Principles of marketing

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Shipping and customer satisfaction would be included in sales to avoid the customer from reversing or unclosing the deal. Thus Marketing can be categorized as a branch of business as well as a social science. We buy goods (thus becoming the buyer/consumer) from a vendor (or producer/seller), creating a transaction. In the past, marketing involved traveling salesmen, while in modern times, marketing is more likely to involve television, the internet, and other forms of media bombardment. As we progress in this age of technology it is vital for us to understand marketing and its place in the world. Understanding and applying the principles will be beneficial to the businessperson and the layperson. What is Marketing?[edit | edit source] Marketing refers to channeling the gap between service and product providers to service and product seekers. Also known as a way of satisfying needs. The Marketing Mix or the "4 Ps" are: product place promotion price The concept of the "4 Ps" has been replaced by the concept of the "7 Ps" they are product price place promotion people positioning packaging These are employed to satisfy a target market or target demographic (the pool of potential customers). Example: Product: Procter and Gamble introduces a new toothpaste designed to taste good and fight cavities. Logo and packaging designed in bright colors to appeal to kids of elementary school age to encourage more tooth brushing. Price: $2.00, and discounted by means of coupons Promotion: television and radio commercials, magazine and newspaper ads, and a website; these use bright colors and happy music, perhaps an animated cartoon character for a fun and family-friendly attitude Place (or distribution): Supermarkets, drugstores, discount stores such as Wal-Mart, the Internet has become an increasingly important place to conduct online shopping. Target demographic: Mothers with kids who make toothpaste buying decisions for the family (advertising could be shown on children's programming, promoting kids to ask parents to buy the toothpaste) Creating utility[edit | edit source] The American Heritage Dictionary defines utility as "the quality or condition of being useful". Utility is further defined as any quality and/or status that provides a product with the capability to satisfy the consumer's wants and needs. Marketing is responsible for creating most of a product's inherent utility. There are four basic types of utility: Form utility: production of the good or service, driven by the marketing function. For example, Procter and Gamble turns raw ingredients and chemicals into toothpaste. Place utility: making the product available where customers will buy the product. Procter and Gamble secures shelf space for the toothpaste at a wide variety of retailers including supermarkets and drugstores. Time utility: making the product available when customers want to buy the product. The U.S. drugstore chain Walgreens has many locations open 24 hours a day, and since the 1990's has placed most of their newer stores at major intersections. Possession utility: once you have purchased the product, you have rights to use the product as intended, or (in theory) for any use you would like. The fifth type of utility is often defined along with the above four types: Image utility: the satisfaction acquired from the emotional or psychological meaning attached to products. Some people pay more for a toothpaste perceived to be more effective at fighting cavities and whitening teeth. The exchange process[edit | edit source] The exchange process is the process by which two or more parties give something of value to each other to satisfy the perceived needs. The marketer (a company like Procter and Gamble) offers goods and services desired by the market (the pool of potential customers). In return, the market (the customer) gives back something of value to the marketer, generally money. Both ends receive something of value in the exchange process. The marketer makes money and the customer receives goods, services, or ideas that satisfy their needs. The exchange process is the origin of marketing. The process creates utility. For an exchange to occur: Both parties must have something of value to exchange. Both parties need to be able to communicate. Procter and Gamble (P&G), for example, must have money to purchase advertising space. Both parties must be able to exchange. The toothpaste, in some cases, must be approved by the FDA in order for it to be sold. The customer must be able to buy the product with his or her money and have access to a retail store where the product is sold to be able to buy it. Both parties must want to exchange. At least two parties are needed for an exchange to occur. Marketing Management Process[edit | edit source] This consists of: analyzing market opportunities, selecting target markets, designing marketing strategies, planning marketing programs, organizing, implementing and controlling the marketing effort. Analyzing marketing opportunities Defining the market Consumer assessment Environmental assessment Company resource assessment Demand analysis and sales forecast Identifying Market Segments and Selecting Target Markets Marketers set priorities for business opportunities, concentrating on market segments within which they expect to achieve the best overall economic return from their product or service. Market segmentation and target marketing are the processes used to isolate these opportunities. Market segmentation is the process of grouping customers based on their similarities Market segmentation allows a company to: Understand the different behavioral patterns and decision-making processes of different groups of consumers Select the most attractive segments or customers the company should target Develop a strategy to target the selected segments based on their behavior Developing marketing strategies Positioning Develop new product, test, and launch Modification in the stages of product life cycle Strategy choice depends on the strategy pursued by the firm Consider changing global opportunities and challenges Planning marketing programs Transforming strategy into programs Managing Product Lines, Brands, and Packaging Managing Service Businesses and Ancillary Services Designing Pricing Strategies and Programs Selecting and Managing Marketing Channels Managing Retailing, Wholesaling, and Physical-Distribution Systems Designing Communication and Promotion Mix Strategies Designing Effective Advertising Programs Designing Direct-Marketing, Sales-Promotion, and Public-Relations Programs Managing the Salesforce Managing marketing efforts Organizing resources Implementation Control - Annual control, Profitability control, Strategic control Product Management[edit | edit source] Product development means offering new or improved products for the present market. By knowing what the present market's needs are, a firm may see ways to add or modify product features, create several quality levels, or add more types or sizes to better satisfy customers while seeking, also, to expand. Product Management deals with bringing together all the strings that transform an idea into a product. "Product" does not refer to tangible goods only, intangible products like software also come under the category. A Product Manager (PdM) usually works with a number of teams and co-ordinates with various channels throughout the product development lifecycle. It all begins with an idea of a product. Now, this idea can either be a market/customer requirement or something completely new. There are usually three channels from where an idea can come from: Market / Customer - Sales teams talk to the customers and try to get their requirements. Product experts envision requirements that might be required in the future or that give the product a competitive edge. Product Roadmap - Product Roadmap is a prioritized list of features that need to be built for a specific product. The priority of features keep on changing and it is the sole responsibility of a PdM to make the decision which features should be taken up for development. Innovation - Innovation cells in firms deal with coming up with new ideas to make their product more exciting and competitive. Once an idea is decided to be taken up for development, the PdM then elaborates on the feature requirements and develops documents like Product Requirements Document (PRD), Functional Specification Document (FSD), etc. These documents are shared with all the stakeholders who are required to sign-off the requirements/specifications. Once that is done, the lifecycle moves to the development stage. The PdM works very closely with the development and quality assurance teams and ensures that the teams are completely aware of what is to be developed and how users would interact with the product. After development is complete and quality checked, the product is ready to be released. Usually, this release does not go to the customers directly, it goes to the sales teams who, in turn, provide demonstrations to the potential customers. After sufficient validations and demonstrations of the features in "Sandbox", the enhanced/new product is released to market. The Product Life Cycle[edit | edit source] Understanding the product life cycle is key to understanding how to market a product. Many marketing campaigns are won and lost because of knowledge of the product lifecycle. If understood, the product lifecycle will tell you how to market a product and how much money to spend. The product life cycle is divided into four parts: Introduction phase Growth phase Maturity phase and Decline phase These parts of the cycle follow the curve you would normally expect, a long slow initial acceptance, a period of rapid growth, a long length of time where the product has fully saturated the market, and its eventual decline in obsolescence. The introduction phase of the product lifecycle is the easiest to market, but the most resource and cost intensive. The target market is the early adopter. The problem in the early adopter is the most difficult consumer to convince. The early adopter seeks status. They crave new products, not because of usefulness, but sexiness. They want to feel this product they are buying into will bring them some amount of prestige among their constituents. The question then is, how do you market to them? Ad and event intensive sales are probably the most useful. Ads should focus less on the feature-benefits and more on the emotional aspect of the product. One company that makes this distinction very clear in their advertisements is Apple Computers. When advertising for their personal computing products, they use the PC vs. Mac ads. These ads are entertaining and grab your attention, but focus mainly on the feature-benefit aspects of a product. The iPhone ads are very low on feature-benefits and high on the coolness factor. Growth is the period when everyone knows your product, but they aren't sure if they want to use it or not. Here it is important to stop focusing on the coolness of a product and start focusing on the features and benefits of a product. At this point, the early adopters have shown the world how cool the product is and how cool they are for having one. The rest of your market wants to know why it is they should get one. If they don't see a real benefit, then they will move on to the next product. Maturity is the least expensive segment of a product's lifecycle. When a product has generally been accepted, and the market has reached its final penetration, it has reached this point. Your marketing techniques should focus on maintaining customers and customer satisfaction. Your advertisements can focus on what you can do for them while they keep using your product. Decline is the most difficult segment for most companies. Decline requires a lot of soul-searching. If a company continues in the status quo, the product will decline and the company will continue to spend money on it. This is the recipe for disaster. A company has one of two paths it can take. Either, you can rebuild the product, or you must discontinue the product. If the company wishes to revitalize a product, it usually does so in one of two ways. The first is nostalgia marketing. You remind the consumer about the product and that it was always there. The second is to refresh the product. You can create new promotional material, new packaging, new advertising or new features. The process of rebuilding a product's market is often not feasible because of obsolescence. If this is the case, the company shouldn't just discontinue the product and leave the customer without replacement options. A well-designed marketing plan should inform customers of the end of the products life cycle, and move them onto another of the companies replacement products. New Product Development[edit | edit source] Every company must develop new products. New product development shapes the company’s future. A company can add new products through acquisition or development. The acquisition route can take three forms: The company can buy other companies. It can acquire patents from other companies. It can buy a license or franchise from another company. The development route can take two forms: The company can develop new products in its own laboratories; or It can contract with independent researchers or new-product development firms to develop specific new products. Competition is strong and dynamic in most markets. So it essential for a firm to keep developing new products as well as modifying its current products-to meet changing customer needs and competitors’ actions. Booz, Allen, and Hamilton have identified six categories of new products: New-to-the-world products New-product lines. New products that allow a company to enter an established market for the first time. Additional to existing product lines: New products that supplement a company’s established product lines (package sizes, flavor and so on.) Improvements and revisions to existing products: New products that provide improved performance or greater perceived value and replace existing products. Repositioning existing products that are targeted to new markets or market segmentation. Cost reduction: new products that provide similar performance at lower cost An Organized New-Product Development Process is Critical Identifying and developing new-product ideas and effective strategies to go with them is often the key to a firm’s success and survival. New-product development demands effort, time and talent-and still the risks and costs of failure are high. A new product may fail for many reasons. Most often, companies fail to offer a unique benefit or underestimate the competition. Specific reasons are: A high-level executive pushes a favorite idea thru’ in spite of negative market research findings. The idea is good but the market size is over-estimated. The product is not well designed. The product is incorrectly positioned in the market, not advertised effectively or over-priced. Development costs are higher than expected. Competitors fight back harder than expected. Several other factors hinder new-product development: Shortage of important ideas in certain areas Fragmented markets Social and governmental constraints Costliness of the development process Capital shortages Faster required development time Shorter product life cycle New Product Development Process[edit | edit source] Idea Generation Is the idea worth considering? Ideas might come from: Internal sources: R & D Top management employees External sources: Customers Competitors Distributors Suppliers Research institutes Idea Screening Is the product idea compatible with company objectives and strategies? Is the product idea compatible with company: Strengths Weaknesses Objectives Market trends Rough ROI (Return on Investment) estimate Ideas are evaluated against criteria; most are eliminated. Errors: Concept Development and Testing Can the company find a good concept for the product that consumers say they would try? Concept: Who will use the product? What primary benefit should the product provide? When will people consume? Concept testing is the way of testing new product concepts with a group of target consumers to find out if the concepts have strong consumer appeal. Concept testing can be presented symbolically or physically. New ideas are computer designed and developed. The company wants to obtain: Reactions from customers Rough estimates of cost Sales and profits Marketing Strategy Development Can we find a cost-effective, affordable marketing strategy? Preliminary market strategy plan describe: • The target market, product positioning, and sales, share, and profit goals for the first few years. • Product price, distribution, and marketing budget for the first year. • Long-run sales and profit goals and the marketing mix strategy. Business Analysis Evaluating proposal’s business attractiveness - Will this product meet the profit goal of the company? Management prepares sales, cost, and profit projections. As new information comes in, the analysis will undergo revision and expansion. Product development R&D or reengineering – developing physical product Prototype development and testing Market testing Not all companies undertake market testing. New-to-the-market products, high risk, high investment cost influence market testing. Questions: Have product sales met expectations? Should the company send the idea back for product development (stage 6)? How much market testing should be done? What kind(s) of market testing? How many test cities? Which cities? Length of test? What information? What action to take? Commercialization Are product sales meeting expectations? Contracting to manufacture or build or rent a full-scale manufacturing facility. The company launching a new product must first decide on introduction timing, geographic strategy, target market prospects and introductory market strategy. When? (introduction timing) – First entry – Parallel entry – Late entry (due to the many problems) - Where? (geographic strategy) – single location, – a region, – the national market or – the international market To Whom? (target market prospects) – Determining initial distribution and promotion – Early adopters, heavy users, and opinion leaders How? (introductory market strategy) – Developing action plan for introducing the product – Critical path scheduling (CPS) can be used MANAGING PRODUCT LIFE CYCLE Stages of Product Life Cycle • Introduction • Growth • Maturity • Decline Introduction • Price: High • Quality: Low • Number of versions: Few • Number of competitors: Few • Intensity of Competition: Little • Advertising: High to introduce • Distribution: Little Growth • Price: High and dropping • Quality: Low and growing • Number of versions: Few and increasing • Number of competitors: Few and growing • Intensity of Competition: Growing • Advertising: Still high to expand • Distribution: Growing Maturity • Price: Dropping and stabilizing • Quality: High • Number of versions: Many • Number of competitors: Many/dropping • Intensity of Competition: High • Advertising: Stable • Distribution: Maximum Decline • Price: Dropping • Quality: High • Number of versions: Dropping • Number of competitors: Dropping • Intensity of Competition: Depends • Advertising: Dropping • Distribution: Losing Product and Product Mix[edit | edit source] Product Planning refers to the systematic decision making related to all aspects of the development and management of a firms products including branding and packaging. A product is anything that can be offered to a market to satisfy a want or need. Each product includes a bundle of attributes capable of exchange and use. Products that are marketed include physical goods, services, experiences, events, persons, places, organizations, properties, information, and ideas. The marketing manager needs to understand how markets develop over time, in order better to plan and manage products, their life-cycles, and their marketing strategies. Differences between Goods and Services o Goods are tangible. You can see them, feel them, touch them etc. o Services are intangible. The result of human or mechanical efforts to people or objects o Sales of goods and services are frequently connected, i.e. a product will usually incorporate a tangible component (good) and an intangible component. Product Levels A product has five levels. Core benefits - The essential service or benefit that the buyer is buying. E.g. getting clean, rest and sleep, etc. Basic (generic) products - The basic product recognized as such. E.g. soap; room components – bed, bathroom, etc. Expected products - The set of attributes and conditions that the buyer normally expects in buying the product. E.g. smell, shape; clean bed, towel, quietness, etc. Augmented products - Additional services and benefits that the seller adds to distinguish the offer from competitors. E.g. anti-bacterial, moisturizing; fresh flowers, rapid services, etc. Potential product - The set of possible new features and service that might eventually be added to the offer that exceeds customer expectations. E.g. Vitamins; candy on the pillow, etc. Product Classifications[edit | edit source] Durability and tangibility Non-durable goods Durable goods Services Consumer goods classification - classified according to shopping habits: Convenience goods Shopping goods Specialty goods Unsought goods Industrial goods classification Material and parts: Raw material Manufactured materials and parts Capital items: Supplies and business services Managing the Product Mix[edit | edit source] If an organization is marketing more than one product it has a product mix. o Product item -- A single product o Product line -- All items of the same type o Product mix -- Total group of products that an organization markets In a dynamic marketing environment, the product mix is not static. The effects of changing technology, evolving competition and changes in customer needs mean that is most important for an organization to find ways of keeping its product ranges fresh and interesting. This opens up a number of management problems, requiring planned procedures and strategies in order to: o Retain and maintain existing products so that they continue to meet their objectives o Modify and adapt existing products to take advantage of new technology, emerging opportunities or changing market conditions. o Delete old products that are close to the end of their working lives and no longer serve their purpose o Introduce a flow of new products to maintain or improve sales and profit levels and to form a firm foundation for tomorrow’s market. Too many products could put an organization at risk, as a product launch is resource intensive with no guarantee of success. At the other extreme, too many declining products could threaten the future of the business as sales and profits start to fall. Elements of a Product Mix Depth measures the # of products that are offered within each product line. Width measures the # of product lines a company offers. Product decisions Marketers make product decisions at three levels: o Individual product decisions o Product line decisions o Product mix decisions 1. Individual product decisions are focused on the development and marketing of: o Product attributes o Branding o Packaging o Labelling o Product support services. 2. The product line is comprised of a group of products that are closely related because: o They function in a similar manner o Are sold to the same groups o Are marketed through the same types of outlet o Fall within given price ranges The product line length involves the number of items in the product line. It is greatly influenced by the company objectives and the resources. Product line growth needs to be planned carefully and is extended in two ways: ‘stretching’ and ‘filling’. Product line stretching Downward stretch: Company initially located at the top end of the market and then ‘stretches’ downwards to pre-empt a competitor or respond to an attack. Example: The launch of C-Class by Mercedes-Benz. Upward stretch: Companies stretching upwards to add prestige to their existing range of products. Toyota with the Lexus. Can be risky due to customer perception and the inability of salespeople to trade up and negotiate to the new level. Two-way stretch: Extending product lines upwards and downwards to address different segments of the market. Product line filling: Increasing the product line by adding more items within the present range of the line. Reasons for product filling: Extra profits Satisfying dealers Using excess capacity Being the leading full-line company Plugging holes to keep out the opposition Care needs to be taken that the line filling does not lead to cannibalization and customer confusion. 3. Product mix decisions Product mix or product assortment consists of all the product lines and items that a particular seller offers for sale to buyers. Dimensions of the product mix Breadth or width - Wide product mix containing many different product lines. E.g Unilever producing cooking oil, toilet soap, cosmetics etc. Length - Total number of products in the product lines Depth - Different versions, such as the size of packaging and different formulations. Consistency - How closely related the various product lines are in end use, production requirements, distribution channels etc Product mix strategies • A company can add new product lines, thus widening the product mix. • A company can lengthen the existing product lines to become more of a full line company. • It can add more product versions of each product and deepen its product mix. • The company can pursue more product line consistency, or less, depending on whether it wants to have a strong reputation in a single field or in several fields. Branding[edit | edit source] Branding is an important element of the tangible product and, particularly in consumer markets. It is a means of linking items within a product line or emphasizing what they stand for e.g. Coca-Cola. Brand mark: is specifically the element of the visual brand identity that does not consist of words, but of design and symbols eg, McDonalds symbol (M) The benefits of branding The consumer Easier product identification Communicates features and benefits Helps products evaluation Establishes product’s position in the market Reduces risk in purchasing The manufacturer Helps creates loyalty Defends against competition Creates differential advantage Allows premium pricing Helps targeting/positioning Increases power over retailer The retailer Benefits from brand marketing support Attracts customer Helps differentiate the product from competitors Types of brands: - There are many forms of branding but primarily there are manufacturer, distributor, price and generic brands Brand Equity: - a) is an asset b) a degree of brand-name recognition perceived brand quality, strong mental and emotional associations, and other assets such as patents, trademarks, and channel relationship. c) is a measure of a number of different components, including the beliefs, images and core associations consumer have about a particular brand.Brand equity is the positive differential effect that knowing the brand by the buyer has on the seller. Packaging and Labeling[edit | edit source] Packaging[edit | edit source] Packaging includes the activities of designing and producing the container for a product. The package may include up to three levels of materials. E.g. Old Spice aftershave Bottle - primary package Cardboard box - secondary package Corrugated box - shipping package Packaging is any container or wrapping in which the product is offered for sale and can consist of a variety of materials such as glass, paper, metal or plastic depending on what is to be contained. Packaging is an important part of the product that not only serves a functional purpose but also acts as a means of communicating product information and brand character. The packaging is often the consumer’s first point of contact with the actual product and so it is essential to make it attractive and appropriate for both the products and the customers need. Due to the growth of mass merchants and self-service, manufacturers have come to realize the value of packaging as a marketing tool. Today it is a vital part of a firm’s product-development strategy; a package may even be an integral part of the product itself. Packaging has become a potent marketing tool. Well-designed packages can create convenience and promotional value. Developing an effective package for a new product requires several decisions. The first task is to establish the packaging concept: defining what the package should basically be or do for the particular product. Decisions must include the following elements: size, shape, materials, color, text and brand mix. The packaging elements must also be harmonized with decisions on pricing and other marketing elements. Once the packaging is designed, it must be tested. Factors that have contributed to packaging growing use as a marketing tool:- • Self-service: An increasing number of products are sold on a self-service basis. The package attract attention, describe the product's features, create consumer confidence and make a favorable overall impression • Consumer affluence: Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance dependability and prestige of better packages. • Company and brand image: Packages contribute to the instant recognition of the company or brand. It differentiates a product from competitors by its design, color, shapes, and methods. • Innovation opportunity: Innovative packaging can bring large benefits to consumers and profits to producers. Packaging can be a major element of new-product planning. • Promotional tool: It serves as a promotional tool and is the final form of promotion the consumer sees prior to making a purchase decision. • Reminder: A package also serves as a reminder after a purchase is made. Although packaging is expensive, developing effective packaging may cost several hundred thousand dollars and take several months to complete. Companies must pay attention to growing environmental and safety concerns about packaging. Shortages of paper, aluminum, and other materials suggest that marketers should try to reduce packaging. Labeling[edit | edit source] Labeling is a particular area within the packing field that represents the outermost layer of the product. Labels have a strong functional dimension, in that they include warnings and instructions, as well as information required by law on best industry practice. Labels state, at the very least, the weight or volume of the product. A barcode and the name and contact address of the producer. Consumer demand has also led to the inclusion of far more product information, such as ingredients, nutritional information and the environmental friendliness of the product. Information about the extent to which the packing is made of recycled materials is also much more common now. Sellers must label products. The label may be a simple tag attached to the product or an elaborately designed graphic that is part of the package. The label might carry only the brand name or a great deal of information. Even if the seller prefers a simple label, the law may require extra information. Label feels that it can be most trusted and loyal to the customer end (Example a baby girl photo on the Parle-G biscuit is printed in the minds of customer and on the product pack). Free Audio Learning Resources[edit | edit source] Resources[edit | edit source] See also[edit | edit source]