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# Marketing

## Part 1

## Chartered Accountancy
## Strategic Level

Strategic Management & Leadership (SML)

Mathisha Hewavitharana
MBA (Col), BBA (Col), Dip in Marketing (UK), MCIM. (UK), Practicing Marketer (SL), ACMA, CGMA, DBF (IBSL), AIB (IBSL), MSLIM

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JMC Jayasekera Management Centre (Pvt) Ltd
Pioneers in Professional Education
65/2A, Chittampalam Gardiner Mawatha, Colombo 02 | T: +94 112 430451 | E: info@jmc.lk | F: +94 115 377917

## 1. Role of Marketing Strategies

### The Concept of Marketing.

Marketing concept was defined by different individuals, institutes and professional bodies in different forms according to their own view point and believes.

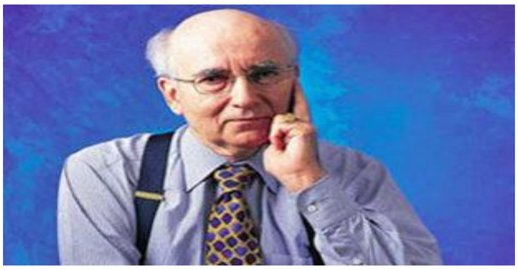
*"Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives."*

*"The Activity, Set of Institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for Customers, Clients, Partners & Society at large"*

*(American Marketing Association – AAA -1985)*

*"Marketing is a societal and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others."*

*(Professor Philip Kotler – 1990)*



*"Marketing is the systematic management process that is responsible for identifying, anticipating and satisfying customer needs and wants competitively, effectively and profitably in a socially acceptable manner."*

*(Chartered Institute of Marketing – UK)*

**<u>Organizational Orientation towards Marketing.</u>**

Marketing concept was developed over a period of time with several amendments done to its core concept and frame work. In this evolution of marketing we can come across five different eras, which are developed with different frameworks and prioritizations and these can be defined as different business orientations which are followed by different organizations in the market. They are;

a) Production Orientation
b) Product Orientation
c) Sales Orientation
d) Marketing Orientation
e) Societal Marketing Orientation

**Production Orientation**

- Management focus is centered on operational needs.
- Organizations are concentrating on production volume, production cost, effectiveness and efficiency of process and operations.
- Organizations are concentrating on making the product available in the market place as much as possible.
- Organizations believe that customers are searching for low cost products with high availability.

**Product Orientation**

- Management focus is centered on production quality.
- Organizations are concentrating on maintaining higher production quality compared to its competitors.
- Organizations believed that customers are searching for high quality products and are not that sensitive about the price of the product.

**Sales Orientation**

- Management focus is centered on product distribution.
- Organizations are concentrating on managing a skilled sales force that is capable of marketing the organizational products better than the competitors.
- Organizations are concentrating on advertising and following the "push" strategy in capturing the market.
- Organizations believe that if they have the correct sales force, they can almost sell any product or service to the market.

**Marketing Orientation**

- Management focus is centered on identifying customer needs and wants.
- Organizations are concentrating on satisfying the identified customer needs and wants
- Managers are extremely focused in studying the market.
- Importance of the marketing research function is high.
- Organizations believe that identifying and satisfying customer needs is the key to be success in the business.

**Societal Marketing Orientation**

- Management focus is centered on identifying the interests of the society.
- Organizations are concentrating not only to satisfy individual needs in the market but to look at the long-term interests of the market, society and the environment.
- More attention will be given to focus on environmental issues while maintaining ethical business behavior.
- Organizations will have to satisfy the customer as well as the society.

**Holistic Marketing Orientation**

- Marketing is not merely the responsibility of the Marketing Function / Department but the responsibility of the entire organization across all levels and structures of the business.



**<u>Modern Role of Marketing in Organizational Value Creation</u>**

- Accurate Identification of Market / Customer Needs
- Proper Segmentation and Selection of Segments
- Corporate / Product Positioning
- Strong / well designed Marketing Communication
- To Crete a Core Competence / Unique Competitive Advantage in the market
- To retain existing customers while attracting new ones
- Timely new product development
- To ensure a substantial market share with market sustainability
- Well-designed market reach ability
- Creating Customer Value

## Markets

A Market is created based on completion of following;

a) Customers who are Interested about a product / Service.
b) Purchasing Power
c) Legal Capacity to Purchase
d) Supplier who is willing to supply under demand conditions

## Classification of Markets

- Potential Market - The total of the consumers or organisations that might be interested in buying the product
- Available Market - The total of the consumers or organisations in the potential market who have the resources to buy the product.
- Qualified Available Market - The total of the consumers or organisations in the available market who are permitted by law to buy the product, or who are not prohibited by law from buying it.
- Target Market - The part of the market to which the business organisation has decided to sell its products
- Penetrated Market - The part of the target market that the organisation has succeeded in selling its products to.

Other Market Classifications

- Geographical Markets
  Markets may be defined or classified according to the geographical area they cover: global market, regional market, national market, local market etc..
- Product Markets
  Markets may be defined by the type of product that is sold in them, such as a market for oil, the energy market, a stock market and so on.
- Customer Markets
  Markets may be defined by the intended customers, such as a consumer market, an industrial market, a retail market and so on.

In marketing, a market is often defined in terms of its **buyers** or **potential buyers**.

- **Consumer markets** (for example, markets for food, cookers, television sets, clothing)
- **Industrial markets** (also known as business-to-business, for example, selling machines to a factory)
- **Government markets** (markets for products that governments purchase, such as Armaments and, where there is state-run medical services and schools, medical equipment, medicines and school equipment)
- **Reseller markets** (markets where the sellers are manufacturers of goods and the buyers are retailers or other organizations that resell the goods they buy, such as wholesalers)
- **Export markets** (selling goods to customers in other countries)

**<u>Consumer Goods Market</u>**

Consumer goods are goods that can be used by consumers without the need for any further commercial processing. Consumer goods may be further classified according to the method by which they are purchased:

- Convenience Goods
- Shopping Goods
- Specialty Goods
- Unsought Goods

**<u>Industrial Markets / B2B Markets</u>**

In an industrial Market customer choice / Preference may vary based on number of other considerations and factors:

- Product Quality
- Price
- Credit Terms
- Delivery Conditions
- After Sales Services
- Strategic Synergies

The Demand for Industrial Goods tend to depend on the demand for Consumer Goods which are sold at the end of the overall exchange chain.

## 2. Segmentation, Targeting and Positioning

Segmentation, Targeting and Positioning are the key concepts around which marketing activities are carried out. So STP strategy is critically important for the performance of the organization.

### Segmentation

Organization will not be able to satisfy needs of all customer groups in a given market. Therefore organization will have to identify different customer groups who have similar characteristics in terms of their buying behavior.

*Definition –*

*The subdividing of a market in to distinct and increasingly homogeneous subgroups of customers, where the sub group can conceivably be selected as a target market to be met with a distinct marketing mix. (Kotler 1999)*

So simply segmentation is the process of breaking down the market in to groups which are comprised of individuals / corporates who have similar characteristics.

Each Market Segment can become a potential Target Market for a firm to capture with a Unique Strategy and a Marketing Mix defined in a customized manner to suite the situation.

After Identification of the Segment, Market Segment should be Validated via a formal analysis done.

Following questions can be generally asked as a primary validation exercise;

- Is the Segment Big Enough ?
- Can the Segment be Reached ?
- Is the Segment Stable ?

"MASDA" is the standard criteria in identifying the usefulness of a market segment

**M**easurable

Whether data is available on the size of the population and the future potential?

**A**ccessible

Can the segment be reached by the marketing mix? Can organization focus / concentrate on this segment?

**S**ubstantial

Is the segment large enough to justify the cost of the marketing activities? Does it make commercial sense to approach that market? Is the segment is large enough to make profits?

**D**ifferentiable

Can we differentiate the segment from rest of the other segments in the market to pitch our focus and campaigns.

**A**ctionable

Can organization be active, proactive in the respective market segment ?

**Segmenting Consumer Markets**

1) Geographical segmentation
2) Socio - Demographic segmentation
3) Psychographic / Life Style segmentation
4) Behavioral segmentation

***Geographical segmentation***

This is the segmentation exercise done based on

- country
- region
- state
- climate

This is important since PESTEL factors in different physical locations / geographies are different from each other.

***Demographic segmentation***

This is the segmentation exercise done based on

- age
- gender
- race
- nationality
- family size
- family life cycle

"Geo-demographic" segmentation is which the organization segments the market assuming that people who are living in a same geographical location will have similar personal characteristics.

***Psychographic / Life Style segmentation***

This is the segmentation exercise done based on

- opinions
- activities
- interests
- lifestyle
- social-class
- personality

***Behavioral segmentation***

This is the segmentation exercise done based on

- user frequency
- usage status / Loyalty
- benefits sought
- purchase occasion
- buyer readiness

**Segmenting Business Markets**

B2B customers tend to be more rationale and Logical in the buying process over B2C customers.

<u>Two-Stage approach to Industrial market Segmentation</u>

- Demographic information
- Product usage
- Customer organization

***Demographic information***

- company size
- geographical location
- type of business

***Product usage***

- frequency of purchase
- volume of purchase
- context of use

***Customer organization***

- centralized purchasing
- DMU
- order size
- loyalty status

**Nested approach to industrial market segmentation**

The nested approach to industrial market segmentation developed from the two stage approach. Markets can be segmented in a multi-stage approach that includes the following five stages.

(1) Demographics: the industry, company size, and/or customer location

(2) Operating variables, such as the technology used by Customers Company Technology and their strategic capabilities

(3) Purchasing factors, such as role of the purchasing function, buyer-seller Relationships, purchasing policies, and purchasing criteria (benefits sought)

(4) Situational factors: urgency of order, size of order

(5) Buyers' personal characteristics

**Bottom-up approach**

Kotler suggested a 'build-up' approach to segmentation of industrial markets. In this approach, a manufacturer collects and analyses large amounts of data about customers and their buying decisions and habits. Through this detailed analysis, the manufacturer can identify groups of customers (market segments) with similar attitudes and approaches to buying.



**<u>Targeting</u>**

After doing the segmentation exercise, organization will have to go to the next level, which is to select the target market. With limited resources, organization will not be able to cater in to all identified segments, but will be able to serve one or few. Targeting includes following;

1) Ranking the market segments according to the market potential
2) Selecting the target segments accordingly

Targeting decision will be basically taken after considering the following two dimensions.

a) Market attractiveness – profitability, market growth rate, entry costs, economies of scale, price competition etc.
b) Business strength – relative market share, company image, learning curve effect, product quality, R&D, financial strength, patent rights etc.

**Target Market Strategy**

A target market is the market segment selected for special attention by an organization. And a target market will be catered with a different marketing mix. In targeting, organization can select one, few many or all segments based on the above mentioned two dimensions. Following are the available targeting strategies for an organization.

- Undifferentiated targeting
- Concentrated targeting
- Differentiated targeting

Undifferentiated targeting

One Product → Whole Market

Concentrated targeting

One Product → One Segment

Differentiated targeting

Different Products → Different Segments

**Positioning**

Positioning is the strategy of creating a particular image about the organization / product in the mindset of the target market. This can be done by using the marketing mix and advertising plays a key role in positioning.

Positioning will basically change the way customers think and will affect their attitudes, believe and perceptions.

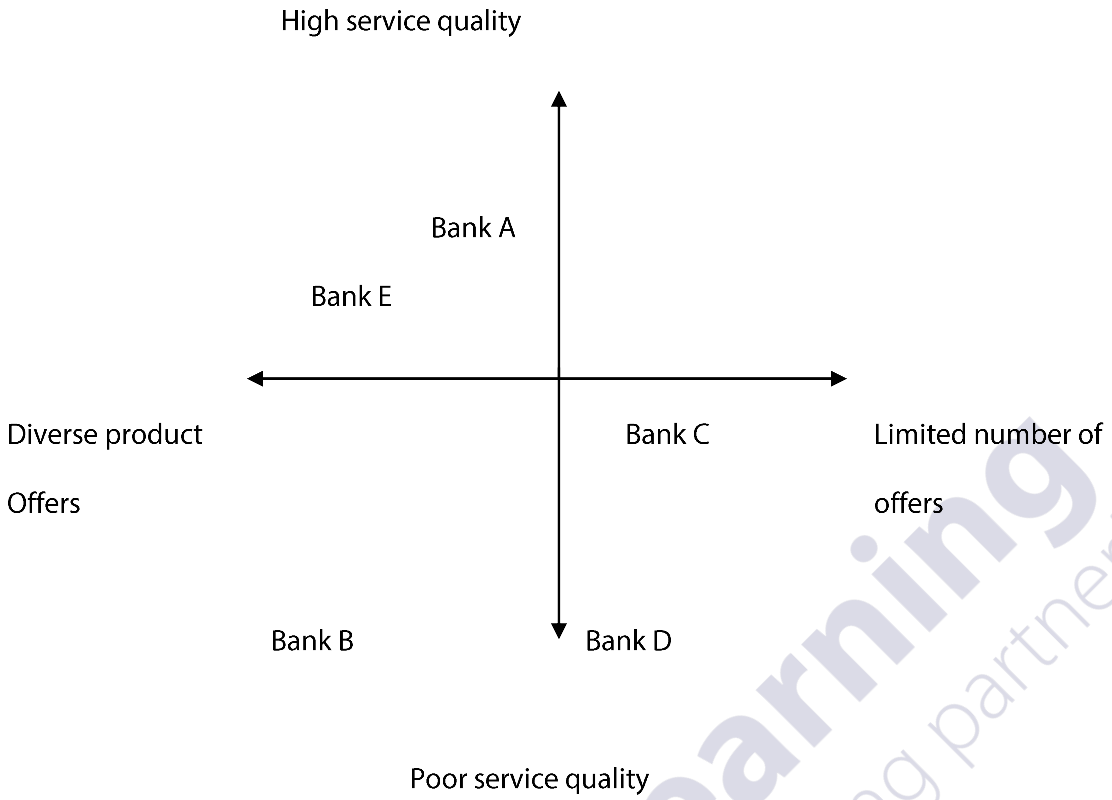
Ex – EGB (Medicine converted to a Food appetizer)

HSBC (Positioned for the best service)

**Positioning Maps**

This is a graphical presentation done in positioning by considering two specific parameters. Theses parameters are open.

Ex - Positioning map for banks




**Positioning Vales**

Positioning can be done based on following values.

- Positioning in relation to attributes (quality, performance, durability)
- Positioning in relation to the user (Psychographic / behavioral)
- Positioning in relation to competitors
  - Directly against competitors
  - Away from competitors
  - positioning with unique differentiation

There are two positioning approaches against competitors.

1) Unique selling propositions (USP)
   By differentiating the product from competitors (Unique offer)

2) Emotional selling propositions (ESP)
   Positioning with emotions of the customer (BMW, Rolex, Nike)

**Why STP**

- To identify real customer needs
- To concentrate and focus on real customer needs
- To cater the customized marketing mix accordingly
- To increase the effectiveness and efficiency of the organizational resource utilization
- To differentiate the offer
- To create a competitive advantage
- To overcome market competition

***Application of STP***

| |
|---|
| Propose a suitable STP strategy for a new ice Cream Brand to emerge in the Sri Lankan Market. You can have any assumption with regard to the company profile, market conditions and product features. |

### 3. Managing Products & Brands

Product


Product can be defined as the collection of core benefits / attributes a customer is receiving from the consumption of something. In other words product can be defined as any physical or non-physical experience which will satisfy customer needs & wants.

"Product" can be in 2 forms; tangible elements are called as "Goods" while intangible elements are considered as "Services".

Differences between goods and a services / characteristic of goods & services

1) Tangibility:-

Goods can be touched and felt whereas services cannot be touched.

2) Perishability:-

Goods are not easily perishable whereas services are highly perishable.

3) Inseparability:-

Services cannot be separated from the supplier whereas Goods can be separated and stored.

4) Variability:-

Services will be different in two different situations even though the supplier is the same. But goods will be standard.

5) Measurability:-

Goods can be accurately measured whereas services cannot be measured.

6) Ownership:-

Customer will be getting a clear ownership after paying for a Good but in a service it is difficult to practice the concept of ownership.

**Levels of Products & Service**

There are 5 difference levels in product & services.

1) Core product
2) Formal / Actual / Tangible product
3) Expected Product
4) Augmented / Extended product
5) Potential Product

**1) Core Product**

Core product can be defined as basic attributes which will be received by the customer as a result of the consumption. These will satisfy the basic needs of the market

Eg: Core product in selling a house is providing a shelter to the customer.

Core product of a savings account is security and return on investment

**2) Formal / Actual / Tangible Product**

Formal product is catered around the core product with using additional element such as brand name, design, colour, quality, and package.

Eg: Millennium city houses / Vajira house

NDB Saving Star

**3) Expected Product**

These are the attributes and characteristics of the product that the consumer expects from the product when they buy it.

Eg: Expected benefits of Purchasing a Hybrid Car

### 4) Augmented / Extended Product

This is something which is offered by the org$^{n}$ by exceeding the general expectation of the customer. Customer will get delighted as a result of receiving an augmented product.

Eg: Free insurance with the house

HNB Pathum Wimana

### 5) Potential Product

This represents what the product could be and should be in the future. It is all the possible features and benefits that customers could desire from the product.

Ex : Solar Power Cars

## Product Line

A product line is a collection of products which will represent a particular product category of the org$^{n}$.

Eg: Elephant house

1. Soft drinks - (EGB, Cream Soda, Necto etc)
2. Ice-cream - (Vanilla, Chocolate, Strawberry etc)
3. Meat products - (Unprocessed meat, Sausages, Processed meat)



## Product Mix

Product mix is the total collection of all the product lines. Product mix can be defined as the combination of product depth and product width.

| Product Line → | **Soft Drinks** | **Ice-Cream** | **Meat Products** |
|---|---|---|---|
| | EGB | Chocolate | Unprocessed meat |
| | Necto | Fruit & Nut | Processed meat |
| | Cream Soda | | |

| Product Mix | = | Product Width | x | Product Depth |
|---|---|---|---|---|

Branding


**Brand**

*"Brand is a name, term, sign, symbol or design or combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate from those of competitors"*

*Phillip Kotler (1999)*

**Advantages of Branding**

1) To create differentiation between products and services
2) To generate a competitive advantage in the market
3) The lifetime of a product can be extended by branding
4) Branding will help the organization to develop a proper positioning strategy
5) A proper branding strategy will improve the profit margins of the organization
6) To facilitate self-selection of products
7) To create brand loyalty

**Disadvantages of Branding**

1) The management time, effort and cost involved in building a brand
2) A failure of a particular brand belongs to the company may badly influence the other brands as well.

3) Changes of the environment may influence the level of importance of a particular brand

4) Branding can lead to over pricing

5) Branding may create an artificial value to the business

A brand may affect consumer perceptions in different ways through different brand meanings;

- Brand Elements – Colours, Logo, Design, Shape, Letters
- Brand Attributes – Performance, Quality, Taste,
- Benefits – Prestige, Durability
- Values – Body Shop
- Culture – BMW, Rolex
- Personality – Harley Davidson, Perfumes
- User – Bajaj Three-Wheeler, Cherry QQ

Brand positioning means formulating and implementing a strategy for how the brand should seek to influence consumers. The purpose of brand positioning is to set the producer's products apart, in a meaningful way, from the products of competitors. Brands may be positioned according to:

(a) Product quality

(b) The combination of or balance between price and value

(c) Benefits: for example, some cars are branded to associate them with small size, economical driving and ease of parking

(d) Users: for example, men or women

(e) Providing a solution to consumers' problems: cosmetic products and paint products are sometimes branded in this way

(f) Through comparisons with rival brands

(f) Through association with an entertainment star celebrity. Consumers may be persuaded to associate a brand with a celebrity (through advertising); they may be more willing to trust the recommendations of celebrity than the claims of the product manufacturer

**Requirements for Successful Brand Positioning**

- Relevance
  The branded products should be positioned in a way that has meaning for consumers and meets consumers' needs.

- Clarity
  The 'meaning' of the brand should be distinct, and should be easy to communicate to Consumers and easy for consumers to understand.

- Coherence
  The same 'image' of the brand should be promoted consistently through all aspects of the marketing mix.

- Patience
  It can take a long time to establish a successful brand.

**Branding Strategies**


1) Line Extension
2) Brand extension
3) Multi Brands
4) Co Brands
5) New Brands

<u>Line Extension branding / overall family branding</u>

This is using the existing brand to create different brands of the same product by changing the aspects like colour, size or shape. Family branding continues to be the favored branding approach for service branding.

Eg: Lux (White, Pink, Orange, Green)

Coca Cola in different sizes

<u>Brand Extension branding / Brand stretching</u>

This is the strategy of using the same brand name to enter into different product types.

Eg: *Samsung* TV / Mobile , *Singer* TV / Washing Machines, Financing

<u>Multi Branding</u>

This is the strategy of operating different brands under different names by the same company in the same market.

Eg: Pure beverages – Coca Cola, Fanta, Sprite

Unilevers

<u>Co-Branding</u>

This is the strategy of developing a particular brand by combining two different attributes to generate a different value and to create a competitive advantage.

Eg: Sony Ericsson

AMW Janashakthi

<u>New Brands / Individual branding</u>

This is the strategy of introducing / launching a new brand in order to close a prevailing market gap. Each product of the organization will be given a new brand name.

Eg: Lexus

**Features of a Successful Brand**

a) Strong visual element
b) Clear relationship between the brand and the organization
c) Added value
d) Psychological appeal to the customer
e) Brand personality

**Brand Building Tools**

- Advertising
- Press Releases
- Sponsorships
- Trade Shows
- Celebrity Personalities

**Brand equity**

Brand equity is the value of a brand name. The owner of a well-known brand is able to sell products in the basis of the strength of the brand name.

However, although a successful brand definitely has value, it is difficult to measure the financial value (market value) of a brand.

## 4. Pricing Strategies

Price

Price is the economic value / exchange value paid by the customer in purchasing a particular product or service. Price is one of the most important elements in the marketing mix due to following reasons.

1) Price is the only element in the marketing mix which generates positive cash flows.
2) Price is very sensitive to the customer in making the purchase decision.
3) Price is one of the most important tools in competition.
4) Price is linked with the other elements of the marketing mix since their level and quality will be depicted by price.

❖ **Factors Effecting the Pricing Decision**

1) Cost structure of the product (fixed cost, variable cost)
2) Company consideration (for profits, non for profit, government institutes)
3) Customer considerations (profile, income, value for money)
4) Competitors behavior
5) Stage in the product life cycle
6) Legal consideration
7) Government taxation
8) Channel of distribution

## ❖ Pricing Methods / Pricing Strategies

Different org$^{s}$ follow different pricing strategies based on org$^{l}$ characteristics and requirements

- i) Cost oriented pricing method
  - a) Cost + pricing
  - b) Marginal pricing
- ii) Competitor base pricing
- iii) Market skimming pricing
- iv) Market penetration pricing
- v) Perceived value pricing
- vi) Loss leader pricing
- vii) Promotional pricing
- viii) Physiological pricing

### i) Cost Oriented Pricing

In cost oriented pricing org$^{n}$ is concerned about recovering the production cost and other overhead cost. There are two options available for the org$^{n}$ to recover the cost under this method.

#### a) Cost + Pricing

In cost + pricing org$^{n}$ will market a particular profit percentage based on the total cost.

Eg: Total production cost is 100/= profits margin is 10% therefore selling price will be 110

Eg: Garments

#### b) Marginal Pricing

Under marginal pricing org$^{n}$ will price the product based on the marginal cost theory. Therefore the difference between the marginal cost and the selling price will be considered against fixed cost.

Eg: Selling price of product is 10/= variable production cost is 6/= therefore 4/= will be used to cover the total fixed cost (if the total fixed cost is Rs.4,000 org$^{n}$ will have to sell at least 1000 units to break even.)

Ex: Electrical equipment

### ii) Competitor Based Pricing

In this pricing method org$^n$ will decide the product price based on the competitors pricing strategy. This is a market oriented pricing method.

Eg: Milk powder, Gas, Mobile packages

### iii) Market Skimming Pricing

Org$^s$ can charge a skimming price if the product which they are offering to the market is unique or if the product can be clearly differentiated form the competitors. Skimming pricing method cannot be practiced for general common products and sometimes this pricing strategy can be used only for a limited time period where org$^n$ will have to reduce the prices in long run.

Eg: Rolex wrist watch, celltel entering in to SL market.

### iv) Market Penetration Pricing

Org$^n$ can charge a penetration price for a particular product by considering the following 2 factors.

1. If the product is general and common
2. If org$^n$ wants to increase the market share

In penetration pricing org$^n$ will price the product below the average market price with the objective of increasing the sales volume.

Ex: Paracetol, My cola

Skimming pricing & penetration pricing strategies are generally used in pricing new products.

### v) Perceived Value Pricing

This is the mechanism of pricing the product according to customer expectations. Org$^n$ will decide the price based on the "Value for money" which customer receives.

Ex: Leasing packages design according to customer requirement

Life insurance packages

### vi) Loss Leader Pricing

This pricing method is normally used by retailers in attracting the customers in to their stores. $Org^n$ will price one or few products below the average market rate. So that customers will come to the store with the purpose of buying those products which will generate cross selling opportunities.

Eg: Cargills, Keels, Arpico, Singer show rooms

### vii) Promotional Pricing Discount

In promotional pricing $org^n$ will mark the price of $\bar{e}$ product by offering attractive discount with the purpose of increasing the sales volume.

Ex: Shoes, electrical equipment

### viii) Physiological Pricing, Odd-even Pricing

In physiological pricing $org^n$ will price the product with the intention of approaching the customer by capitalizing in his physiological decision-making behavior which will ultimately effect the final purchase decision.

Ex: Rs. 999.99, Rs.8,742

**Price Adjustment / Adaptation Policies**

01. Discounts
02. Promotional Pricing
03. Discriminative Pricing

    Ex: Telephone charges (Daytime, off-peak)

    Hotel charges (Season, off-season)