Surveys, Panels, Observation
  - Goal: describe the population as it is

- Experimental Design:
  - Overview: Manipulation of independent variable in controlled setting
  - Methods: Experiments
  - Goal: measure causal effect of independent on dependent variable

## 2.3 Factors Influencing Consumer Decisions

- Culture (Culture, Subculture, Social Class)
- Social (Reference Group, Family, Roles)
- Personal (Age and Life Cycle Stage, Occupation, Economic Situation, Lifestyle, Personality)
- Psychological (Motivation/Involvement, Perception, Learning, Beliefs and Attitudes)
- Buyer

## 2.4 The Buyer's Decision Process

Marketing Research Questions

1. Need recognition (What are the customers' needs?)
2. Information search (How does the potential buyer gather information?)
3. Evaluation of alternatives (How do potential buyers perceive and evaluate available brands, products, and service offers?)
4. Purchase decision (What type of decisions does he make?)
5. Postpurchase cognitions (dissonance, regret, ..., word-of-mouth, complaint behavior, repurchase, ...)

# 3 Need Recognition

## 3.1 What are the consumer's needs?

Short-run

- (Re)Positioning of existing products
- Adaptation of communications ("trendy" features, environmental friendly, ...)
- Adapting easy-to-change product features (add service features, add products, e.g., merchandise for Royal wedding)

Long-run

- Change or adapt company strategy
- New products (e.g., products for LOHAS consumers, products for an aging society)
- New business fields (e.g., Nokia, Mannesmann, from heavy industry to telecommunications)
- Change business model (e.g., from products to services; from selling products to selling solutions)

Various Methods to understand what consumers wish and need:

- Focus groups (short-term)
- in-depth interviews (short-term)
- Delphi Method (long-term)
- Weak-signal research (long-term)

### **3.2 Qualitative and Quantitative Marketing Research**

Focus Groups

- Purpose: Gather background informations, diagnose problems, stimulate new ideas or identify new relationships, generate hypotheses, evaluate programs, interpret quantitative results
- Characteristics: Group size (8-12), group composition (homogeneous, respondents, prescreened), physical settings (relaxed, informal atmosphere), time 1-3h, recording (use of audio- and videotapes), moderator (observational, interpersonal, and with good communication skills)
- Moderator Guidelines: open-ended questions, avoid dichotomous questions, do not ask “why?”, think-back questions, ...
- Strengths: concentrated amounts of rich data, in participants own words on precisely the topic of interest, interaction with participants possible
- Weaknesses: small number of participants, limited generalizability, group dynamic can be a challenge

in-Depth Interviews

- Characteristics: Open-ended question, if multiple target groups 5-10 interviews per group, 10-15 interviews normally
- Laddering: often questions are followed by “why?” to get more information, questioner tries to reveal the consumers’ psychological and emotional reasons that have an impact on their purchasing decisions reveal

- Strengths: Unexpected insights or new ideas, trust between interviewer and respondent
- Weaknesses: Time-consuming compared to structured questionnaire, Well-trained interviewers required, Skills required for data analysis

#### Delphi Method

- Characteristics: Group decision process about the likelihood that certain events will occur, Used for environmental, marketing and sales forecasting (Question with answers 1(exact)-10(absolutely not))
- Strengths: No need to bring experts together physically, No focus groups or discussion effects
- Weaknesses: Hard to retain panelists, Future developments not always predicted correctly by iterative consensus

Weak Signal Research (first tendencies that could lead to a trend)

### 3.3 Market Segmentation

#### 3.3.1 Definitions

- Dividing a market into distinct groups of buyers with different needs, characteristics, or behavior, who might require separate products and Marketing-Mixes.
- Targeting: Identifying the market segments that fit best to enter with a product
- Positioning: Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target customers
- Useful market segments must have the following characteristics:
  - Measurability: The degree to which the size, purchasing power and profiles of a market segment can be measured.
  - Accessibility: The degree to which a market segment can be reached and served.
  - Substantiality: The degree to which a market segment is sufficiently large and profitable.
  - Actionability: The degree to which effective programs can be designed for attracting and serving a given market segment.



### 3.3.2 Segmentation Variables - Consumer Markets

- Geographic Variables (Nations, regions, states, cities, neighborhoods)
- Socio-demographic Variables: (Age, sex, income, occupation, religion, social class, etc. → Very popular !)
- Psychographic Variables: Needs, wants, attitudes, preferences, individual value system/ personality, lifestyle, etc.
- Bsp.: LOHAS: Lifestyle of Health and Sustainability (a market segment (mainly in the US and in Western Europe) focused on health and fitness, the environment, personal development, sustainable living, and social justice. Sinus Sociovision estimates that 20% of German consumers can be regarded as Lohas.)
- Behavioral Variables: Occasions, User status (non user, ex-user, potential user, first-time user, regular user), Usage rate (light, medium heavy user), Loyalty Status, Up-Buying, Cross-Buying Behavior

### 3.3.3 Segmentation Variables - Organizational Markets

- Buyer Category (Industrial, reseller, institutional/state)
- Type of Buying Situation (straight re-buy, modified re-buy, new-task buying)
- Composition of Buying Center (roles represented in buying center)

### 3.3.4 Profile Development

Desk research (What data / studies are available already?) → Qualitative market research (e.g. focus groups, shop-alongs, in-depth interviews etc.) → Quantitative market research (e.g. online or telephone survey) [Cluster analysis]

Cluster Analysis

- Classify objects or cases into relatively homogeneous groups called clusters
- Objects in each cluster tend to be similar to each other and dissimilar to objects in other clusters
- For numerical data, the Euclidean distance is to be preferred:

$$d_{A,B} = \sqrt{(X_{A1} - X_{B1})^2 + (X_{A2} - X_{B2})^2 + \dots + (X_{An} - X_{Bn})^2}$$

–  $d_{A,B}$  = distance between Objects A and B

–  $X_{Aj}$  = value of variable j for object A

–  $X_{Bj}$  = value of variable j for object B

### 3.3.5 Determining Segment Attractiveness

- Identify Segment Attractiveness (→ Targeting) Determine CLV and CE (customer equity) of all segments

### 3.3.6 Selecting Target Segment(s)

1. Undifferentiated Marketing (“One size fits all”)
2. Differentiated Marketing (e.g. an airline offering different prices and services to economy, business and first class passengers)
3. Concentrated (One Company Marketing Mix onto multiple segments)

### 3.3.7 Developing a Positioning Strategy

Positionate own product in comparison to others. Point out advantages (Latest technology, Low price, High perceived quality, Sportive, Elegant, Comfortable, Extravagant)

## 4 Information Search

- Internal search a passive approach to gathering information in which the consumers own memory is the main source of information about a product
- External search a proactive approach to gathering information in which the consumer collects new information from sources outside the consumers own experience

### 4.1 Communications / Promotion

The five major promotion tools:

1. Advertising
2. Sales promotion
3. Personal selling
4. Public relations
5. Direct Marketing

Communications as Instrument to change Consumers Attitude [Elaboration Likelihood Model (ELM)]

- high and low involvement products
- Each product category demands different advertising strategies

- Main goal is to achieve an enduring change in consumers.. attitude by repeating the promotion and message in the media

#### Media Evaluation

- Circulation: Number of printed copies
- Issues sold: total number of sold copies number of complimentary issues and returns
- Gross reach: Number of contacts that can be reached with the medium
- Gross rating points (GRP):  $GR = reach \cdot frequency$
- Cost per thousand/mille (CPM):  $CPM = \frac{\text{costsforusingthemedium}}{\text{numberofcontactswitheachuseofthemedium}(\text{reach})}$

## 4.2 Online Communications

- Search Engine Marketing (SEM): Paid advertisement in the form of search engine results
- Search Engine Optimization (SEO)
- Digital Asset Optimization (DAO): Promotion of digital assets like videos, pictures, documents presentations
- Viral Marketing
- Blog Marketing
- Social Media Marketing
- E-mail Marketing (Newsletter)
- Affiliate Marketing

#### Evaluating Success of Promotions on the Internet.

- Page Impressions (PI)
- Click-through (CT)
- Click-through rate (CTR):  $CTR = \frac{CT}{PI}$
- Conversion rate (CR):  $CR = \frac{\text{Numberofnewcustomers}}{\text{Numberofnewvisitors}}$
- Cost per Acquisition (CPA):  $CPA = \frac{CPC}{CR}$ , with  $CPC = \text{Cost per click}$

## 5 Evaluation of Alternatives

### 5.1 Attitudes

An attitude is a person's evaluation of an object.

- Cognitive component (thoughts, beliefs and ideas of sth.)
- Affective component (feelings or emotions sth. evokes; e.g., hate, fear)

Cognitive component: How likely is it that cars of make x are powerful? (Very likely - Unlikely)

Affective component: If cars of make x are powerful, this is: (Very good - Very bad)

The Fishbein-Model

$$A_{ij} = \sum_{k=1}^n B_{ijk} \cdot a_{ijk}$$

where

- $A_{ij}$  = Attitude of person  $i$  towards object  $j$
- $B_{ijk}$  = Belief of person  $i$  that object  $j$  has a respective level of attribute  $k$
- $a_{ijk}$  = Evaluation by person  $i$  of the respective level of attribute  $k$  with object  $j$
- $n$  = Number of salient attributes

Conjoint Measurement

- Step 1: (Cartyp, colour, price, horsepower) → table with preferred combinations. Least gets 1p and the most often chosen one gets the most points.
- Step 2: Calculate average values per colour, cartyp, ... (count the points with specific colour and divide by number of combinations with this colour)
- Step 3: Calculate path worth:

$$partworth_i = (averagescore_i - minimum)/(maximum - minimum)$$

- Step 4: Raw importance per attribute: (maximum path worth per attribute - minimum path worth per attribute)
- Step 5: Total importance: Sum of all raw importances  
relative importances =  $\frac{rawimportance}{totalimportance} \cdot 100$

## **5.2 Product**

### **5.2.1 Product Management**

### **5.2.2 Definition, Classification, Types of Market Offerings**

A product is something that satisfies a need or want. There are three types:

- Core Product: The actual product
- Actual Product: packaging, brand name, features, design
- Augmented Product: after sales service, installation, warranty

Classifications: Goods, Services, Consumer Goods, Industrial Goods, Durable Goods, Non-durable Goods

### **5.2.3 Other important topics**

New Product Development, Branding, Life-Cycle Management, Product Line Decisions, Product Mix Decisions, Price

## **6 Purchase**

## **7 Postpurchase Cognitions and Behavior**