MARKETING THEORY AND PRACTICE

LESSON 1 – INTRODUCTION TO MARKETING AND THE VALUE FRAMEWORK

Marketing defined:

- "Marketing is human activity directed at satisfying needs and wants through exchange processes" (Kotler 1983, p7)
- "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" (AMA)

ORGANISATION – VALUE – CUSTOMER

Marketers manage demand

Demand State	Marketing task
Negative	Disabuse
No	Create
Latent	Develop
Faltering or declining	Revitalise
Irregular	Synchronise
Full	Maintain
Overfull	Reduce
Unwholesome	Destroy

Alternative marketing philosophies

- The production philosophy – focus on manufacturing efficiency
- The product philosophy – focus on product design
- The selling philosophy – focus on persuading people to buy
- The marketing philosophy – focus on the customer and provided what they want
- The societal marketing philosophy – focus in impact on all stakeholders, company, customer, society

Marketing philosophy or marketing concept

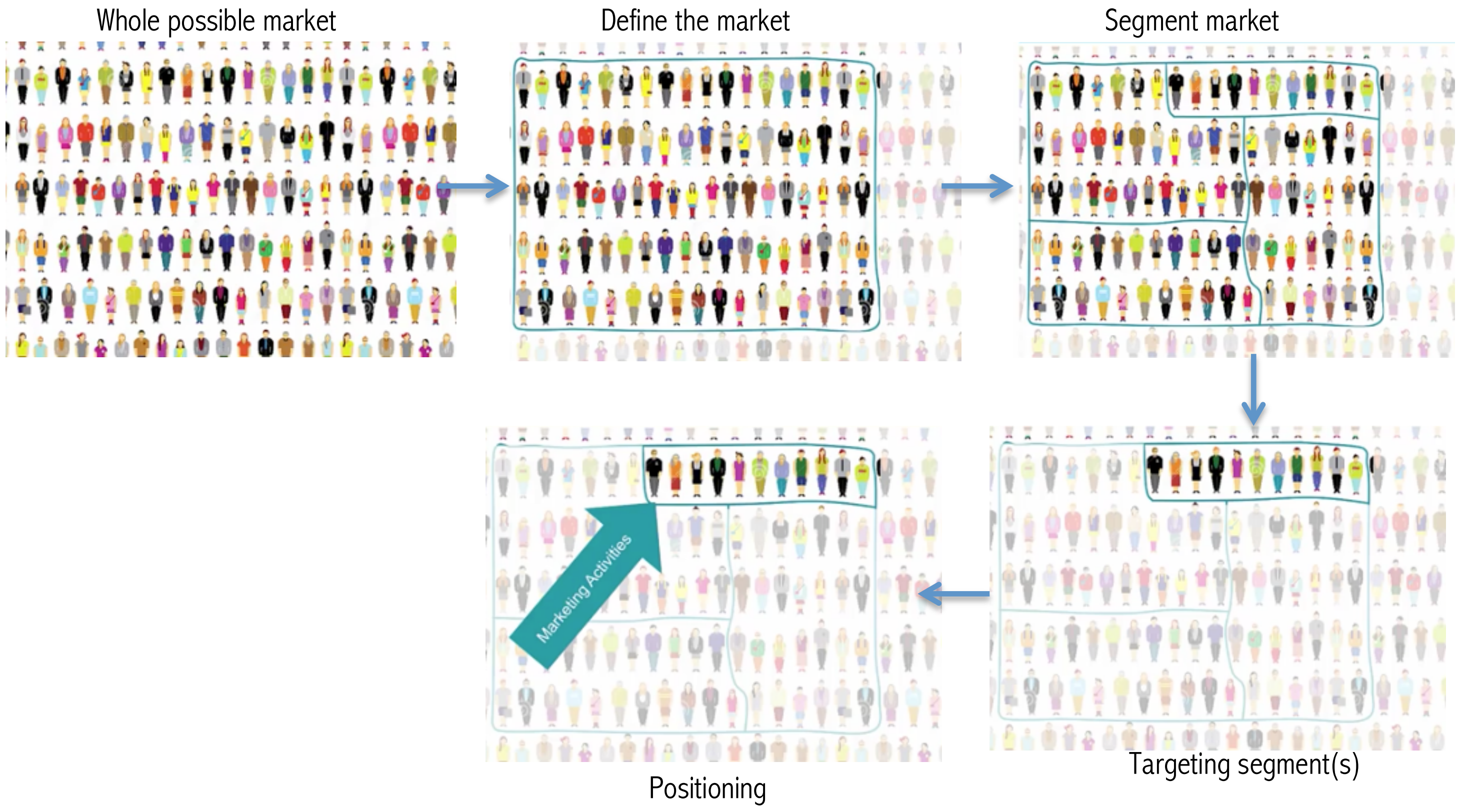
- "…Achieving organisational goals depends on determining the needs and wants of target markets, and delivering the desired satisfactions more effectively and efficiently than competitors" (Kotler, 2010, p30)
- "A corporate state of mind that insist on the integration and coordination of all of the marketing functions which, in turn, are melded with all other corporate functions, for the basic objective of producing maximum long-range corporate profits" (Felton, 1959, pg.550)

Modern Marketing

- First professor of marketing being appointed in the 1880's
- Emergence of 'marketing' from German economics to the marketing of agricultural products in the United States in 1901
- Cullliton (1948) 'artist' or 'mixer' of organisational ingredients
- Borden (1964) classified these ingredients into 13 elements
- McCarthy into the now famous four P's of marketing - **Price, Product Place, Promotion**

Customer Value

- Value – from a customers perspective, customer value is what they get (benefits) relative to what they give up (costs or sacrifices)



The marketing mix ("4P's of marketing")

- "... The controllable variables the company puts together to satisfy target markets and achieve the firm's objectives." (McCarthy, 1960)
  - ⇒ Product
  - ⇒ Price
  - ⇒ Place
  - ⇒ Promotion
- "The marketing mix concept emphasises and reflects the tactical and managerial aspects of marketing, as opposed to the broader social, organisational, competitive, and economic issues also of concern to the discipline." (Bitner, 1981).
- Booms, Bernard H. and Mary J. Bitner (1981), "Marketing Strategies and Organization Structures for Service Firms," in Marketing of Services, James H. Donnelly and William R. George, eds. Chicago: American Marketing Association, 47-52.

Bitner's extended marketing mix (the 7 P's)

- Product
- Price
- Place
- Promotion
- Physical evidence - the environment in which the service is assembled and where the firm and customer interact
- Participants (People) - all human actors who play apart (employees and other customers)
- Process - procedure, mechanisms and flow of activities

By adjusting each of these 4 or 7 P's, marketers can influence the amount of value that customers receive.

⇒ Do not vary with quantity produced or sold

⇒ Larger quantities will each unit will then carry a lower share of the fixed costs (i.e. fixed costs will reduce as we sell more products)

- Variable costs
  - ⇒ Vary directly with the level of production
- Total costs
  - ⇒ Sum of fixed and variable, for any given quantity

Cost-plus pricing – one way to decide on pricing, but not recommended

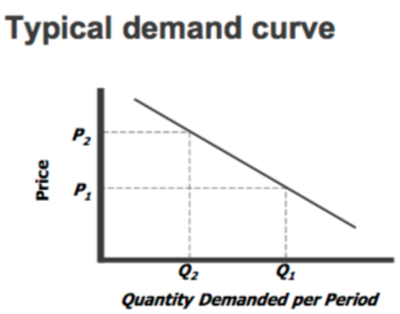
- Adding a standard mark-up to the cost of the product
- Unit cost = Variable Cost + (Fixed Cost/ Unit sales)
- Sell price = Unit Cost + Mark-Up

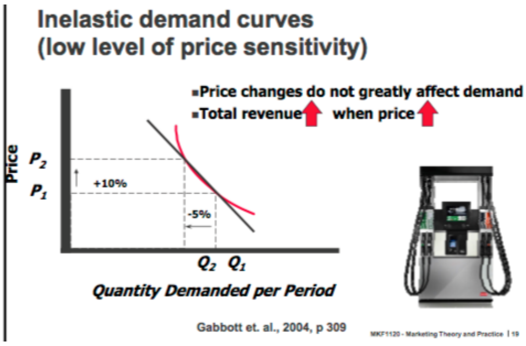
Break-even analysis

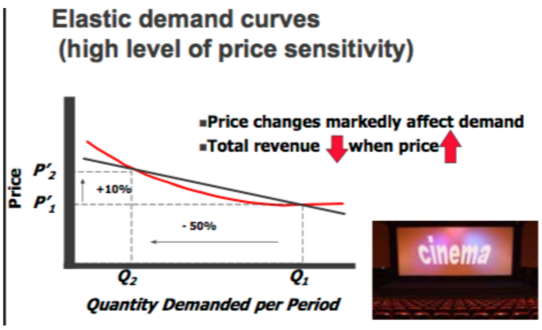
- The total number of units of your offer that you have to sell at a given price in order to cover all of your costs, both fixed and variable
- Break-even volume = Fixed Cost/ (Unit selling Price – Unit Variable Cost)
- This is useful in marketing strategy and forward planning (i.e. when launching a new product

Determining price: Customer Factors/ perceptions

- Perceived consistency of positioning – consistency is important not only with other elements of the marketing mix, but over time as well, as over time customers build very clear perceptions
- Perception of value – they make decision based on the perceived benefits they'll receive minus the perceived cost/ sacrifice
- Elasticity of demand – elastic demand curve and inelastic demand curve
- Price sensitivity







Typical demand curve: average slope

- Inverse relationship between quantities demand as price, because as we increase price, generally the quantity that customers demand of that product will decrease and vice versa.

Inelastic demand curve: quite steep

- Means that price sensitivity is relatively low
- So a large rice change will result in only a small change in quantity demanded
- E.g. petrol/gasoline – it's a necessity. if price goes up we complain but we still have to buy it
- Marketing implications for a product with an inelastic demand curve: if we were to increase price our total revenue will increase and vice versa

Elastic demand curve: much flatter

- Means that a small change in price can result in a large change in quantity demanded
- Price change markedly affect demand
- E.g. cinema – a small change in the price of a cinema ticket would result in a big reduction in the number of people who go. Why? They have other options
- Marketing implication – total revenue will decrease when a price increases for a product with an elastic demand curve (small reduction in price = big reduction in revenue and vice versa)

LESSON 9 – DISTRIBUTION (PLACE)

Getting the product to the customers, when and where they need the product – all about 'distribution', which happens through marketing channels. Channels connect marketers through to end customers.

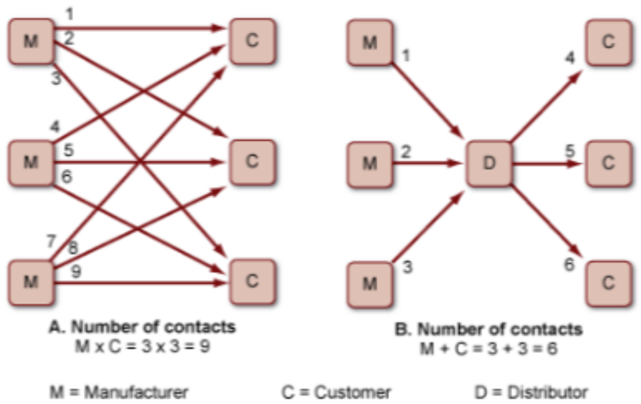
Marketing channels

- "A set of interdependent organisations involved in the process of making a product or service available to users" *Kotler, 2013, p.392*
- "The group of organisations and people which together link the company that makes a product or provides a service with the end customer for that product or service" *Gabbott et al, 2004, p.448*

Why use intermediaries?

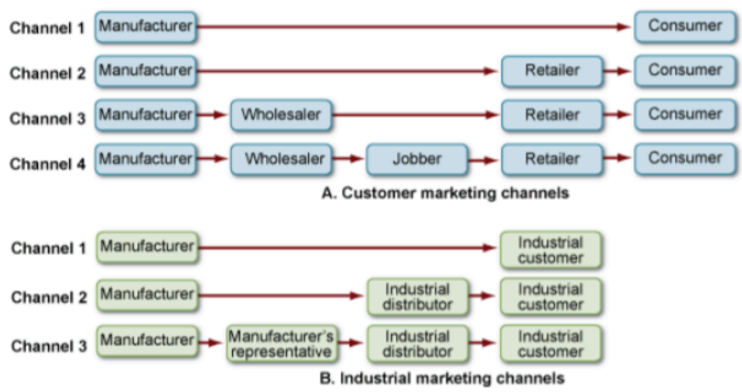
- The organisation that sits between the marketer and the end customer = intermediaries (middle men)
- Intermediaries are much more efficient in making products available to target markets. THEY ADD VALUE
- Facilitate mass distribution through their:
  - ⇒ Contacts
  - ⇒ Experience
  - ⇒ Specialisation
  - ⇒ Scale of operations
- Intermediaries reduce the number of channel transactions
  - ⇒ Diagram 1: 3 different manufacturers and 3 different consumers in this example. Manufacturer of cereal, manufacturer of milk, manufacture of fruit. As a consumer, if there were no intermediaries, every consumer would have to buy their products from the 3 separate manufacturers. (It would be a multiplying effect, think 3x3=9)
  - ⇒ Diagram 2: Rather than each consumer buying directly from each manufacturer, well add one distributor (intermediary) in the middle, e.g. a retailer. Now the manufacturer of the cereal sells to the retailer as does the milk and the fruit manufacturers. Each consumer only has to buy their product from just one person selling it to them rather than 3 separate ones (So now it's an additive effect, 3+3=6, so only 6 transactions occurring so we've reduced the number of transactions)
  - ⇒ Hence intermediaries simplify the system rather than complicate it

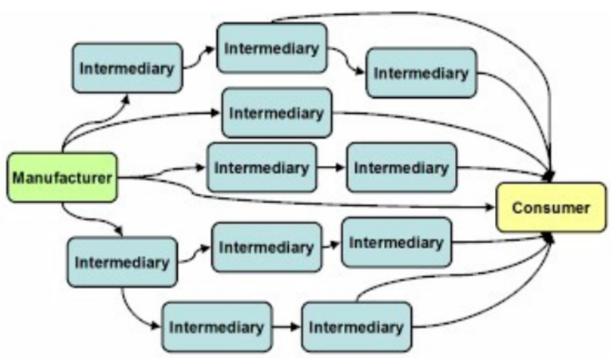
Kotler 2013, p.393



How many channel members?

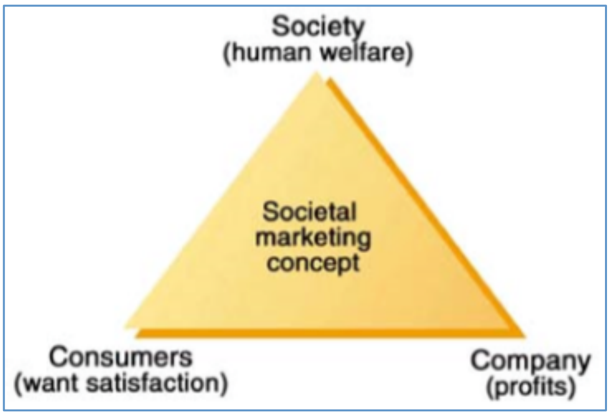
In reality there often many different channel members, often in the same market/ industry. The lines represent the channels – the flow of money, products, information, back and forth through this system.



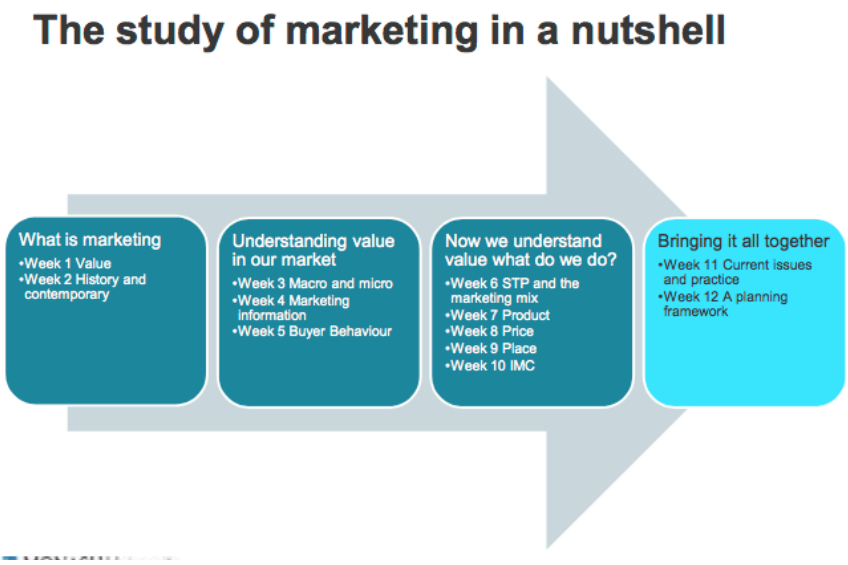


Maintaining social responsibility

- An organisation should make marketing decisions by considering consumers' wants, the organisation's requirements, consumers' long-run interests and society's long-run interests.
- Marketing is also for society's benefit
- Focus is not just on relationship between company and consumer, but it's important to zoom out and think about how that fits within and impacts the wider society.



LESSON 12 – THE MARKETING PROCESS

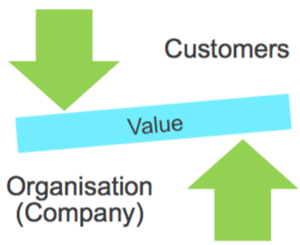


Marketing definition – week 1

"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". (AMA definition)

- All about how organisations develop relationships with customers – the two primary parties to the exchange

Marketing changes value for whom?

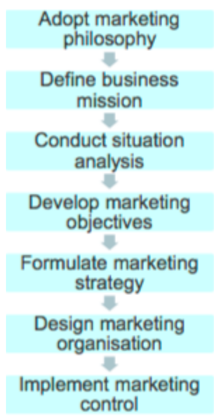


- Because its delivering value back to the organisation as well
- Marketing allows an organisation to achieve its objectives (in most case profit driven objectives). So to get value for the organisation you need to deliver value to the customers.

The marketing process

"Marketing is also a managerial process involving the regular analysis leading to…objectives and the formulation and implementation of strategies, tactics organisations and controls for their achievement"

- Brooksbank (1990) pg. 21.



The strategy hierarchy

- Top-level corporate strategy - set clear visions/ missions of what they want the organisation to achieve. This is not what marketing covers though.
- Middle level – the organisation breaks the overall company into a number of smaller parts
- Bottom level – within each part/ SBU there's a number of other strategies – where marketers set clear marketing objectives and strategies for the products and markets that they are servicing.

From analysis to planning

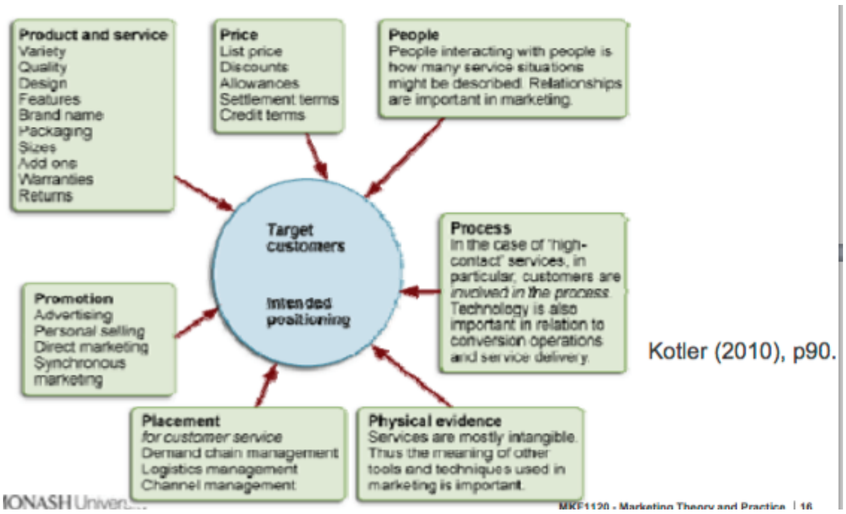
- Organisations should develop a formal statement of the goals and objectives to be achieved over the planning cycle
  - ⇒ Financial objectives - profits, cash flow, ROI, ROS (often at the top level of the organisation)
  - ⇒ Marketing objectives - unit sales volume increase, market share increase, increase in distribution penetration, number of new products to launch, increase price
  - ⇒ Objectives should be - SMART - specific, measurable, actionable, reasonable and timely e.g. achieve 10% increase in monetary donations within Victoria by November 2007

To achieve organisational objectives the marketer must (lesson 6)

- Target customers
  - ⇒ Which segment(s) in which market
- Market positioning
  - ⇒ Arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers; formulating a competitive positioning for a product and creating a detailed marketing mix
  - ⇒ How you want the customers to <u>perceive</u> your offering. T do that, the organisation uses the marketing mix

Developing the marketing mix (lessons 7-10)

(4 Ps, + extra 3 for services = 7 Ps)



Implement Marketing control (lesson 12)

- Regular, systematic monitoring and controlling of the marketing effort
  - ⇒ Development of action plans
  - ⇒ Use of MIS to monitor progress
  - ⇒ Contingency planning

Objective	Strategy	Tactic (what)	How	When	Where	Who	$
1) Increase sales (from current $) to Segment X by Y% by year end	1.1) Distribution – become preferred supplier, increase push	Increase sales force numbers	recruit	2nd / 3rd qtr	Victoria	Agency	$30,000
			relocate	1st / 2nd qtr		HR	$0
			retrain	1st qtr		Sales manager	$10,000
		Increase support at retail	In store hours	Full year		Sales force	$0
			Off site training	1 per qtr, 2 day workshop	Victoria	Sales manager + facilitation team	$150000
	1.2) Promotion						

The Action Plan

- Not expected to remember the detail
- From the objective that's set – increase sales from the current $ level up to a certain amount – to a segment by a certain percent by the end of the year = a very SMART objectives
- Then there's the hierarchy of strategies, tactics and the detail of how it's going to be implemented
- So the strategies often will revolve around the 4 Ps
- Tactics are the what – what the organisation will do to achieve that strategy (e.g. employing more sales people)
- How, what, when, who and $ amount – all of that is built into the <u>action plan</u>