Principles of Marketing – Detailed Notes

About these notes

These notes cover the full Principles of Marketing summary, from how marketing creates customer value through consumer behaviour, segmentation, branding, the marketing mix, services marketing and marketing ethics.

Concept	Topic	Pages
1	Marketing and value creation	2–4
2	The market-oriented firm	5–6
3	Relationship marketing	7–8
4	Building loyalty	9–10
5	Consumer behaviour	11–13
6	Market segmentation and targeting	14–15
7	Positioning and branding	16–17
8	Product and the product life cycle	18–20
9	Product development	21–22
10	Marketing communications	23–26
11	Pricing	27–30
12	Distribution channels	31–34
13	Services marketing and service quality	35–37
14	Service failure and recovery	38–40
15	Marketing ethics, CSR and stakeholders	41–43

1.6 Sources of value: benefits

- Customers see value as **relative delivered value** = relative life-cycle benefit compared with relative life-cycle cost.

Source of benefit	Includes
Product	Features, performance, packaging, design
Support services	Distribution, training, maintenance, IT management
Relationship management	Credibility, reliability, responsiveness, communication
Image	Company and brand reputation, promotion, publicity

- Brands that do this well include Apple, Google and Maccas.

1.7 Sources of value: life-cycle costs

- Customers define costs as the total tangible and intangible costs and savings over the whole relationship life cycle, not simply the purchase price. The goal of the firm is to reduce these costs.

Cost	What it includes
Search cost	Information about the product that is available and easy to understand; relationship management
Acquisition cost	Price level, timing, order placement, allowances
Set-up cost	Installation, learning how to use the product, switching costs (economic and psychological)
Maintenance cost	Service costs (reliability), repair costs, systems management
Financing cost	Processing and administration, deposits, flexibility, security
Exit cost	Contracts; for products, the replacement cycle, compatibility and upgradability

1.8 Customer value leads to firm value

- Customer value (total life-cycle benefits relative to total life-cycle costs) drives firm value (margin × volume relative to investment).
- Customer value increases customer loyalty, purchases and referrals, which supports premium prices (higher margin). It also increases volume and cash flow and reduces costs.
- Firms have to decide what value they will offer and what value they will deny. For example, Uber's message that "you can now be in charge of your ride" offers control and convenience while denying the traditional taxi experience.

Concept 2: The market-oriented firm

2.1 Characteristics of the value-driven organisation

1. **Value-driven strategy**, based on an understanding of the context (industry structure and business environment), competitors and customers.
2. **Leadership** that encourages innovation, flexibility and responsiveness (for example, helping customers troubleshoot).
3. **Market-oriented culture:** everyone in the organisation understands their role in delivering the organisation's value proposition.

2.2 How does a firm become market-oriented?

1. **Generation** of market intelligence across the whole organisation. The firm invests in market intelligence (for example, client visits) as well as in the product itself.
2. **Dissemination** of that intelligence among departments. Once the firm works out what customers want, it shares the knowledge with customer-facing employees and builds cross-functional teams.
3. **Responsiveness** across the organisation to the information. The insights are allowed to influence the way the firm works (for example, by shaping its plans).

2.3 Orientations

- **Customer orientation:** gather information about customer needs.
- **Competitor orientation:** gather information about competitors.
- **Supplier orientation:** work with suppliers in a unified manner.
- **Marketing orientation:** making the right decisions when implementing the marketing mix in relation to a pre-defined market segment. The 4 Ps are product, price, place and promotion; eHarmony's matching algorithm is an example of a product designed around the needs of a defined segment.

2.4 Marketing myopia

- **Marketing myopia** is short-sightedness by firms that causes management to define the business, and its competitors and market opportunities, too narrowly.
- The narrow definition is a product description; the broader definition is the customer need the firm serves.

Myopic description	Broader description
Railroad company	Transportation company
Electricity company	Power company
Television network	Entertainment provider
Advertising company	Ideas company

- A smaller-scale example: asking "are you on social media?" (the need) rather than "do you have Facebook?" (one brand) keeps the view of the market broad.

Concept 6: Market segmentation and targeting

6.1 Types of customer needs

- Customers need to be analysed so that brands can see what customers want and whether the brand can deliver it.

Type of need	Description	Implication
Existing needs	Satisfactory solutions already exist	Opportunity for new products is limited (for example, launching a new camera in 2017)
Latent needs	Unmet needs that consumers can articulate through in-depth market research	Opportunity for innovation
Incipient needs	Unmet needs that consumers cannot articulate, nor can they articulate a solution	Technological breakthroughs can drive the market (for example, Apple's breakthroughs)

6.2 Market segmentation

- **Market segmentation** is dividing a large market into smaller target markets, or customer groups with similar needs or desires who will respond in a similar way to product offerings and marketing initiatives. Segments are defined using variables.
- For example, Virgin Holidays splits its market into Virgin Family, Virgin Business and Virgin Couples.
- **Benefits of segmentation:**
    - Optimises resource allocation (the most important benefit).
    - Identifies opportunities for repositioning.
    - Identifies opportunities for new products.

6.3 Principles of effective segmentation

1. **Homogeneous within segments:** a large proportion of the customers in a segment have similar needs and wants. In a market that is largely homogeneous (for example, basic fruit and vegetables) one type of product for everyone can work.
2. **Heterogeneous between segments:** the market is made up of individuals or organisations with diverse needs for products in a specific product class. For example, Holden offers a cheap, economical car and a luxury model for status-oriented consumers; PC versus Mac.
3. **Profitable:** the segment must be large enough to make money. It is not worth creating many options for people if the extra options do not pay for themselves.
4. **Operational:** the segment must be measurable, actionable and accessible. The firm must actually be able to reach the segment and solve its problems or needs.

Concept 13: Services marketing and service quality

13.1 Reasons for growing interest in services marketing

- Absolute and relative growth of service industries compared with other sectors of the economy.
- Deregulation of many service industries (for example banking, airlines, telcos).
- Professional services changing to a marketing orientation.
- Intensification of competition in existing service industries.
- A changing demographic and socioeconomic profile of Australian society.
- Increased use of a co-creation business model.

13.2 Problems faced by services marketers

1. Intangibility

- The core offerings of a service company are **performances, not objects** (for example, airlines or teachers at a school). We often cannot see, feel, taste or touch services.
- Goods can be evaluated objectively before purchase (**search properties**), whereas services must be evaluated subjectively before purchase (**experience and credence properties**).
- Offerings sit on a spectrum from tangible-dominant (salt, soft drinks, cars, cosmetics) through mixed (fast-food outlets) to intangible-dominant (airlines, stockbroking, consulting, teaching).
- Companies like to offer a trial period so consumers can get a taste of the service and to reduce the risk of customers choosing only on the basis of the "lowest-priced" provider.
- For example, a cinema experience may include an evaluation of the treatment by service employees, the behaviour of other customers and the condition of the **servicescape**.

2. Inseparability of production and consumption

- Physical goods are first produced, then sold, and then consumed.
- Services are first sold, then produced and consumed simultaneously. For example, at university you pay fees and then receive the service.

3. Variability

- A high degree of human interaction and intangibility leads to increased variability, which depends on the type of business. Service varies:
    - From one service employee to another.
    - From the same service employee at different times.
    - From one customer to another.

4. Perishability

- Services cannot be saved or inventoried. For example, empty seats on a flight cannot be sold or stored for consumers at a later date.
- There are fluctuations in demand but almost no fluctuations in supply (capacity is fixed).