

## THE VALUE OF MARKETING

- Financial success often depends on marketing ability.
  - Successful marketing builds demand for products and services, which, in turn, creates jobs.
  - Marketing builds strong brands and a loyal customer base, intangible assets that contribute heavily to the value of a firm.
  - In an Internet-fueled environment where consumers, competition, technology, and economic forces change rapidly and consequences quickly multiply, marketers must choose features, prices, and markets and decide how much to spend on advertising, sales, and online and mobile marketing.
- Meanwhile, the economic downturn that began globally in 2008 and the slow recovery since, have brought budget cuts and intense pressure to make every marketing dollar count.
- There is little margin for error in marketing.

## THE SCOPE OF MARKETING

### WHAT IS MARKETING?

- **Marketing** is about identifying and meeting human and social needs.

One of the shortest good definitions of marketing is “meeting needs profitably.”

American Marketing Association (AMA) formal definition:

*Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*

- **Marketing management** is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.

### WHAT IS MARKETED?

Marketers market 10 main types of entities:

1. **Goods**  
Physical goods constitute the bulk of most countries’ production and marketing efforts.
2. **Services**  
As economies advance, a growing proportion of their activities focuses on the production of services. Services include the work of airlines, hotels, car rental firms, and accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal.
3. **Events**  
Marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries.
4. **Experiences**  
By orchestrating several services and goods, a firm can create, stage, and market experiences.
5. **Persons**  
Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals often get help from marketers.
6. **Places**  
Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters. Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies.
7. **Properties**  
Properties are intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing..
8. **Organizations**  
Museums, performing arts organizations, corporations, and nonprofits all use marketing to boost their public images and compete for audiences and funds. Some universities have created chief marketing officer (CMO) positions to better manage their school identity and image.
9. **Information**  
Information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities.
10. **Ideas**  
Every market offering includes a basic idea.

### WHO MARKETS?

A **marketer** is someone who seeks a response (attention, a purchase, a vote, a donation) from another party, called the **prospect**.

If two parties are seeking to sell something to each other, we call them both *marketers*.

Marketers are skilled at stimulating demand for their products, but that's a limited view of what they do.

They also seek to influence the level, timing, and composition of demand to meet the organization's objectives.

Eight demand states are possible:

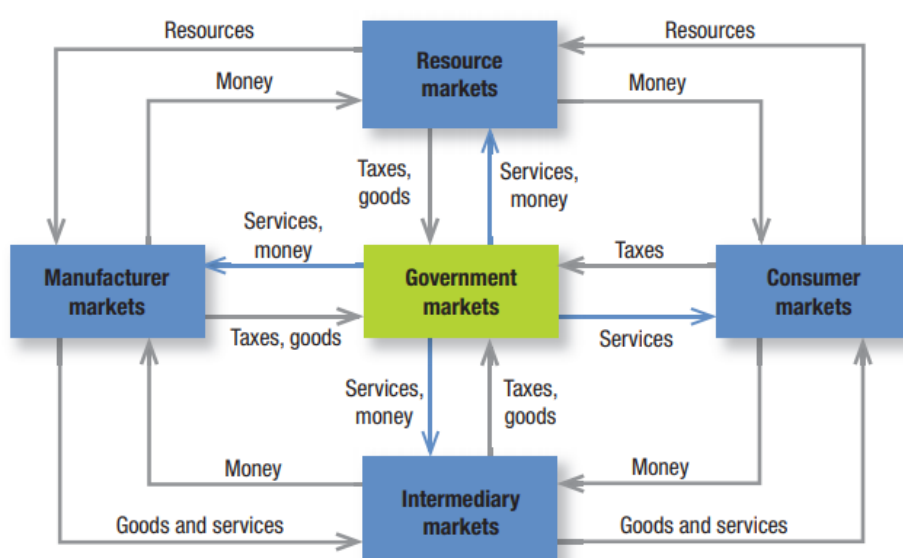
1. **Negative demand** Consumers dislike the product and may even pay to avoid it.
2. **Nonexistent demand** Consumers may be unaware of or uninterested in the product.
3. **Latent demand** Consumers may share a strong need that cannot be satisfied by an existing product.
4. **Declining demand** Consumers begin to buy the product less frequently or not at all.
5. **Irregular demand** Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. **Full demand** Consumers are adequately buying all products put into the marketplace.
7. **Overfull demand** More consumers would like to buy the product than can be satisfied.
8. **Unwholesome demand** Consumers may be attracted to products that have undesirable social consequences.

In each case, marketers must identify the essential cause(s) of the demand state and decide a plan of action to shift demand to a more desired state.

## Markets

**Market** → a collection of buyers and sellers who transact over a particular product or product class.

Five basic markets and their connecting flows are shown in Figure 1.1.



**| Fig. 1.1 |**

Structure of Flows in a Modern Exchange Economy

- **Manufacturers** go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers.
- **Consumers** sell their labor and receive money with which they pay for goods and services.
- The **government** collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services.

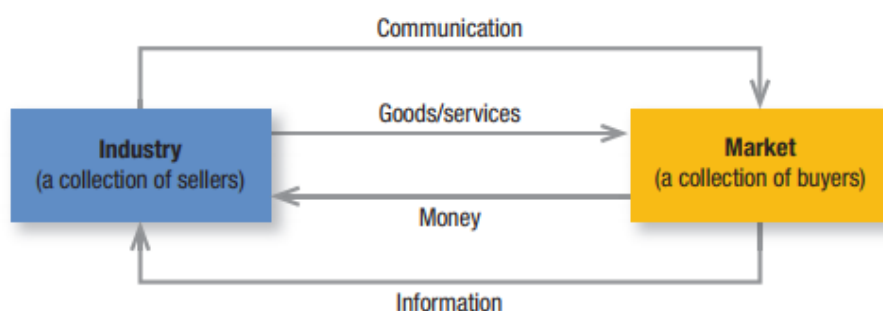
Each nation's economy, and the global economy, consists of interacting sets of markets linked through exchange processes. Marketers view sellers as the industry and use the term market to describe customer groups.

They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the "millennium" youth market), geographic markets (the Chinese market), or voter markets, labor markets, and donor markets.

**Figure 1.2** shows how sellers and buyers are connected by four flows.

**| Fig. 1.2 |**

## A Simple Marketing System



- *Sellers* send goods and services and communications such as ads and direct mail to the *market*;
- in return they receive money and information such as customer attitudes and sales data.

- The inner loop shows an exchange of money for goods and services;
- the outer loop shows an exchange of information.

### **Key customer markets**

Consider the following key customer markets:

- **Consumer Markets**  
Companies selling mass consumer goods and services, establish a strong brand image by developing a superior product or service, ensuring its availability, and backing it with engaging communications and reliable performance.
- **Business Markets**  
Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings.
- **Global Markets**  
Companies in the global marketplace navigate cultural, language, legal, and political differences while deciding which countries to enter, how to enter each, how to adapt product and service features to each country, how to set prices, and how to communicate in different cultures.
- **Nonprofit and Governmental Markets**  
Companies selling to non-profit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully.  
Much government purchasing requires bids; buyers often focus on practical solutions and favor the lowest bid, other things equal.

## **CORE MARKETING CONCEPTS**

### • **NEEDS, WANTS, AND DEMANDS**

**Needs:** the basic human requirements such as for air, food, water, clothing, and shelter.

**Wants:** specific objects that might satisfy the need.

**Demands:** wants for specific products backed by an ability to pay.

Companies must measure not only how many people want their product, but also how many are willing and able to buy it.

*Marketers do not create needs:* needs pre-exist marketers.

Some customers have needs of which they are not fully conscious or cannot articulate. We can distinguish 5 types of needs:

1. Stated needs (The customer wants an inexpensive car.)
2. Real needs (The customer wants a car whose operating cost, not initial price, is low.)
3. Unstated needs (The customer expects good service from the dealer.)
4. Delight needs (The customer would like the dealer to include an onboard GPS system.)
5. Secret needs (The customer wants friends to see him or her as a savvy consumer.)

To gain an edge, companies must help customers learn what they want.

### • **TARGET MARKETS, POSITIONING, AND SEGMENTATION**

Marketers identify distinct segments of buyers by identifying demographic, psychographic, and behavioral differences between them. They then decide which segment(s) present the greatest opportunities.

For each of these target markets, the firm develops a market offering that it positions in target buyers' minds as delivering some key benefit(s).

### • **OFFERINGS AND BRANDS**

Companies address customer needs by putting forth a **value proposition**, → a set of benefits that satisfy those needs.

The intangible value proposition is made physical by an offering, which can be a combination of products, services, information, and experiences.

A brand is an offering from a known source.

### • **MARKETING CHANNELS** → To reach a target market, the marketer uses 3 kinds of marketing channels:

**Communication channels** deliver and receive messages from target buyers and include newspapers, magazines, radio, television, mail, telephone, smart phone, billboards, posters, fliers, CDs, audiotapes, and the Internet.

**Distribution channels** help display, sell, or deliver the physical product or service(s) to the buyer or user.

These channels may be direct via the Internet, mail, or mobile phone or telephone or indirect with distributors, wholesalers, retailers, and agents as intermediaries.

To carry out transactions with potential buyers, the marketer also uses **service channels** that include warehouses, transportation companies, banks, and insurance companies.

Marketers clearly face a design challenge in choosing the best mix of communication, distribution, and service channels for their offerings.

- **PAID, OWNED, AND EARNED MEDIA**

The rise of digital media gives marketers a host of new ways to interact with consumers and customers.

- ***Paid media*** allow marketers to show their ad or brand for a fee, include TV, magazine and display ads, paid search, and sponsorships.
- ***Owned media*** are communication channels marketers actually own, like a company or brand brochure, Web site, blog, Facebook page, or Twitter account.
- ***Earned media*** are streams in which consumers, the press, or other outsiders voluntarily communicate something about the brand via word of mouth, buzz, or viral marketing methods.

The emergence of earned media has allowed some companies to reduce paid media expenditures.

- **IMPRESSIONS AND ENGAGEMENT**

Marketers now think of three “screens” or means to reach consumers: TV, Internet, and mobile.

Surprisingly, the rise of digital options did not reduce the amount of TV viewing, in part because 3 of 5 consumers use two screens at once.

*Impressions*, which occur when consumers view a communication, are a useful metric for tracking the scope or breadth of a communication’s reach that can also be compared across all communication types.

The downside is that impressions don’t provide any insight into the results of viewing the communication.

*Engagement* is the extent of a customer’s attention and active involvement with a communication.

It reflects a much more active response than a mere impression and is more likely to create value for the firm.

- **VALUE AND SATISFACTION**

The buyer chooses the offerings he/she perceives to deliver the most value, the sum of the tangible and intangible benefits and costs.

**Value** is primarily a combination of quality, service, and price (qsp), called the *customer value triad*.

Value perceptions increase with quality and service but decrease with price.

We can think of marketing as the identification, creation, communication, delivery, and monitoring of customer value.

**Satisfaction** reflects a person’s judgment of a product’s perceived performance in relationship to expectations.

If performance falls short of expectations, → the customer is disappointed.

If it matches expectations, → the customer is satisfied. If it exceeds them, → the customer is delighted.

- **SUPPLY CHAIN**

The **supply chain** is a channel stretching from raw materials to components to finished products carried to final buyers.

Each company in the chain captures only a certain percentage of the total value generated by the supply chain’s value delivery system.

When a company acquires competitors or expands upstream or downstream, its aim is to capture a higher percentage of supply chain value. Problems with a supply chain can be damaging or even fatal for a business.

- **COMPETITION**

Competition includes all the actual and potential rival offerings and substitutes a buyer might consider.

- **MARKETING ENVIRONMENT**

The marketing environment consists of the *task environment* and the *broad environment*.

- The **task environment** includes the actors engaged in producing, distributing, and promoting the offering.  
These are the company, suppliers, distributors, dealers, and target customers.  
In the supplier group are material suppliers and service suppliers, such as marketing research agencies, advertising agencies, banking and insurance companies, transportation companies, and telecommunications companies. Distributors and dealers include agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers.
- The **broad environment** consists of six components: demographic environment, economic environment, social-cultural environment, natural environment, technological environment, and political-legal environment.

Marketers must pay close attention to the trends and developments in these and modify their marketing strategies as needed.

New opportunities are continuously emerging that await the right marketing knowledge and creativity.

## THE NEW MARKETING REALITIES

The marketplace is dramatically different from even 10 years ago, with new marketing behaviors, opportunities, and challenges emerging.

### 1. TECHNOLOGY

With the rapid rise of e-commerce, the mobile Internet, and Web penetration in emerging markets, the Boston Consulting Group believes brand marketers must enhance their “digital balance sheets.”

Massive amounts of information and data about almost everything are now available to consumers and marketers.

Even traditional marketing activities are profoundly affected by technology.

## 2. GLOBALIZATION

The world has become a smaller place. New transportation, shipping, and communication technologies have made it easier for us to know the rest of the world, to travel, to buy and sell anywhere.

By 2025, annual consumption in emerging markets will total \$30 trillion and contribute more than 70 percent of global GDP growth.

A staggering 56 percent of global financial services consumption is forecast to come from emerging markets by 2050, up from 18 percent in 2010.

Demographic trends favor developing markets such as India, Pakistan, and Egypt, with populations whose median age is below 25.

In terms of growth of the middle class, defined as earning more than \$3,000 per year, the Philippines, China, and Peru are the three fastest-growing countries.

Globalization has made countries increasingly multicultural.

Globalization changes innovation and product development as companies take ideas and lessons from one country and apply them to another.

## 3. SOCIAL RESPONSIBILITY

Poverty, pollution, water shortages, climate change, wars, and wealth concentration demand our attention.

The private sector is taking some responsibility for improving living conditions, and firms all over the world have elevated the role of corporate social responsibility.

The organization’s task is to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors, while preserving or enhancing consumers’ and society’s long-term well-being.

As goods become more commoditized and consumers grow more socially conscious, some companies incorporate social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profit gains.

## A DRAMATICALLY CHANGED MARKETPLACE

These 3 forces (technology, globalization, and social responsibility) have strongly changed the marketplace, bringing consumers and companies new capabilities.

The marketplace is also being transformed by changes in channel structure and heightened competition.

### NEW CONSUMER CAPABILITIES

Social media is an explosive worldwide phenomenon. Empowerment is not just about technology, though.

Consumers are willing to move to another brand if they think they are not being treated right or do not like what they are seeing.

Expanded information, communication, and mobility enable customers to make better choices and share their preferences and opinions with others around the world.

- Consumers can use the internet as a powerful information and purchasing aid
- Consumers can search, communicate, and purchase on the move
- Consumers can tap into social media to share opinions and express loyalty
- Consumers can actively interact with companies
- Consumers can reject marketing they find inappropriate

### NEW COMPANY CAPABILITIES

- Companies can use the internet as a powerful information and sales channel, including for individually differentiated goods
- Companies can collect fuller and richer information about markets, customers, prospects, and competitors
- Companies can reach customers quickly and efficiently via social media and mobile marketing, sending targeted ads, coupons, and information
- Companies can improve purchasing, recruiting, training, and internal and external communications
- Companies can improve cost efficiency

## CHANGING CHANNELS

One of the reasons consumers have more choices is that channels of distribution have changed as a result of retail transformation and disintermediation.

- **Retail transformation** → Store-based retailers face competition from catalog houses; direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home shopping TV; and e-commerce.

In response, entrepreneurial retailers are building entertainment into their stores with coffee bars, demonstrations, and performances, marketing an “experience” rather than a product assortment.

- **Disintermediation** → Early dot-coms such as Amazon.com, E\*TRADE, and others successfully created *disintermediation* in the delivery of products and services by intervening in the traditional flow of goods.

In response, traditional companies engaged in *reintermediation* and became “brick-and-click” retailers, adding online services to their offerings.

Some with plentiful resources and established brand names became stronger contenders than pure-click firms.

## HEIGHTENED COMPETITION

The rise of private labels and mega-brands and a trend toward deregulation and privatization have also increased competition.

- **Private labels** → Brand manufacturers are further buffeted by powerful retailers that market their own store brands, increasingly indistinguishable from any other type of brand.
- **Mega-brands** → Many strong brands have become mega-brands and extended into related product categories, including new opportunities at the intersection of two or more industries.
- **Deregulation** → Many countries have deregulated industries to create greater competition and growth opportunities.
- **Privatization** → Many countries have converted public companies to private ownership and management to increase their efficiency.

## MARKETING IN PRACTICE

Given the new marketing realities, organizations are challenging their marketers to find the best balance of old and new and to provide demonstrable evidence of success.

## MARKETING BALANCE

Companies must always move forward, innovating products and services, staying in touch with customer needs, and seeking new advantages, rather than relying on past strengths.

Marketers must balance increased spending on search advertising, social media, e-mails, and text messages with appropriate spending on traditional marketing communications.

The ideal is retaining winning practices from the past while adding fresh approaches that reflect the new marketing realities.

## MARKETING ACCOUNTABILITY

Marketers are increasingly asked to justify their investments in financial and profitability terms, as well as in terms of building the brand and growing the customer base.

They are thus applying more metrics—brand equity, customer lifetime value, return on marketing investment (ROMI)—to understand and measure their marketing and business performance and a broader variety of financial measures to assess the direct and indirect value their marketing efforts create.

## MARKETING IN THE ORGANIZATION

Marketing is *not* done only by the marketing department; every employee has an impact on the customer.

Marketers now must properly manage all possible touch points: store layouts, package designs, product functions, employee training, and shipping and logistics.

To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.

### *The Holistic Marketing Concept*

The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies.

Holistic marketing acknowledges that everything matters in marketing—and that a broad, integrated perspective is often necessary.

Holistic marketing thus recognizes and reconciles the scope and complexities of marketing activities.

Figure 1.4 provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing.



## UPDATING THE FOUR Ps

Many years ago, *McCarthy* classified various marketing activities into marketing-mix tools of four broad kinds, which he called the four Ps of marketing: product, price, place, and promotion.



**| Fig. 1.5 |**

## The Four P Components of the Marketing Mix

If we update them to reflect the holistic marketing concept, we arrive at a more representative set that encompasses modern marketing realities: people, processes, programs, and performance, as in Figure 1.6.

**| Fig. 1.6 |**

## The Evolution of Marketing Management



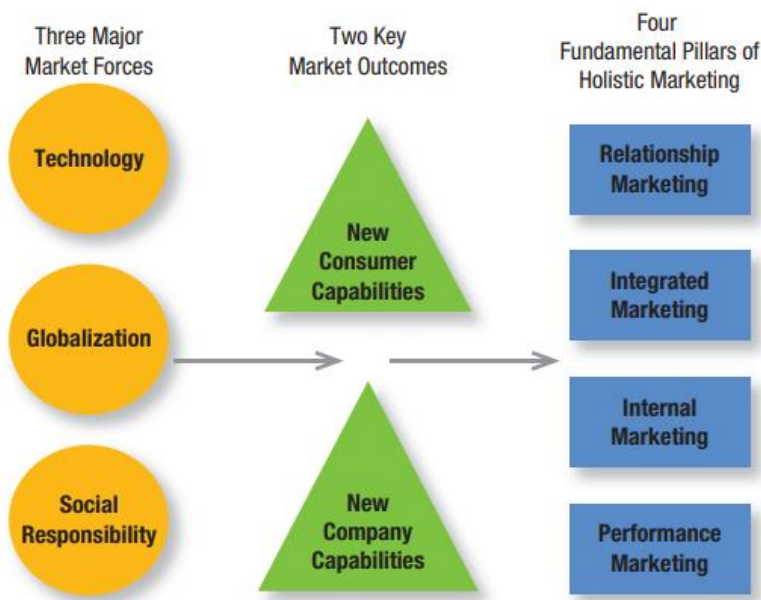
- **People** reflects, in part, internal marketing and the fact that employees are critical to marketing success. Marketing will only be as good as the people inside the organization. It also reflects the fact that marketers must view consumers as people to understand their lives more broadly, and not just as shoppers who consume products and services.
  - **Processes** reflects all the creativity, discipline, and structure brought to marketing management
  - **Programs** reflects all the firm's consumer-directed activities. It encompasses the old four Ps as well as a range of other marketing activities that might not fit as neatly into the old view of marketing. These activities must be integrated such that their whole is greater than the sum of their parts and they accomplish multiple objectives for the firm.
  - We define **performance** as in holistic marketing, to capture the range of possible outcome measures that have financial and nonfinancial implications (profitability as well as brand and customer equity) and implications beyond the company itself (social responsibility, legal, ethical, and the environment).
- Finally, these new four Ps actually apply to all disciplines within the company, and by thinking this way, managers more closely align themselves with the rest of the company.

## MARKETING MANAGEMENT TASKS

Figure 1.7 summarizes the three major market forces, two key market outcomes, and four fundamental pillars of holistic marketing that help to capture the new marketing realities.



### The New Marketing Realities



With these concepts in place, we can identify a specific set of tasks that make up successful marketing management and marketing leadership.

<b>Analytical</b>	Developing marketing strategies and plans; Capturing marketing insights
<b>Strategic</b>	Connecting with consumers; Building strong brands; Creating Value
<b>Operational</b>	Delivering value; Communicating value

## 2 DEVELOPING MARKETING STRATEGIES AND PLANS

### MARKETING AND CUSTOMER VALUE

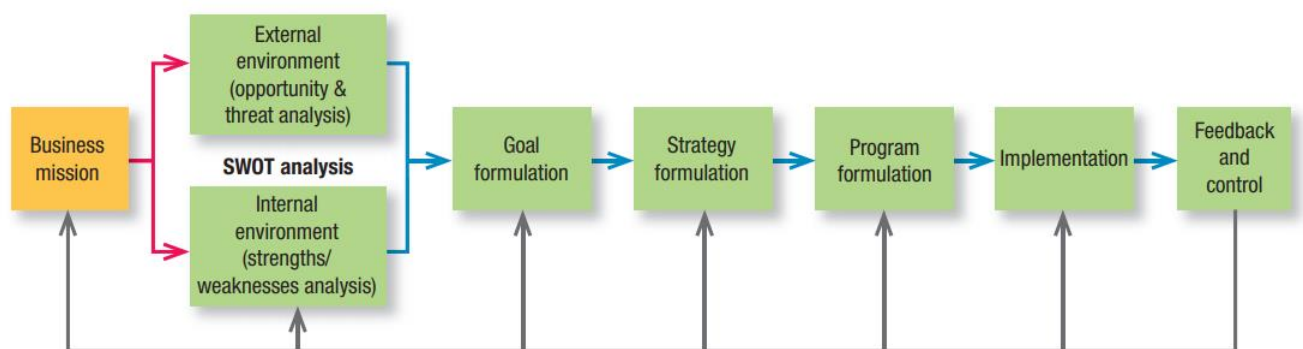
The task of any business is to deliver customer value at a profit.

### THE BUSINESS UNIT STRATEGIC PLANNING

The business unit strategic-planning process consists of the steps shown in Figure 2.4.

**| Fig. 2.4 |**

### The Business Unit Strategic-Planning Process



#### • THE BUSINESS MISSION

Each business unit needs to define its specific mission within the broader company mission.

#### Defining the corporate mission

- What is our business?
- Who is the customer?
- What is of value to the customer?
- What will our business be?
- What should our business be?

#### Good Mission statements

- Focus on a limited number of goals
- Stress the company's major policies and values
- Define the major competitive spheres within which the company will operate
- Take a long-term view



-Are as short, memorable, and meaningful as possible

- **SWOT Analysis** → The overall evaluation of a company's strengths, weaknesses, opportunities, and threats.

It's a way of monitoring the external and internal marketing environment.

	Helpful	Harmful
Internal	<div style="background-color: #0070C0; color: white; text-align: center; padding: 20px;"> <b>S</b> Strengths         </div>	<div style="background-color: #00A09A; color: white; text-align: center; padding: 20px;"> <b>W</b> Weaknesses         </div>
External	<div style="background-color: #FFC000; color: white; text-align: center; padding: 20px;"> <b>O</b> Opportunities         </div>	<div style="background-color: #70AD47; color: white; text-align: center; padding: 20px;"> <b>T</b> Threats         </div>

### EXTERNAL ENVIRONMENT ANALYSIS (Opportunity and Threat)

A business unit must monitor key *macro-environment forces* and significant *micro-environment factors* that affect its ability to earn profits.

**Marketing opportunity:** an area of buyer need and interest that a company has a high probability of profitably satisfying.

Marketers need to be good at spotting opportunities.

To evaluate opportunities, companies can use market opportunity analysis (**MOA**) to ask questions like:

- Can we articulate the benefits convincingly to a defined target market(s)?
- Can we locate the target market(s) and reach them with cost-effective media and trade channels?
- Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
- Can we deliver the benefits better than any actual or potential competitors?
- Will the financial rate of return meet or exceed our required threshold for investment?

**Environmental threat:** challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit.

(a) Opportunity Matrix

		Success Probability	
		High	Low
Attractiveness	High	1	2
	Low	3	4

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

(b) Threat Matrix

		Probability of Occurrence	
		High	Low
Seriousness	High	1	2
	Low	3	4

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

### INTERNAL ENVIRONMENT ANALYSIS (Strengths and Weaknesses)

It's one thing to find attractive opportunities and another to be able to take advantage of them.

Each business needs to evaluate its internal strengths and weaknesses.

The business doesn't have to correct all its weaknesses, nor should it gloat about all its strengths.

The big question is whether it should limit itself to those opportunities for which it possesses the required strengths or consider those that might require it to find or develop new strengths.

- **GOAL FORMULATION (MBO)**

Goals are objectives that are specific with respect to magnitude and time.

Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation, and reputation.

The business unit sets these objectives and then manages by objectives (MBO).

For an MBO system to work, the unit's objectives must meet 4 criteria:

1. Unit's objectives must be arranged hierarchically
2. Objectives should be quantitative
3. Goals should be realistic

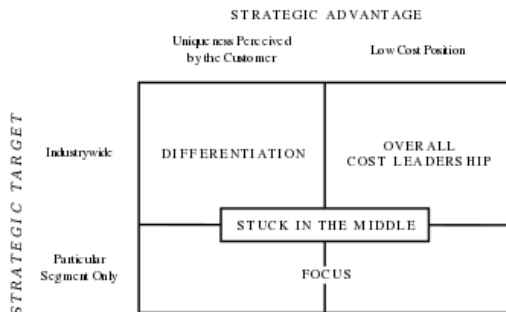
#### 4. Objectives must be consistent

Each choice calls for a different marketing strategy.

### • STRATEGIC FORMULATION

Every business must design a strategy for achieving its goals, consisting of a *marketing strategy* and a compatible *technology strategy* and *sourcing strategy*.

#### PORTER'S GENERIC STRATEGIES



Michael Porter has proposed 3 generic strategies that provide a good starting point for strategic thinking:

- **Overall cost leadership** → Firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share.
- **Differentiation** → The business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market.
- **Focus** → The business focuses on one or more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment.

According to Porter, competing firms directing the same strategy to the same target market constitute a strategic group.

The firm that carries out the strategy best will make the most profits.

#### STRATEGIC ALLIANCES

Just doing business in another country may require the firm to license its product, form a joint venture with a local firm, or buy from local suppliers to meet “domestic content” requirements. Many firms have developed global strategic networks, and victory is going to those who build the better one. Many strategic partnerships take the form of marketing alliances. These fall into 4 major categories.

1. **Product or service alliances:** One company licenses another to produce its product, or two companies jointly market their complementary products or a new product.
  2. **Promotional alliances:** One company agrees to carry a promotion for another company’s product or service.
  3. **Logistics alliances:** One company offers logistical services for another company’s product.
  4. **Pricing collaborations:** One or more companies join in a special pricing collaboration.
- Well-managed alliances allow companies to obtain a greater sales impact at lower cost. Rather than just form a partnership, a firm may choose to just acquire another firm.

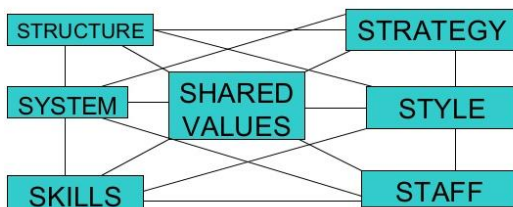
### • PROGRAM FORMULATION and IMPLEMENTATION

Even a great marketing strategy can be sabotaged by poor implementation.

Once they have formulated marketing programs, marketers must estimate their costs.

#### THE MCKINSEY 7-S FRAME WORK

(Key elements of successful organizational and administrative implementation)



### • FEEDBACK and CONTROL

A company’s strategic fit with the environment will inevitably erode because the market environment changes faster than the company’s seven Ss. Thus, a company might remain efficient yet lose effectiveness.

*Peter Drucker:* it is more important to “do the right thing” (to be effective) than “to do things right” (to be efficient).

The most successful companies, however, excel at both.

The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors.



## THE NATURE AND CONTENTS OF A MARKETING PLAN

### Marketing plan contents

- **Executive summary** → the most important part of the business plan.  
It is a summary of the entire business plan. It has to provide information, without boring potential investors/lenders...
- **Table of contents** (sometimes it's not necessary)
- **Situation analysis** → has lots of sub-dimensions.
  1. **Macro-environment situation:** describes broad macro-environment trends, that bear on a product's future (demographic, economic, technological, political/legal, socio/cultural).
  2. **Market situation:** data on target market, size and growth for past years and each segment.  
Data on customer needs, perceptions, and buying behavior trends.
  3. **Competitive situation:** major competitors described in terms of their size, goals, market share, product quality, marketing strategies.
  4. *(other dimensions)*
- **Marketing strategy** → broad marketing approach that will be used to achieve goals.  
This section can be divided in several ways. It should at least have:
  - Target market section
  - Marketing program section
  - Marketing mix (discussion on price, place, product promotion...)
- **Marketing tactics** → presents the special marketing programs designed to achieve the objectives.
- **Financial projections** → forecasts the plan's expected financial outcomes.
  - On the *revenue* side → this budget shows the forecasted sales volume in units and average price.
  - On the *expense* side → it shows the cost of producing the marketing plan.
- **Implementation controls** → indicates *how* and *when* the plan will be monitored based on the objectives for the marketing plan.

## 3 COLLECTING INFORMATION AND FORECASTING DEMAND

### COMPONENTS OF A MODERN MARKETING INFORMATION SYSTEM

Marketers have two advantages for the task:

1. disciplined methods for collecting information and
2. time spent interacting with customers and observing competitors and other outside groups.

Some firms have marketing information systems that provide rich detail about buyer wants, preferences, and behavior.

Marketers also have extensive information about how consumption patterns vary across and within countries.

Every firm must organize and distribute a continuous flow of information to its marketing managers.

A *marketing information system (MIS)* consists of people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers.

The company's marketing information system should combine what managers think they need, what they really need, and what is economically feasible.

An internal MIS committee can interview a cross-section of marketing managers to discover their information needs.

A marketing information system relies on:

- internal company records,
- marketing intelligence activities,
- and marketing research.

## ● INTERNAL RECORDS

To spot important opportunities and potential problems, marketing managers rely on internal reports of orders, sales, prices, costs, inventory levels, receivables, and payables.

Management of:

### - THE ORDER-TO-PAYMENT CYCLE

Sales representatives, dealers, and customers send orders to the firm.

The sales department prepares invoices, transmits copies to various departments, and back-orders out-of-stock items. Shipped items generate shipping and billing documents that go to various departments.

Because customers favor firms that can promise timely delivery, companies need to perform these steps quickly and accurately.

### - SALES INFORMATION SYSTEMS

Marketing managers need timely and accurate reports on current sales.

Companies that make good use of “cookies,” records of Web site usage stored on personal browsers, are smart users of targeted marketing. Many consumers are happy to cooperate: Not only do they not delete cookies, but they also expect customized marketing appeals and deals once they accept them.

Marketers must carefully interpret sales data, however, to avoid drawing wrong conclusions.

### - DATABASES, DATA WAREHOUSING, AND DATA MINING

The explosion of data brought by the maturation of the Internet and mobile technology gives companies unprecedented opportunities to engage their customers.

## ● MARKETING INTELLIGENCE

### THE MARKETING INTELLIGENCE SYSTEM

A marketing intelligence system is a set of **procedures** and **sources** that managers use to obtain everyday **information** about developments in the marketing environment.

The internal records system supplies *results* data, but the marketing intelligence system supplies *happenings* data.

Marketing managers collect marketing intelligence by reading books, newspapers, and trade publications; talking to customers, suppliers, distributors, and other company managers; and monitoring online social media.

Marketing intelligence gathering must be legal and ethical.

A company can take eight possible actions to improve the quantity and quality of its marketing intelligence:

#### 1. Train and motivate the sales force to spot and report new developments

→ *The company must “sell” its sales force on their importance as intelligence gatherers.*

#### 2. Motivate distributors, retailers and other intermediaries to pass along important intelligence

→ *Marketing intermediaries are often closer to the customer and competition and can offer helpful insights.*

#### 3. Hire external experts to collect intelligence

#### 4. Network internally and externally

→ The firm can purchase competitors’ products, attend open houses and trade shows, read competitors’ published reports, attend stockholders’ meetings, talk to employees, collect competitors’ ads, consult with suppliers, and look up news stories about competitors.

#### 5. Take advantage of government-related data sources

#### 6. Purchase information from outside research firms and vendors

#### 7. Collecting marketing intelligence on the internet

#### 8. Set up a customer advisory panel

→ Members of advisory panels might include the company’s largest, most outspoken, most sophisticated, or most representative customers.

### COLLECTING MARKETING INTELLIGENCE ON THE INTERNET

Online customer review boards, discussion forums, chat rooms, and blogs can distribute one customer’s experiences or evaluation to other potential buyers and, of course, to marketers seeking information.

Five places to find competitors’ product strengths and weaknesses online:

1. *Independent customer goods and service review forums*

## 2. *Distributor or sales agent feedback sites*

Feedback sites offer positive and negative product or service reviews, but the stores or distributors have built the sites themselves.

## 3. *Combo sites offering customer reviews & expert opinions*

Combination sites are concentrated in financial services and high-tech products that require professional knowledge.

## 4. *Customer complaint sites*

Customer complaint forums are designed mainly for dissatisfied customers.

## 5. *Public blogs*

Tens of millions of blogs and social networks offer personal opinions, reviews, ratings, and recommendations on virtually any topic—and their numbers continue to grow.

Of course, companies can use many of these sources to monitor their own customers, products, services, and brands.

Customer-service forums linked on a company's home page are a very useful tool.

Customers often respond faster and provide better answers to other customers than a company could.

## COMMUNICATING AND ACTING ON MARKETING INTELLIGENCE

The competitive intelligence function works best when it is closely coordinated with the decision-making process.

Given the speed of the Internet, it is important to act quickly on information gleaned online.

## - ANALYZING THE MACROENVIRONMENT

Successful companies recognize and respond profitably to unmet needs and trends.

### NEEDS and TRENDS

Enterprising individuals and companies create new solutions to similarly unmet needs.

- A ***fad*** is “unpredictable, short-lived, and without social, economic, and political significance.”
- A ***trend*** is more predictable and durable than a fad; trends reveal the shape of the future and can provide strategic direction.
- A ***megatrend*** is a “large social, economic, political, and technological change [that] is slow to form, and once in place, influences us for some time—between seven and ten years, or longer.”

A new market opportunity doesn't guarantee success, of course.

Even if the new product is technically feasible, market research is necessary to determine profit potential.

## EXPLORATION AND IDENTIFICATION OF SIX MAJOR FORCES

The new century brought new challenges.

Firms must monitor six major forces in the broad environment: demographic, economic, social-cultural, natural, technological, and political-legal → their interactions will lead to new opportunities and threats.

For example, explosive population growth (demographic) leads to more resource depletion and pollution (natural), which leads consumers to call for more laws (political-legal), which stimulate new technological solutions and products (technological) that, if they are affordable (economic), may actually change attitudes and behavior (social-cultural).

### 1. ***The demographic environment*** → The main demographic factor marketers monitor is population, including:

- Worldwide population growth
- Population age mix
- Ethnic and other markets
- Educational groups
- Household patterns

### 2. ***The economic environment***

Purchasing power depends on consumers' income, savings, debt, and credit availability as well as the price level.

Marketers must understand:

- Consumer psychology
- Income distribution
- Income, savings, debt and credit

### 3. ***The socio-cultural environment***

From our sociocultural environment we absorb, almost unconsciously, a world view that defines our relationships to ourselves, others, organizations, society, nature, and the universe.

- Views of ourselves
- Views of society
- Views of nature
- Views of the universe
- Views of organizations
- Views of others

Other cultural characteristics of interest to marketers are:

- *Core cultural values*  
Values are passed from parents to children and reinforced by social institutions.
- *Subcultures*  
Groups with shared values, beliefs, preferences, and behaviors emerging from their special life experiences or circumstances.

#### 4. **The natural environment**

Opportunities await those who can reconcile prosperity with environmental protection.

#### 5. **The technological environment**

The essence of market capitalism is a dynamism that tolerates the creative destructiveness of technology as the price of progress.

In some cases, innovation's long-run consequences are not fully foreseeable.

Marketers should monitor the following technology trends:

- Accelerating pace of change
- Unlimited opportunities for innovation
- Varying R&D budgets
- Increased regulation of technological change

#### 6. **The political-legal environment**

The political and legal environment consists of laws, government agencies, and pressure groups that influence organizations and individuals.

## FORECASTING and DEMAND MEASUREMENT

Understanding the marketing environment and conducting marketing research can help to identify marketing opportunities. The company must then measure and forecast the size, growth, and profit potential of each new opportunity.

Sales forecasts prepared by marketing are used by finance to raise cash for investment and operations; by manufacturing to establish capacity and output; by purchasing to acquire the right amount of supplies; and by human resources to hire the needed workers.

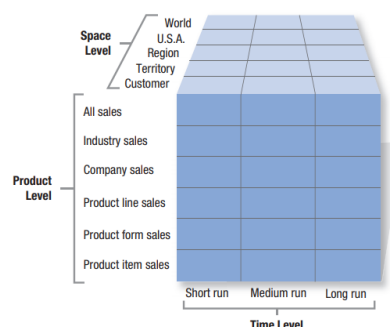
If the forecast is off the mark, the company will face excess or inadequate inventory.

Because it's based on estimates of demand, managers need to define what they mean by market demand.

### **The MEASURES of Market Demand**

Companies can prepare as many as 90 different types of demand estimates for 6 different product levels, 5 space levels, and 3 time periods (see Figure 3.1).

**[ Fig. 3.1 ]**  
Ninety Types  
of Demand  
Measurement  
( $6 \times 5 \times 3$ )



Each serves a specific purpose.

A company might forecast short-run demand to order raw materials, plan production, and borrow cash.

It might forecast regional demand to decide whether to set up regional distribution.

There are many productive ways to break down the market:

- The **potential market** is the set of consumers with a sufficient level of interest in a market offer. However, their interest is not enough to define a market unless they also have sufficient income and access to the product.
- The **available market** is the set of consumers who have interest, income, and access to a particular offer.

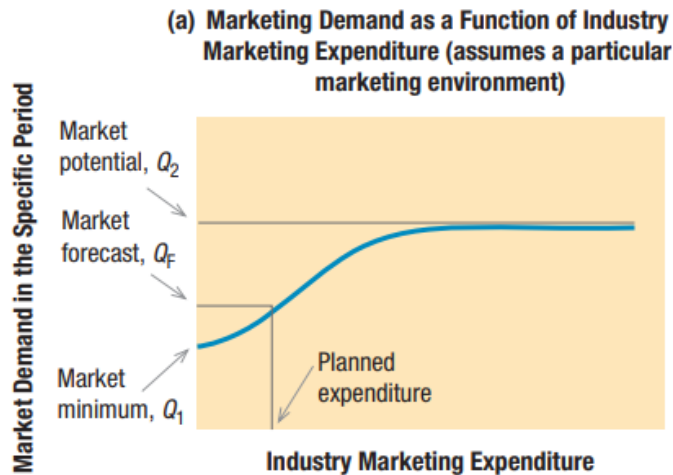
Eligible adults constitute the *qualified available market* → the set of consumers who have interest, income, access, and qualifications for the market offer.

- The **target market** is the part of the qualified available market the company decides to pursue.
- The **penetrated market** is the set of consumers who are buying the company's product.

### A VOCABULARY for Demand Measurement

**MARKET DEMAND** for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program. Market demand is not a fixed number, but rather a function of the stated conditions.

For this reason, we call it the *market demand function*.



In terms of Figure 3.2(a), the distance between  $Q_1$  and  $Q_2$  is relatively large.

The *horizontal axis* shows different possible levels of industry marketing expenditure in a given time period.

The *vertical axis* shows the resulting demand level.

The *curve* represents the estimated market demand associated with varying levels of marketing expenditure.

Some base sales, called the **market minimum** and labeled  **$Q_1$**  in the figure, would take place without any demand-stimulating expenditures.

Higher marketing expenditures would yield higher levels of demand, first at an increasing rate, then at a decreasing rate.

Marketing expenditures beyond a certain level would not stimulate much further demand, suggesting an upper limit called the **market potential** and labeled  **$Q_2$**  in the figure.

The distance between the market minimum and the market potential shows the overall **marketing sensitivity of demand**.

We can think of two extreme types of markets:

- An **expansible market** is very much affected in size by the level of industry marketing expenditures, such as the market for racquetball playing.
- A **non-expansible market** is not much affected by the level of marketing expenditures (for example, the market for weekly trash or garbage removal); the distance between  $Q_1$  and  $Q_2$  is relatively small.

Organizations selling in a non-expansible market must accept the market's size (the level of *primary demand* for the product class) and direct their efforts toward winning a larger **market share** for their product, that is, a higher level of selective demand for their product.

It pays to compare the current and potential levels of market demand. The result is the **market-penetration index**.

A low index indicates substantial growth potential for all the firms.

A high index suggests it will be expensive to attract the few remaining prospects.

Generally, price competition increases and margins fall when the market-penetration index is already high.

Comparing current and potential market shares yields a firm's **share-penetration index**.

If this index is low, the company can greatly expand its share.

The market demand function is not a picture of market demand over time.

Rather, it shows alternate current forecasts of market demand associated with possible levels of industry marketing effort.

### MARKET FORECAST

Only one level of industry marketing expenditure will actually occur.

The market demand corresponding to this level is called the **market forecast**.

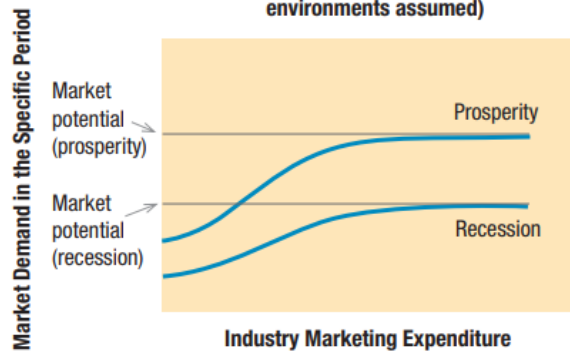
### MARKET POTENTIAL



The market forecast shows *expected* market demand, not maximum market demand.

**Market potential** is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment.

(b) Marketing Demand as a Function of Industry Marketing Expenditure (two different environments assumed)



The phrase “for a given market environment” is crucial. Consider the market potential for automobiles. It’s higher during prosperity than during a recession, as illustrated in Figure 3.2(b).

Market analysts distinguish between the position of the market demand function and movement along it.

Companies cannot do anything about the position of the market demand function, which is determined by the marketing environment.

Companies interested in market potential have a special interest in the **product-penetration percentage**, the percentage of ownership or use of a product or service in a population.

The lower the product-penetration percentage, the higher the market potential, although this also assumes everyone will eventually be in the market for every product.

## COMPANY DEMAND

Company demand is the company’s estimated share of market demand at alternative levels of company marketing effort in a given time period.

It depends on how the company’s products, services, prices, and communications are perceived relative to the competitors’.

## COMPANY SALES FORECAST

Once marketers have estimated company demand, their next task is to choose a level of marketing effort.

The **company sales forecast** is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment.

We represent the company sales forecast graphically with sales on the vertical axis and marketing effort on the horizontal axis, as in Figure 3.2.

This forecast-to-plan sequence is valid if *forecast* means an estimate of national economic activity or if company demand is non-expansible. The sequence is not valid where market demand is expansible or where *forecast* means an estimate of company sales. The company sales forecast does not establish a basis for deciding what to spend on marketing.

On the contrary, the sales forecast is the result of an assumed marketing expenditure plan.

A **sales quota** is the sales goal set for a product line, company division, or sales representative.

It is primarily a managerial device for defining and stimulating sales effort, often set slightly higher than estimated sales to stretch the sales force’s effort.

A **sales budget** is a conservative estimate of the expected volume of sales, primarily for making current purchasing, production, and cash flow decisions.

It’s based on the need to avoid excessive risk and is generally set slightly lower than the sales forecast.

## COMPANY SALES POTENTIAL

Company sales potential is the sales limit approached by company demand as company marketing effort increases relative to that of competitors.

The absolute limit of company demand is, of course, the market potential. The two would be equal if the company captured 100% of the market.

In most cases, company sales potential is less than the market potential, even when company marketing expenditures increase considerably.

## 4

# CONDUCTING MARKETING RESEARCH

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### THE SCOPE OF MARKETING RESEARCH

Marketing managers often commission formal marketing studies of specific problems and opportunities, like a market survey, a product-preference test, a sales forecast by region, or an advertising evaluation.

It's the job of the marketing researcher to produce insight to help the marketing manager's decision making.

Formally, the **American Marketing Association** says:

***Marketing research** is the function that links the consumer, customer, and public to the marketer through information —information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications.*

**IMPORTANCE OF MARKETING INSIGHTS** → Marketing research is all about generating insights.

**Marketing insights** provide diagnostic information about how and why we observe certain effects in the marketplace and what that means to marketers.

Good marketing insights often form the basis of successful marketing programs.

Gaining marketing insights is crucial for marketing success. If marketers lack consumer insights, they often get in trouble.

### WHO DOES MARKETING RESEARCH?

Most large companies have their own marketing research departments, which often play crucial roles within the organization.

Marketing research is not limited to large companies with big budgets and marketing research departments.

Often at much smaller companies, everyone carries out marketing research, including the customers.

Companies can also hire the services of a marketing research firm or conduct research in creative and affordable ways, such as:

1. **Engaging students or professors to design and carry out projects**

The students gain experience and visibility; the companies get fresh sets of eyes to solve problems at a fraction of what consultants would charge.

2. **Using the Internet**

A company can collect considerable information at little cost by examining competitors' Web sites, monitoring chat rooms and blogs, and accessing published data.

3. **Checking out rivals**

Many small businesses, such as restaurants, hotels, or specialty retailers, routinely visit competitors to learn about changes they have made.

4. **Tapping into marketing partner expertise**

Marketing research firms, ad agencies, distributors, and other marketing partners may be able to share relevant market knowledge they have accumulated. Partners targeting small or medium-sized businesses may be especially helpful.

5. **Tapping into employee creativity and wisdom**

No one may come into more contact with customers and understand a company's products, services, and brands better than its employees.

Most companies use a combination of resources to study their industries, competitors, audiences, and channel strategies.

They normally budget marketing research at 1% to 2% of company sales and spend a large percentage of that on the services of outside firms.

Marketing research firms fall into three categories:

1. **Syndicated-service research firms** → These firms gather consumer and trade information, which they sell for a fee.
2. **Custom marketing research firms** → These firms are hired to carry out specific projects.  
They design the study and report the findings.
3. **Specialty-line marketing research firms** → These firms provide specialized research services.