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Downloaded for free at [www.uofgexamnetwork.com](http://www.uofgexamnetwork.com)
Needs/Wants/Demands

Needs
- States of felt deprivation, including basic physical needs for food, clothing, warmth, and safety. Social needs for belonging and affection, individual needs for knowledge and self expression, these needs were not created by marketers; they’re basic part of human make up.

Wants
- Form of human needs that take as shaped by culture and individual personality
- We need food, but we want Big Mac’s

Demands
- Human wants that are backed by buying power

Societal marketing concept
- A principle of enlightened marketing that holds that marketing strategy should deliver value to the organization’s customers in a way that maintains or improves the well being of society
- Is a firm that sense, serves, and satisfies immediate needs, wants, and interests of the market always doing what’s best for society in the long run

Three considerations underlying the Societal Marketing Concept
- Companies need to balance between these 3 concepts
  o Society(human welfare)
  o Consumers(want satisfaction)
  o Company(profits)

Customer relationship management (CRM)
- Overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction
- One of most important concepts for modern marketing
- CRM is the generic term for any corporate software system that collects and organizes customer data and provides marketing managers, customer service representatives and sales representatives with powerful information tools

Strategic planning
- The process of developing and maintaining a strategic fit between the organization’s goals and capabilities and its changing marketing opportunities
- “If you fail to plan, you are planning to fail”

Defining a market-oriented mission
- Mission Statement
  o Organizations exist to marketing something, (good/service/brand/idea)
  o Organizations start with clear purpose or mission, but over time, it may change
- A clear mission statement guides the people in the organization to do these:
  o 1. Core values to which the firm is committed
  o 2. Core purpose of the firm
  o 3. Visionary goals the firm will pursue to fulfill its mission
- A market oriented mission statement defines the business in terms of satisfying basic customer needs
Growth Strategies/Product-Market Expansion Grid

- Growth share matrix
  - A portfolio planning method that evaluates a company’s SBUs in terms of their market growth rate and relative market share. SBUs are classified as stars, cash cows, question marks, or dogs
    - Stars
      - High growth, high share business products, often need heavy investment to finance their rapid growth, eventually their growth will slow and turn into cash cows
    - Cash Cows
      - Low-growth, high-share business or products, they’re established and successful SBUs needing less investment to hold their market share
    - Question Marks
      - Low-share business units in high-growth markets, requiring a lot of cash to hold their share, let alone increase it, should decide to invest or let it die off
    - Dogs
      - Low-growth, low share business and products, may generate enough cash to maintain themselves, but not to be large sources of cash

- Product-market expansion grid
  - A portfolio planning tool for identifying company growth opportunities through market penetration, market development, product development

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- Market penetration
  - A strategy for entering the market with a new product, then focusing efforts on increasing the sales of that product in order to capture market share
- Product development
  - A strategy for company growth by offering modified or new products to current market segments
- Market development
  - A strategy for company growth by identifying new market segments for current company products
- Diversification
  - A strategy for company growth by starting up or acquiring businesses outside the company’s current products and markets

What are services?

- Services involve a form of rental and non-ownership
  - Meaning access of usage fees for a defined period of time, instead of buying it outright
- Services non-ownership framework
  - Rental good services – right to a physical good
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- Defined space and place rentals – private space shared with other customers
- Labour and expertise rentals – hire people
- Access to shared physical environments – share use of an environment, not private
- Systems and networks: access & usage – rent right to participate

- Service product
  - A service product comprises of all the elements of the service performance, both tangible and intangible, that creates value for customers

Distinctive service marketing challenges

- Most service products cannot be inventoried
  - Most services involve actions or performances, so it can’t usually be stocked
  - If there’s no demand, unused capacity is wasted and firm loses the chance to create value from these assets
- Intangible Elements usually dominate value creation
  - Usually intangible elements like internet-based transactions and the expertise and attitudes of service personal create most value in service performances
- Services are often difficult to visualize and understand
  - Mental intangibility, they cannot picture their service they receive so they may night purchase it
  - Businesses educate customers and provide confidence for the customers
- Customers may be involved in Co-production
  - Customers may need to co-operate with service personnel in hair salons, hotels, quick-service restaurants, libraries, ATM
  - Customers often function as partial employees?
- People may be part of the service experience
  - Sometimes depends on the attitude of people (employees), if they have a bad attitude, there may be a bad service experience
  - Even people standing in line with you
  - Should organize segments that are similar together, and ones that are different, set them apart
- Operational Inputs and Outputs Tend to Vary More Widely
  - When a service is delivered face to face, and consumed as it’s produced, final “assembly: must take place in real time
  - Performance, speed, and quality may vary widely
- Time Factor Frequently Assumes Great Importance
  - Many services now a day are in more of a hurry, willing to pay extra to save time
  - Should minimize customer waiting times
- Distribution make take place through non-physical channels
  - Manufactures require physical distribution channels to move their products from factory to customers
  - Service businesses are able to use electronic channels to deliver all or most of their service elements (internet)

8 P’s of service

- Product Elements
  - Service products lie at the heart of a firm’s marketing strategy, if it’s poorly designed, it won’t create meaningful value for customers
  - Service products need a core product that response to the customers’ primary need and an array of supplementary service elements that help use the core product effectively
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- **Place and Time**
  - When delivering, it involves decisions on when and where to deliver, as well as methods
  - Use the electronic or physical channels, speed and convenience of place and time have become important determinants of effective service delivery today

- **Price and other user outlays**
  - Make sure customer sees this price as “worth it”, if not, go beyond this
  - Make it worth it to the customer, and give the customer satisfaction

- **Promotion and Education**
  - Be sure to use marketing programs, without them, no one will know about your product
  - Suppliers need to inform customers about benefits of this service, where and when to obtain it, and how their participation can provide the best results

- **Process**
  - How a firm does things, the underlying processes, these are just as important as what it does
  - Create an effective process
  - Customers are often involved in these processes, as co-producers
  - If it’s badly designed slow processes and ineffective, it leads to a disappointing experience as well
  - Make sure front line staff does the best they can

- **Physical Environment**
  - Appearance of buildings, landscaping, vehicles, interior furnishing, equipment, staff uniforms, signs, printed materials, and other visible cues are all signs of good evidence of a firms quality
  - Manage physical evidence carefully

- **People**
  - No matter what, services will always require direct interaction between customers and customer-contact personnel
  - These interactions strongly influence how customers perceive service quality

- **Productivity and Quality**
  - Improving productivity is essential for any strategy for reducing costs, but making inappropriate cuts will lead to bad service quality
  - Improving quality is essential for product differentiation and for building customer satisfaction and loyalty
  - It’s unwise to invest in service-quality improvements without understanding trade-offs between the incremental costs and incremental revenues

**Marketing management orientations**

- Managing the marketing effort
  - Requires four marketing management functions, *analysis, planning, implementation, and control*
    - **Analysis**
      - Managing the marketing function begins with complete analysis of company’s situation
      - Analyze markets to find attractive opportunities and avoid environmental threats
    - **Planning**
      - A detailed plan that assesses the current marketing situation and outlines marketing objectives, a marketing strategy, action programs, budgets, and controls
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- Needed for each business, product, or brand
  
  **Implementation**
  - The process that turns marketing plans into marketing actions to accomplish strategic marketing objectives
  
  **Control**
  - The process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure that objectives are achieved
  - Four steps involved in showing the marketing control
    - FIG 2.7
    | Set goals > | Measure performance > | Evaluate performance > | Take corrective action > |
    | What do we want to achieve? > | What is happening? > | Why is it happening? > | What should we do about it? > |

- Operating control involves checking ongoing performance against annual plan and taking corrective action when necessary, it’s purpose is to ensure the company achieves the sales, profits, and other goals set out in its annual plan
- Strategic control involves looking at whether the company’s basic strategies are well matched to its opportunities, marketing strategies and programs become quickly outdated by using a tool such as the marketing audit
  - Marketing audit is a comprehensive, systematic, independent, and periodic examination of a company’s environment, objectives, strategies, and activities to determine problem areas and opportunities and to recommend a plan of action to improve the company’s marketing performance

**Enlightened marketing**

- A marketing philosophy holding that a company’s marketing should support the best long-run performance of the marketing system
- Consists of 5 principles
  - Customer-Oriented Marketing
    - Company should view and organize its marketing activities from the customer’s point of view
  - Innovative marketing
    - A principle of enlightened marketing that requires a company to continuously seek real product and marketing improvements
  - Value marketing
    - A principle of enlightened marketing that holds that a company should put most of its resources into value-building marketing investments
    - Things like one shot sales promotion, minor packaging changes, advertising puffery – may rise in short run sales, but in long run, try to change product’s quality, features, or convenience
    - Enlightened marketing calls for building long term customer loyalty
  - Sense-of-mission marketing
    - A principle of enlightened marketing that holds that a company should define its mission in broad social terms rather than the narrow product terms
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- Societal marketing
  - A principle of enlightened marketing that holds that a company should make marketing decisions by considering consumers’ wants, the company’s requirements, and society’s long run interest
  - Companies should turn everything they manufacture and market into such desirable, environmentally friendly products

Four Principles of Positioning Strategy
- Must establish position for firm or product in minds of customers
- Position should be distinctive, providing one simple, consistent message
- Position must set firm/product apart from competitors
- A company cannot be all things to all people- must focus its efforts
  - Jack Trout

Consumer concerns of Marketing
- High prices
  - Consumers complain that high prices result from unnecessary and expensive advertising
  - Argue that intermediaries do work that would otherwise had been done by manufactures, and they just get lots of money for helping
  - Although brand name is more expensive than “no name”, brands are more reassuring. When we pay for a product, we don’t just buy the material costs, we put in the studies and all the time and effort it took to make it, i.e. research, advertising, etc.

- High-Pressure Selling
  - When a sales associate is working on commission, consumers complain that marketers want the most money and it is not fair
  - Information is power, consumers now know information before making large purchases, so now are not as fooled by the sales associates tricks
  - Also consumers are protected from some high-pressure selling tactics

- Deceptive Practices
  - Sometimes marketers are accused of deceptive practices that lead consumers to believe that they will get more value than they actually do
  - Deceptive practices are illegal in Canada and regulated by the Competition Act and the Competition Bureau
  - Deceptive pricing
    - Falsely advertising something as having reduced from the regular price, when in fact the product was never offered for sale
  - Misleading things are deceptive practices

- Unsafe Products
  - Consumers also complain about product safety
  - Most manufacturers want to produce quality goods, they operate in legal and ethical boundaries of their complain most of the time
  - Unsafe products result in more costs than rewards
  - Marketers know that customer-driven quality results in customer satisfaction, which in turn creates profitable customer relationships

- Planned Obsolescence
  - Holding new products which are better and more efficient so they can make more profit on other goods
  - Ex, holding back rust proof metals, they say there’s metal that cannot be trusted, but after 2 years, a car metal rusts
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- Marketers respond that consumers like changes and they provide as much satisfaction as possible
- Companies do not design their products to break down earlier because they do not want to lose customers to other brands
- They seek constant improvement to ensure that products will consistently meet or exceed customer expectations

- Web lining
  - Discriminating against certain groups of customers based on neighbourhoods
  - This is done through the internet, based on factors that lead them to believe they change prices
  - They can find information online about you to discriminate against you
  - They can sort people into more categories, in some cases, predict how you behave

Four service focus strategies
- Framework for developing effective service marketing strategies
  - The figure outlines key steps, the process of creating a strategy is an iterative process, one who’s components are visited more than once
  - Fig 13.7

- The 4 strategies
  - Understanding the Customer
    - Think like the customer, understand the customer’s needs and how they behave in service environments
    - How they establish expectation and choose between alternative suppliers
    - How customers respond to service encounters
  - Building the Service Model
    - Create a meaningful value proposition, a package that specifies what benefits and solutions your firm tends to offer, and how it proposes to deliver them to target customers
    - Transforming this concept into a service product means developing a specific package of core and supplementary product elements and then distributing each element of the package to customers at appropriate places and times
    - Ensure your strategy will be financially viable, create a business model that allows the costs of creating and delivering the service (plus a margin for profits) to be recovered through realistic pricing strategies
    - Customers won’t buy unless they perceive that the benefits obtained from this value exchange exceed the financial and other costs they incur, including time and effort
    - Must be promoted through effective communication techniques and must position yourselves accurately
  - Managing the Customer Interface
    - Develop strategies for managing the customer interface
    - Embrace all points at which customers interact with your company
    - Design effective service processes with your own particular focus as a marketer being on the role played by customers and experiences you wish to engineer for them as they move through each step process towards desired outcome
    - Work with colleagues in HR to develop strategies for managing employees in ways that enable them to deliver outstanding performances
  - Implementing Service Strategies
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- Achieving profitability will require creating relationships with customers right from the right market segments and finding ways to build on and reinforce their loyalty
- If things go wrong, organize quick service recovery to retain customers
- Obtain customer feedback to help firm avoid repeating failures and to better meet customers’ future needs and expectations
- Develop strategies for improving service quality and productivity, this will lead to financial success, unless your customers are satisfied with the quality they receive

Four categories of service
- Fig 14.1
  - People Processing
    - Some services require you to be in physical contact with the suppliers, eye exam, haircuts, etc.
    - As a customer, you must co-operate with them to enhance and enjoy your service
    - They are services directed at peoples bodies
  - Possession Processing
    - Services directed at physical possessions
    - For example, a sick pet, malfunctioning snow blower, a parcel that needs to be sent to another city
    - Customers are less physically involved with this type of service than with people processing services
    - Production and consumption may be described as separable
  - Mental-Stimulus Processing
    - Services directed at people’s minds
    - Anything affecting people’s minds has the power to shape attitudes and influence behaviour
    - Recipients don’t have to be physically present in service factory
    - You can sleep through a flight, but you can’t sleep through a educational seminar and be any wiser
    - Things are, entertainment, professional advice, psychotherapy
  - Information Processing
    - Services directed at intangible assets
    - Professionals in a wide variety of fields use their brains to perform information processing and packaging
      - Accounting, banking, insurance, legal services, etc
    - For simplicity, combine coverage of mental-stimulus processing services and information processing services under the term information-based services

Environmentalism
- An organized movement of concerned citizens, businesses, and government agencies working to protect and improve the natural environment
- Environmental sustainability: a management approach that involves developing strategies that both sustain the environment and produce profits for the company
  - Sustainability is a crucial but difficult goal

Macro environment vs. microenvironment and their components
Marketing Exam Study!
- **The marketing microenvironment**
  - The forces close to the company that affect its ability to serve its customers – the company, suppliers, marketing intermediaries, customer markets, competitors, and publics
- **Major forces in the Marketing Micro Environment (Fig 4.1)**
  - **The Company**
    - When designing market plans, marketing management takes other company groups into account – groups such as top management, finance, research and development, purchasing, operations, and accounting
    - Marketer managers make decisions within strategies and plans made by top management, and work closely with other departments
    - Together, all these departments have an impact on the marketing department’s plans and actions
    - They should think harmony to provide superior customer value and satisfaction
  - **Suppliers**
    - Suppliers are an important link because it’s the overall customer value delivery system
    - Supplier problems can affect marketing, marketer managers must watch closely for supply shortages or delays, labour strikes, and other events can cost sales in the short run and damage customer satisfaction in the short run
    - Most marketers today treat their suppliers as partners in creating and delivering customer value
    - Good partnership relationship management results in success for suppliers, and ultimately its customers
  - **Marketing Intermediaries**
    - Firms that help the company to promote, sell, and distribute its goods to its customers
    - They include retailers, wholesalers, distributors, brokers, marketing services agencies, and financial intermediaries
      - Retailers buy merchandise from manufacturers, wholesalers, and distributors to resell them, usually in stores to customers
      - Wholesalers buy merchandise from various manufacturers, organize it, and sell it to retailers
      - Distributors physically stock and move goods from their points of origin to their destinations, usually from the manufacturer to the wholesaler or directly to the retailer
      - Brokers are another type of marketing intermediary, they arrange for movement of goods from their point of origin to the retailer or wholesaler, but never physically touch or take possession of the merchandise
        - The value they add, is the knowledge and relationship with producer of goods
      - Marketing service agencies are the marketing research company target and promote its products to the right markets, firms use them to promote their company
      - Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help finance transactions or insure against the risks associated when buying and selling of goods
        - Most firms and customers depend on financial intermediaries to finance their transactions
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- Like suppliers, marketing intermediaries form an important component of the company's value delivery system, its quest is to create satisfying customer relationships.

  - **Customers**
    - There are three broad types of customers that an organization may serve:
      - **Consumers**
        - Are individuals who buy goods and services for their own use or “consumption”, they typically buy items one at a time, do not negotiate prices, and buy from retailers.
      - **Business buyers**
        - Fall into one or more subcategories:
          - Some use to purchase goods and services for use in their production process.
          - Others include resellers such as retailers and wholesalers, who buy goods from manufacturers or producers to resell at a profit.
          - And every business also buys supplies, such as pens, paper, computers, and telephone services.
      - **Government buyers**
        - Purchase goods and services to produce public services or transfer goods and services to others who need them.

  - **Competitors**
    - The marketing concept states that to be successful, you must provide greater customer value and satisfaction that competitors do.
    - Marketers must also gain strategic advantage by positioning their offerings strongly against their competitors' offerings in the minds of those customers.
    - No competitive single marketing strategy is best for all companies.
    - Each firm should consider its own size and industry position compared with those of its competitors.
    - There are many different strategies for different companies.

  - **Publics**
    - Any group that has an actual or potential interest in or impact on an organization’s ability to achieve its objectives.
    - Seven different types of publics:
      - **Financial publics**
        - Influence company’s ability to obtain funds.
        - Banks, investment houses, and stockholders are major financial publics.
      - **Media publics**
        - Carry news, features, and editorial opinion.
        - Newspapers, magazines, radio, television stations.
      - **Government publics**
        - Management must take government developments into account, marketers must consult the company’s lawyers on issues of product safety, truth in advertising, and other matters.
      - **Citizen-action publics**
        - A company’s marketing decisions may be questioned by consumer organizations, environmental groups, minority groups, and others.
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- Local publics
  - Neighbourhood residents and community organizations

- General public
  - Company needs to be concerned about the general public’s attitude towards its products and activities

- Internal publics
  - Include workers, managers, volunteers, and board of directors

- The marketing macroenvironment
  - The larger societal forces that affect the organization’s marketing activities – demographic, economic, natural, technological, political, and cultural forces

- Six major factors affecting the marketing macroenvironment (Fig 4.2)
  - Demographic Environment
    - The study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics
    - People who study demographics assume certain people do certain things at certain ages
  - Economic Environment
    - Factors that affect consumer purchasing power and spending patterns
      - Changes in Income
      - Changing Consumer Spending Patterns
  - Natural Environment
    - Natural resources that are needed as inputs by marketers or that are affected by marketing activities
    - Marketers should be aware of several trends in the natural environment
      - Shortages of raw materials
      - Increased pollution
      - Increased government intervention
    - In today’s age, we’ve spawned the “green movement”
  - Technological Environment
    - Forces that create new technologies, creating new product and market opportunities
    - Technology is perhaps the most dramatic force now shaping our destiny
    - New technologies create new markets and new opportunities and marketers must be aware of new technology developments to take advantage of them
  - Political Environment
    - Laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society
    - Most political people agree some regulation in free markets are good to ensure fairness
    - There are 3 things why business legislation has been enacted
      - First is to protect companies from each other
      - Second is to protect consumers from unfairness
      - Third is to protect the interests of society
  - Cultural Environment
    - Institutions and other forces that affect society’s basic values, perceptions, preferences, and behaviours
    - Core beliefs are beliefs and values passed on from parents to children and reinforced by schools, churches, businesses, and government
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- Secondary beliefs are values more open to change, believing in marriage is a core belief; believing that people should get married in early life is a secondary belief
  - Marketers have some chance at changing secondary values, but little chance of changing core values

Marketing Intelligence
- A systematic collection and analysis of publicly available information about competitors and developments in the marketing environment
- Is a specific branch of competitive intelligence
- Goal is to improve strategic decision making, assess and track competitors’ actions, and provide early warning of opportunities and threats
- Growing use of marketing intelligence raises some ethical issues, most techniques are legal, but some are considered questionable

Consumer market
- All individuals in a particular geographic region, who are old enough to have their own money and choose how to spend it

Consumer buyer behaviour
- The buying behaviour of consumers – individuals who buy goods and services for their own use or consumption

Factors Influencing Consumer Behaviour
- Cultural Factors
  - Cultural factors exert a broad and deep influence on consumer behaviour, the marketer needs to understand the role played by the buyer’s culture, subculture, and social class
    - Culture
      - The set of basic values, perceptions, wants, and behaviours learned by a member of society from family and other important institutions
    - Subculture
      - A group of people with shared value systems based on common life experiences and situations
    - Social Classes
      - Relatively permanent and ordered divisions of a society into groups whose members share similar values, interests, and behaviours
  - Social factors
    - A consumer’s behaviour is also influenced by social factors such as membership in small groups and family, and social roles and status
    - Groups
      - A person’s behaviour is influenced by many small groups
      - A group consists of two or more people who interact to accomplish individual or mutual goals
      - Primary groups are with which a person has regular but informal interaction – such as family, friends, neighbours, and co-workers
      - Secondary groups – organizations such as religious groups, professional associations, and trade unions
      - Reference groups – serve as face to face, or indirect points of comparison or reference in forming a person’s attitude or behaviour
Opinion leaders are a person within a reference group who, because of special skills, knowledge, personality, or other characteristics, exerts influence on others.

- Marketers find ways to influence the opinion leaders

- Family
  - Family members have a strong influence on buyer behaviour, marketers are interested in the roles and influence of the husband, wife, and children with the purchase of different products

- Roles and Status
  - A person belongs to many groups: family, clubs, organizations
  - The person’s position in each group can be defined as both role and status

- Personal Factors
  - A buyer’s decisions are also influenced by personal characteristics such as the buyer’s age and life-cycle stage, occupation, economic situation, lifestyle, and personality and self-concept
    - Age and Life-Cycle Stage
      - People change preferences in goods and services they buy over lifetimes
    - Occupation
      - People’s occupation affects the goods and services they buy, rich people and poor people buy different products
    - Economic Situation
      - A person’s economic situation will affect product choice, so marketers watch trends in personal income, savings, interest rates,
      - Use economic indicators to point out recession and other situations
    - Lifestyle
      - A person’s pattern of living as expressed in his or her activities, interests, and opinions
    - Personality and Self-Concept
      - Each person’s distinct personality influences his or her buying behaviour
      - Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one’s own environment
      - The idea is that brands have personalities, and that consumers are likely to choose brands whose personalities match their own
      - Five brand-personality traits
        - Sincerity (down to earth, honest, wholesome, and cheerful)
        - Excitement (daring, spirited, imaginative, and up to date)
        - Competence (reliable, intelligent, and successful)
        - Sophistication (upper class and charming)
        - Ruggedness (outdoorsy and tough)

- Psychological Factors
  - A person’s buying choices are further influenced by four major psychological factors: motivation, perception, learning, and beliefs and attitudes
    - Motivation (drive)
      - A need that is sufficiently pressing to direct the person to seek satisfaction of the need
      - Maslow’s Hierarchy of Needs
      - Fig 6.3
    - Perception
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- The process by which people select, organize, and interpret information to form a meaningful picture of the world
- People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention
  - Selective attention
    - The tendency for people to screen out most of the information to which they are exposed, meaning marketers have to work especially hard to attract the customer’s attention
  - Selective distortion
    - Describes tendency of people to interpret information in a way that will support what they already believe
  - Selective retention
    - People tend to select and retain information that supports their beliefs

Learning
- Changes in an individual’s behaviour arising from experience

Beliefs and Attitudes
- A belief is a descriptive thought that a person holds about something
  - May be based on real knowledge, opinion, or faith, and may or may not carry an emotional charge
- An attitude is a person’s relatively consistent evaluations, feelings, and tendencies toward an object or idea

Consumer Buyer Decision Process
Need recognition → Information search → Evaluation of alternatives → Purchase decision → Post purchase behaviour

Innovation Adopter Categorization
- Fig 6.5
- Innovators are defined as first 2.5% of buyers to adopt new idea; the early adopters are the next 13.5%; the early majority are the next 34%; late majority is the next 34%; laggards are the last 16%
  - Innovators are venture some – they try new ideas at some risk
  - Early adopters are guided by respect, they’re opinion leaders in their communities adopting new ideas early but carefully
  - Early majority are deliberate – although they are rarely leaders, they adopt new ideas before the average person
  - Late majority are sceptical – they adopt an innovation only after majority of people have tried it
  - Laggards are suspicious of changes and adopt the innovation only when it has become something of a tradition itself

Product Life Cycle
- All products will pass through the PLC
  - What’s different is
    - How long it takes between stages
    - How long it remains in each stage
- Development – no customers, no profits, heavy spending
- Introduction – early adopter customer, no profits, high launch costs
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- Growth – early majority customers, rapid sales growth and revenues
- Maturity – late maturity customers, flat sales, declining profits
- Decline – laggard customers, declining sales, replaced by new products

Marketing Segmentation
- Dividing a market into distinct groups with distinct needs, characteristics, or behaviours who might require separate products or marketing mixes
- Four important segmentation topics: segmenting consumer markets, segmenting business markets, segmenting international markets, and requirements for effective segmentation
  - Segmenting Consumer Markets
    - There is no single way to segment a market, a marketer has to combine several segmentation variables to find the best structure
    - Major variables are:
      - Geographic Segmentation
        - Dividing market into groups based on geographic units such as nations, regions, provinces, countries, cities, or neighbourhoods
      - Demographic Segmentation
        - Dividing market into groups based on demographic variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality
        - Demographic segmentation characteristics:
          - Age and life-cycle stage
          - Gender
          - Income
      - Psychographic Segmentation
        - Dividing a market into different groups based on social class, lifestyle, or personality characteristics
      - Behavioural Segmentation
        - Dividing a market into groups based on consumer knowledge, attitude, use, or response to a product
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- Behavioural variables are:
  - Occasions
  - Benefits sought
  - User status
  - Usage rate
  - Loyalty status

- Segmenting Business Markets
  - Businesses use the same variables to segment their markets, they also use some additional variables such as operating characteristics, purchasing approaches, situational factors, and personal characteristics

- Segmenting International Markets
  - Companies can segment international markets using one or a combination of several variables

Requirements for Effective Segmentation
- There are many ways to segment a market, but not all segmentations are effective
  - To be useful, markets segments must be:
    - Measureable: the size, purchasing power, profiles of the segments, can be measured
    - Accessible: the segments can be effectively reached and served
    - Differentiable: the segments are conceptually distinguishable and respond differently to different marketing mix elements and programs
    - Actionable: effective programs can be designed for attracting and serving the segments

Target marketing
- A set of buyers sharing common needs or characteristics that the company decides to serve
- When evaluating market segments, a firm must look at three factors: segment size and growth, segment structural attractiveness, and company objectives and resources
  - Segment Size and Growth
    - Company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments
  - Segment Structural Attractiveness
    - Company must examine major structural factors that affect long run segment attractiveness
    - Segment is less attractive it if contains many aggressive competitors, or many substitute products
  - Company Objectives and Resources
    - Even if a segment has the right size and growth is structurally attractive, company must consider its own objectives and resources in relation to that segment
    - Some attractive segments can be dismissed because they do not mesh with the company’s long-run objectives

Selecting Target Segments
- Undifferentiated (mass) marketing
  - A market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer
  - Targeting broadly, focusing on what is common in the needs of the market rather than what is different
- Differentiated (segmented) marketing
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- A market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each
- Offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment
- Differentiated marketing also causes increase in costs of doing business

- Concentrated (niche) Marketing
  - A market-coverage strategy in which a firm goes after a large share of one or a few segments, or niches
  - Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niches
  - It can market more effectively by fine-tuning its products, prices, and programs to the needs of carefully defined segments
  - Concentrated marketing can be very highly profitable, at the same time, it involves higher-than-normal risks

- Micromarketing
  - Differentiated and concentrated markets tailor their offers and marketing programs to meet the needs of various market segments and niches
  - Micromarketing is the practice of tailoring products and marketing programs to the needs and wants of specific individuals and local customer groups
  - Includes:
    - Local Marketing
      - Involves tailoring brands and promotions to the needs and wants of local customer groups – cities, neighbourhoods and even specific stores
    - Individual Marketing
      - Tailoring products and marketing programs to the needs and preferences of individual customers – also labelled “markets-of-one marketing”, “customized marketing”, and one-to-one marketing”.

Market positioning
- Products position
  - The way the product is defined by customers on important attributes – the place the product occupies in customers’ minds relative to competing products
- Choosing a positioning strategy
  - The positioning task consist of three steps:
    - Identifying possible competitive advantages
      - The key to winning customers and building profitable relationships with them is to understand their needs better than competitors do and deliver more value
      - You must deliver the quality service you advertise
    - Identify your competitive advantages, differentiate through:
      - Product differentiation
        - Physical design your product differently
      - Services differentiation
        - Provide speedy, convenient, or careful delivery
      - Channel differentiation
        - Gain competitive advantage through the way they design their channel’s coverage, expertise, and performance
      - People differentiation
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- Hiring and training better people than their competitors do
  - Image differentiation
    - Companies image they portray should show distinctive benefits and positioning
    - Developing strong distinctive image calls for creativity and hard work

- Choosing the right competitive advantages
  - How many differences to promote?
    - Many marketers think that companies should aggressively promote only one benefit to the target market
    - Company should develop a unique selling proposition (SP) for each brand and stick to it
    - Companies should promote one proposition in crowded marketing society
    - A company should avoid 3 major positioning errors
      - Under positioning: failing to ever really position the company at all
      - Over positioning: giving buyers a too narrow picture of the company
      - Confused positioning: leaving buyers a confusing image of a company
  - Which Differences to Promote?
    - Important: the difference delivers a highly valued benefit to target buyers
    - Distinctive: competitors do not offer the difference, or the company can offer it in a more distinctive way
    - Superior: the difference is superior to other ways that customers might obtain the same benefit
    - Communicable: the difference is communicable and visible to buyers
    - Pre-emptive: competitors cannot easily copy the difference
    - Affordable: buyers can afford to pay the difference
    - Profitable: the company can introduce the difference profitably

- Selecting an Overall Positioning Strategy
  - Buyers typically choose the product that gives them the greatest value
  - Value proposition is the full positioning of the brand – the full mix of benefits on which it is positioned
  - Fig 7.4
  - Price Vs. Benefits
    - More for more
    - More for the same
    - More for less
    - The same for less
    - Less for much less

- Developing a Positioning Statement
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- A statement that summarizes company or brand positioning – it takes this form: to (target segment and need) our (brand) is (concept) that (point-of-difference).

Goods, Services, and Experiences
- A product is a key element in the marketing offering; it’s one of the 4 Ps of the marketing mix
- Company’s marketing offer often includes both tangible good and services
- Goods and services are tangible and intangible, experiences are memorable

Levels of Goods and Services
- Product planners need to think about goods and services on three levels (Fig 8.1)
  - Core product or benefit
  - Actual product
    - Packaging, features, design, quality level, brand name
  - Augmented product
    - Warranty, delivery, credit, installation, service

Goods and services classifications
- Goods and services fall into two broad classes based on the types of consumers that use them
  - Consumer Products
    - Convenience: frequent, immediate purchases, low involvement
      - Toilet paper, soap
    - Shopping: less frequent purchases, careful comparison between products
      - Clothes, hotels, cars (regular)
    - Specialty: unique characteristics or brand, buyers put forth special effort to purchase
      - Designer clothes, legal services, real-estate, luxury cars
    - Unsought: not usually purchased, or known about
      - New innovations, blood donations
  - Industrial Products
    - Product bought by individuals and organizations for further processing or for use in conducting a business
    - Difference between consumer and industrial is the purpose for which the product is bought
      - Ex) if a lawnmower is bought for a home, it’s a consumer product, if it’s bought for a landscaping business, it’s an industrial product
    - There are 3 groups
      - Materials and parts
        - Include raw materials and manufactured materials and parts
        - Price and service are the major marketing factors in purchase, usually not advertising
      - Capital items
        - Industrial products that aid in the buyer’s production or operations, including installations and accessory equipment
      - Installations
        - Consist of major purchases such as buildings, and fixed equipment
      - Supplies and services
        - Include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms)
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- Supplies are the convenience products of the industrial field because usually purchased with minimum of effort or comparison.
- Services are maintenance and repair services and business advisory services.

Product marketing decisions
- Fig 8.3
  - Product attributes
    - Quality, features, style and design
  - Branding
    - Name, term, sign, symbol or combination that identifies the maker or seller of a product/service.
  - Packaging
  - Labelling
  - Product support services
    - Additional services that delights the customer and yields profits for company.

Product line
- A group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges.

Brand Sponsorship
- A manufacturer has 4 sponsorship options:
  - They can launch the product as a manufacturer’s brand (or national brand) or the manufacturer can sell it to resellers who give it a private brand (store brand or distributor brand).
  - Most manufacturers create their own brand names, others market licensed brands.
  - Some companies can join forces and co-brand a product.

Manufacturer’s Brands vs. Private Brands
- Private brands
  - A brand created and owned by a reseller of a product
  - May be hard to establish and costly to stock and promote
  - Retailers usually price their private brand cheaper than manufacturers because they have more control.
- Manufacturer’s brands
  - Long dominated the retail scene, but there have been increase in private brands
  - Not as profitable in economic down times.

Licensing
- Most manufacturers spend millions to create their own brand names.
- Some companies license names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books.
  - They do this at a fee.

Co-branding
- The practice of using the established brand names of two different companies on the same product.
- In most co-branding situations, one company licenses another company’s well known brand to use in combination with its own.
- These relationships usually involved complex legal contracts and licences.
- “giving away your brand is a lot like giving away your child – you want to make sure everything is perfect.”
New product development strategy
- The development of original products, new brands, and product improvement and modifications, through the firm’s own research and development (R&D) efforts
- Firm can obtain a new product in two ways
  o Acquisition:
    ▪ By buying a whole company, patent, or a licence to produce someone else’s product
  o New product development:
    ▪ Development of original products, new brands, and product improvements and modifications through the firm’s own research and development efforts
- Major stages in the new product development process are:
  1. Idea Generation
  2. Idea Screening
  3. Concept Development and Testing
  4. Marketing Strategy Development
  5. Business Analysis
  6. Product Development and Testing
  7. Test Marketing
  8. Commercialization
- 1. Idea Generation
  o The systematic search for new product ideas
  o Company must usually generate many ideas to find a good one
  o Good product ideas usually come out from watching and listening to customers
- 2. Idea Screening
  o Sorting through new product ideas to identify good ideas, and separate them from the not-so-good ideas
- 3. Concept Development and Testing
  o Developing the new product idea into various alternative forms and testing the concepts with a group of potential customers
- 4. Marketing Strategy Development
  o Designing an initial marketing strategy for a new product based on the product concept
    ▪ Product concept: a detailed version of the new product idea that can be shown to potential customers
- 5. Business Analysis
  o A review of the sales, cost, and profit projections for a new product to determine whether the company’s objectives will be met
- 6. Product Development and Testing
  o Developing the product concept into a real working version of the product and subjecting it to a variety of tests
  o All new products must pass through the product development and testing phase
- 7. Test Marketing
  o Testing the product and marketing program in real, but limited market conditions
- 8. Commercialization
  o The full-scale introduction of the new product into the market

Style, fashion, fad
- Style
  o A basic and distinctive mode of expression
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- Fashion
  - A currently accepted or popular style in a given field

- Fad
  - A fashion that enters quickly, is adopted with a great zeal, peaks early, and declines very quickly

General Pricing Approaches

- The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand
- Companies select prices by selecting a general pricing approach that includes one or more of these three sets of factors
  - Cost-Based Pricing
    - Adding standard mark-up to the cost of the product
    - Cost-plus pricing may not always be optimal if it ignores demand and competitor prices; however this approach remains popular and effective in many sectors
      - One advantage is that sellers are more certain about costs than demand, and so mark-up-based pricing is less risky
    - Another cost-oriented pricing approach is break-even pricing, or a variation called target profit pricing
      - Setting price to break even on the costs of making and marketing a product; or setting a price to make a target profit
  - Value-Based Pricing
    - Setting price based on buyers’ perceptions of value rather than on the sellers cost
    - Price is considered along with the other marketing mix variables before marketing program is set
    - Cost based pricing and value based pricing are reverse processes
    - Fig 10.5
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- Value pricing is offering just the right combination of quality and good service at a fair price
  - Competition-Based Pricing
    - Setting prices based on the prices that competitors charge for similar products
    - Also known as going-rate pricing
    - Going-rate pricing is quite popular, when demand elasticity is hard to measure, firms feel that the going price represents a fair return
    - Also they feel that holding the going price will prevent harmful price wars

New product pricing strategies
- Pricing strategies usually change as the product passes through its life cycle
- They choose between two broad strategies:
  - Market-Skimming Pricing
    - A high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales
    - Going through each price level to sell as much as high prices as possible, and then lowering price and selling as much as possible
    - Market skimming only makes sense under certain conditions, product must have a high quality and image must support the higher price, as well as enough buyers must want the product at that price
    - Also, costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more
    - Finally competitors should not be able to enter the market easily and undercut the high price
  - Market-Penetration Pricing
    - Setting a low price for a new product in order to attract a large number of buyers and a large market share
    - Large number of sales volume results in falling costs, allowing the company to cut its price even further
    - Several conditions must be met for this low-price strategy to work
      - Market must be highly price sensitive so that a low price produces more market growth
      - Production and distribution costs must fall as sales volume increases
      - Low price must help keep out the competition
      - Penetration pricing organization must maintain its low-price position, or the price advantage may only be temporary

Price-adjustment strategies
- Companies must adjust their basic prices to account for various market differences and changing situations
- Six price adjustment strategies:
  - Discount and allowance pricing
    - Companies adjust their price to reward customers for certain responses such as early payment of bills, volume purchases, and off-season buying
      - These are called discounts and allowances
    - Discount: a straight reduction in price on purchases during a stated period of time
      - Cash discount: a price reduction to buyers who pay their bills promptly
      - Quantity discount: price reduction to buyers who buy large volumes
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- Functional discount (trade discount): offered by the seller to trade-channel members who perform certain functions such as selling, storing, and record keeping
- Seasonal discount: price reduction to buyers who buy merchandise or services out of season
  - Allowance: promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer’s products in some way
  - Trade-in allowances: price reductions given for turning in an old item when buying a new one
  - Promotional allowances: payments or price reductions to reward dealers for participating in advertising and sales support programs

- Segmented Pricing
  - Selling a product or service at two or more prices, where the difference in prices is not based on differences in costs
  - Takes several forms
    - Customer-segment pricing: different customers pay different prices for the same product or service, ex) adults/students/seniors
    - Product-form pricing: different versions of the product are priced differently but not according to differences in their costs
    - Location pricing: company charges different prices for different locations even though cost of offering at each location is the same
    - Time pricing: price varies by the season, month, day, and even hour

- Psychological Pricing
  - A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product
  - Reference prices: prices that buyers carry in the minds to refer to when they look at a given product, ex) sale prices vs. regular prices

- Promotional pricing
  - Temporary pricing products below the list price, and sometimes below cost, to increase short-run sales
  - Stores will put in a few products as loss leaders – products priced below their cost to attract customers to the store in hope that they will buy other items at normal mark ups
  - Some manufacturers offer cash rebates to consumers who buy the product from dealers within a specified time

- Geographical Pricing
  - Company must decide to price its products located in different parts of the country or world
  - How will shipping costs be paid?
    - FOB-origin pricing
      - Goods are placed free on board, and the shipping responsibility is on the customer, who pays the freight from the factory to destination, each customer picks up their own costs
    - Uniform-delivered pricing
      - Opposite of FOB pricing, company charges same price plus freight to all customers, regardless of their location
      - Freight charges is set at the average freight cost, everyone pays the same price no matter how close they are
    - Zone pricing
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- Falls between FOB and uniform pricing, company sets up two or more zones, all customers within a given zone pay a single total price
  - Basing-point pricing
    - Sellers select a given city as “basing point” and charges all customers the freight cost from that city to the customer location regardless of the city
  - Freight-absorption pricing
    - Seller absorbs all or part of the actual freight charges in order to get the desired business
    - Usually used for market penetration

- International Pricing
  - Companies marketing outside of their country, must decide what prices to charge in the different countries in which they operate

Flowcharting
- Helps management visualize the customer’s total service experience

Research Objectives: exploratory, descriptive, causal
- Exploratory research
  - Formats problems more precisely, clarifying concepts, gathering explanations, gaining insight, eliminating impractical ideas, and forming hypotheses
  - Does not seek to test them, just finds them out
- Descriptive research
  - Seeks to describe a product, determine how many people use the product
  - Defines questions, prepares the company for required changes
- Causal research
  - Seeks to find cause and effect relationships between variables
  - Accomplishes this by experiments

Core product & Supplementary services (flower of service)
- Supplementary services play one of two roles:
  - Facilitating supplementary services – required for service delivery or aid in the use of the core product (ie. information, order-taking, billing, payment)
  - Enhancing supplementary services – which add extra value for customers (ie. Consultation, Hospitality, safekeeping, exceptions)

- Flower of service: services that will likely to occur in this order:
  1. Information
    - Customers need relevant information – especially new customers – and provide it quickly and accurately
  2. Consultation
    - Involves a dialogue to probe customer requirements and then develop a tailored solution
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3. Order-taking
   - Should be polite, fast, and accurate so that customers do not waste time and endure unnecessary mental or physical effort

4. Hospitality – reflect pleasure at meeting new customers and greeting old ones when they return
   - Can decrease or increase the satisfaction with the core product

5. Safekeeping – assistance with personal possessions will bring customers to the core product

6. Exceptions – several types
   - Special requests
   - Problem-solving
   - Handling of complaints/suggestions/compliments – provide quick response
   - Restitution – customers expect to be compensated for performance failures

7. Billing
   - Timely, fast, accurate so customers don’t have to come back and ask for refunds and corrections

8. Payment

   **Competition Based Pricing**

   - Firms with relatively undifferentiated services need to monitor what competitors are charging and should try to price accordingly or else customers will see little or no difference between competing offerings and buy the cheapest one

   - Firms with the lowest cost per unit of service enjoys a market advantage and often assumes *price leadership*

   - If lower price does not work firms increase their value offering my promoting high quality and service compared to the competition

   - Price competition intensifies with
     1. Increasing number of competitors
     2. Increasing number of substituting offers
     3. Wider distribution of competitor and/or substitution offers
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4. Increasing surplus capacity in the industry

- Price competition decreases with
  1. Non-price-related costs of using competing alternatives are high – saving time and effort are of equal or greater importance to customers than price
  2. Personal relationship matter – services that are highly personalized and customized are very important customers, thus discouraging them from responding to price competitive offers
  3. Switching costs are high – taking time, money, and effort, to switch providers customers are less able to take advantage of competing offers
  4. Time and location specificity reduce choice

- Managers should watch that firms should not fall in to the trap of comparing competitors’ prices dollar for dollar, and then seeking to match them

Value based pricing

Understanding Net Value

- Customers weigh the perceived benefits obtained from the service against the perceived costs they will incur
- Valarie Zetihaml proposes four broad expressions of value:
  1. Value is low price
  2. Value is whatever I want in a product
  3. Value is the quality is the quality I get for the price I pay
  4. Value is what i get for what I give
- #4 is known as Net Value – the sum of all the perceived benefits (gross value) minus the sum of all the perceived costs of service
- Four distinct but related strategies for capturing and communicating the value of a service:
  1. Uncertainty reduction, relationship
  2. Relationship enhancement
  3. Low-cost leadership
  4. Value perception management
- Reducing uncertainty include:
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1. Benefit-driven pricing – involves pricing the aspect of the service that directly benefits customers

2. Flat-rate pricing – involves quoting a fixed price in advance of service delivery so as to avoid surprises for users

• Discounting is not the best way to win new business if a firm is to seek loyal customers (offering discounts on large purchases or two or more services bundled together will)

Cost leadership

• Low-priced services appeal to customers on tight financial budgets and may also stimulate larger purchases

• Challenge is to price low to convince customers that they are getting good value

• Second challenge is to ensure that economic costs are low enough to enable profits

Managing the Perception value

• Effective communications and even personal explanations are needed to help customers understand the value they receive

Overcome the problems of Intangibility

• Mittal suggests intangibility of services can cause 4 problems

  1. Abstractness – abstract concepts such as financial security do not have a one to one correspondence with physical objects, it can be challenging for marketers to connect their services to those concepts

  2. Generality – refers to items that comprise a class of objects, persons, or events; marketers must communicate that they have a specific offering distinctly different from competing offerings

  3. Non-searchability – refers to the fact that intangibles cannot be searched or inspected before they are purchased (ie. surgeon’s expertise)

  4. Mental impalpability – many services are sufficiently complex that it is difficult for customers to understand what the benefits of the products are

Marketing communications mix – marketers that have access to numerous forms of communication

• Different communication elements have distinctive capabilities relative to the types of messages that they can convey and the market segments most likely to be exposed to them (fig. 17.2)
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- Personal communications – involve personalized messages that move in both directions to both parties (i.e. Telemarketing) [left columns of fig. 17.2]

- Impersonal communications – messages that move in one direction are targeted at a group of customers than one individual [right columns of fig 17.2]

**Service Blueprints**

- Service blueprints clarify the interactions between customers and employees, and how these are supported by backstage activities and systems

- Distinguishes between what customers experience “front-stage” and the activities of employees and support processes “backstage”, where customers can’t see them

- Gives managers the opportunity to identify potential fail points

**Service Process Redesign**

- SPR revitalizes processes that have become outdated

- Achieve the following key performance measures
  1. Reduced number of service failures
  2. Reduced cycle time
  3. Enhanced productivity
  4. Increased customer satisfaction

- Service process redesign encompasses reconstitution, rearrangement, or substitution of service processes
  1. Eliminating non-value-adding steps  Fig 19.1 pg 430
  2. Shifting to self-service
  3. Delivering direct service
  4. Bundling services
  5. Redesigning the physical aspects of service processes

**Customers as Partial Employees**

- Viewing customers as “partial employees” can influence the productivity and quality of service processes and outputs

- Managing customers as partial employees involves:
  1. Conduct a “job analysis” of customers’ present roles in the business, and compare it with the roles the firm would like them to play
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2. Determine if customers are aware of how they are expected to perform and have the skills needed to perform as required

3. Motivate customers by ensuring that they will be rewarded for contributing and performing well

4. Regularly appraise customers’ performance

Jay customers

- Undesirable; avoid attracting them first place
- **Thief** – no intention of paying and steals
- **Rule breaker** – service businesses need to establish rules of behaviour for employees and customers to guide them safely through the various steps of the service encounter
- **Belligerent** – those that get very angry, or icily calm and swearing at machines, service is clumsy, customers are ignored, etc.
- **Family feuders** – people who get into arguments with other customers (often with their own family)
- **Vandal** – using security to prevent people from vandalising and physical abuse from customers or drunks

Capacity Constrained Organizations pg 444

- Productive capacity can take on several forms:
  1. Physical facilities designed to contain customers and used for delivering people processing service or mental-stimulus processing services
  2. Physical facilities designed for storing or processing goods that either belong to customers or are being offered to them for sale
  3. Physical equipment used to process people possessions, or information may embrace a huge range of items and be very situation-specific
  4. Labour is a key element of productive capacity in all high-contact services and many low-contact ones
  5. Infrastructure – many organizations are dependent on access to sufficient capacity in the public or private infrastructure to be able to deliver high-quality service to their own customers

- Measures of capacity utilization include the number of hours that facilities, labour, and equipment are productively employed in revenue operation, and the units or percentage of available space that is utilized in revenue operations.

- Chasing demand (several actions that managers can take to adjust capacity as needed):
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1. Schedule downtime during periods of low demand
2. Use temporary employees
3. Rent or share extra facilities and equipment
4. Cross-train employees
5. Let customers perform self-service

**Five approaches to managing demand**

1. Taking no action and leaving demand to find its own level
2. Reduce demand in peak periods
3. Increase demand when there is excess capacity
4. Inventorying demand until capacity becomes available
5. Creating formalized queuing systems

**Different Queue Configurations**

- **In single line**, sequential stages, customers proceed through several serving operations, as in a cafeteria
- **Parallel lines to multiple servers** offer more than one serving station, allowing customers to select one of several lines in which to wait (e.g., banks, fast food restaurants)
- Create **single line to multiple servers** (commonly known as “snake”) as a solution for thinking that you are in the shortest line but watch in frustration that the other lines are moving twice as fast
- **Designated lines** involve assigning different lines to specific categories of customer (express lines of 12 items or less)
- Take a number saves customers the need to stand in a queue, because they know they will be called in their order of arrival
- Customers who waited in parallel lines to multiple servers reported significantly higher agitation and greater dissatisfaction with the fairness of the service delivery process than customers who waited in a single line

**From Excess Demand to Excess Capacity**

- **Excess demand.** The level of demand exceeds maximum available capacity, with the result that some potential customers are denied service and business is lost
- **Demand exceeds optimum capacity.** No one is actually turned away, but conditions are crowded and customers are likely to perceive a deterioration in quality of service and feel dissatisfied
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- **Demand and supply are well balanced.** Staff and facilities are busy without being overworked, and customers receive good service without delays

- **Excess capacity.** Demand is below optimum capacity and productive resources are underutilized, resulting in low productivity

**Marketing Logistics and Supply chain management pg 261**

**Marketing logistics (physical distribution)** – the tasks involved in planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit.

- Involves getting the right product to the right customer in the right place at the right time

- Marketing logistics addresses not only *outbound distribution* (moving products from the factory to resellers and ultimately to customers) but also *inbound distribution* (moving products and materials from suppliers to the factory) and *reverse distribution* (moving unwanted products returned by consumers)

**Supply chain management** – managing value-add flows of materials, final goods, and related information between suppliers, the company resellers, and final users

- Minimum distribution costs imply slower delivery, smaller inventories, and larger shipping costs

- The goal of marketing logistics should be to provide a targeted level of customer service at the least cost

**Major logistics functions**

- **Order processing** – orders set up by salespeople through mail or telephone, via the internet
  - Vendor-managed inventory (VMI) systems – allows customers to share real-time data on sales and current inventory levels with the supplier

- **Warehousing**
  - Distribution centres – a large, highly automated warehouse designed to receive goods from various plants and suppliers, take order, store efficiently, and deliver goods to customers as quickly as possible
  - Companies must store their tangible goods until they are sold

- **Inventory levels affect customer satisfaction**
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- Many companies have greatly reduced their inventories and related costs through just in time logistics systems, where producers and retailers carry only enough inventory of parts or merchandise for a few days of operations

- Transportation carriers affects the pricing of products, delivery performance, and condition of the goods when they arrive – which affect customer satisfaction

  - **Intermodel transportation** – combining two or more modes of transportation

*Integrated supply chain management*

- **Integrated supply chain management** – the logistics concept that emphasizes teamwork, both inside the company and among all the channel organizations, to maximize the performance of the entire distribution system

- Companies are adopting the concept of integrated supply chain management with the goal of harmonizing all of the company’s logistics decisions in order to create high market satisfaction at a reasonable cost

- One company’s distribution system is another company’s supply system

- Growing number of firms now outsource some or all of their logistics to third-party logistics (3PL) providers

- **third-party logistics (3PL) providers** – an independent logistics that performs any or all of the functions required to get its clients’ product to market

*Stimulate or Dampen Demand to match capacity pg 389*

- advertising and sales promotions can help to change the timing of customer use, and thus help to match demand with the capacity available at a given time

- demand management strategies include reducing usage during peak demand periods and stimulating it during off-peak periods with high fixed costs (ie, hotels)

*Push vs pull strategy*

Promotional Strategies (know the difference)

- **Push strategy:**
  - Promotional effort to channel members to stock, promote products to consumers
  - Personal selling and trade promotion-driven
  - RARE

- **Push Strategy Example**
  - MONSTER Energy Drink
  - Sales force pushes product to:
    - Convenience stores
    - Gas station
    - Bars and clubs
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- Stores in turn push products onto consumers

  - Pull strategy:
    - Promotional efforts to appeal directly to consumers
    - Advertising and sales promotion-driven
  - Pull Strategy Example
    - VIAGRA
      - Advertises directly to consumers
      - Consumers ask for the product by name

Conventional marketing channel vs vertical marketing 248

- Fig 11.6

- Conventional distribution channel – consists of one or more independent producers, wholesalers, and retailers, each a separate business seeking to maximize its own profits even at the expense of profits for the system as a whole
  - no channel member has much control over the other members, and no formal means exists for assigning roles and resolving channel conflict

- Vertical marketing system (VMS) – consists of producers, wholesalers, and retailers acting as a unified system. One channel member owns the other has contracts with them, or has so much power that they all cooperate (ie. sears buys more than 50% of its goods from companies that it partly or wholly owns)

- Franchises are special types of vertical marketing systems that link several stages in the production-distribution

Elasticity in the service sector

Price Elasticity
  - A way of measuring how sensitive the market is to price changes
    - Inelastic: minimal change in demand as price increases
    - Elastic: significant drop in demand as price increases

Service Employees are crucially important

- Service employees are:
  1) *Part of the product*: employees are the most visible element of the service, delivers the service, and significantly determines service quality
  2) *Is the service firm*: front-line employees represent the service firm, and from a customer’s perspective, are the firm
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3) Is the brand: front-line employees and service are often a core part of the brand. It is the employees who determine whether the brand promise gets delivered or not

- Service employees play a key role in anticipating customers’ need, customizing the service delivery, and building personalized relationship with customers, which ultimately lead to customer loyalty.

- James Heskett and his colleagues formalized the service-profit chain which demonstrates the chain of relationship between
  1) Employee Satisfaction, retention, and productivity
  2) Service value
  3) Customer satisfaction and loyalty
  4) Revenue growth and profitability for the firm

- Although the quality of technology and self-service interface is becoming the core engine for service delivery, and its importance has been elevated drastically, the quality of front-line employees still remains crucially important

- Service delivered by the front line is highly visible and important to the customer, and therefore a critical component of the services strategy

The cycle of failure

- The cycle of failure captures the implications of such a strategy (hiring workers as cheaply as possible to perform repetitive work at fast food restaurants, calling centers, etc), with its two concentric but interactive cycles: one involving failures with employees, the second with customers

- The employee cycle of failure begins with a narrow design of jobs to accommodate low skill levels, an emphasis on rules rather than service, and the use of technology to control quality

- The customer cycle of failure begins with repeated emphasis on attracting new customers, who become dissatisfied with employee performance and the lack of continuity implicit in continually changing faces

- There is a failure to measure all relevant costs

- Three key cost variables often omitted:
  1) the cost of constant recruiting, hiring, and training
  2) the lower productivity of inexperienced new workers
  3) the costs of constantly attracting new customers
Train service employees actively

- service employees need to learn:
  - The organizational culture, purpose and strategy – start strong with new hires, focus on getting emotional commitment to the firm’s core strategy, and promote core values such as commitment to service excellence, responsiveness, etc.
  - Interpersonal and technical skills – interpersonal skills tend to be generic across service jobs, and include visual communications skills such as making eye contact, body language, etc.
  - Product/service knowledge – knowledgeable staff are a key aspect of service quality

- Training is extremely effective in reducing person/role stress
- Training and learning professionalizes the front line, moving these individuals away from the common image of being in low-end jobs that have no significance

Empower the front line

- Empowerment approach is more likely to yield motivated employees and satisfied customers than the “production line” alternative, where management designs a relatively standardized system and expects workers to execute tasks within narrow guidelines.
- Empowerment is most likely to be appropriate when most of the factors are present in company
  - The firm’s business strategy is based on competitive differentiation, and on offering personalized, customized service
  - The approach to customers is based on extended relationship rather than on short term transactions
  - The organization uses technologies that are complex and non-routine in nature
  - The business environment is unpredictable and surprises are to be expected
  - Existing managers are comfortable with letting employees work independently for the benefit of both the organization and its customers
  - Employees have a strong need to grow and deepen their skills in the work environment, are interested in working with others, and have good interpersonal and group process skills

- Four features for empowerment throughout the organization
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- **Power** to make decisions that influence work procedures and organization direction
- **Information about organization performance**
- **Rewards** based on organization performance, such as bonuses
- **Knowledge** that enables employees to understand and contribute to organizational performance

- **Empowerment can take at several levels:**
  - **Suggestion involvement** empowers employees to make recommendations through formalized programs
  - **Job involvement** represents a dramatic opening up of job content
    - Jobs redesigned to allow employees to use a wider array of skills
  - **High involvement** gives even the lowest-level of employees a sense of involvement in the company's overall performance

**How to identify the best candidates**

- **Observe behaviour**
  - Hiring decision should be based on the behaviour that recruiters observe, not the words they hear

- **Conduct personality tests**
  - Willingness to treat customers and colleagues with courtesy, and consideration, and tat, perceptiveness of customer needs, and ability to communicate accurately and pleasantly are traits that can be measured

- Its better to hire upbeat and happy people, because customers report higher satisfaction when being served by more satisfied staff

- To improve hiring decisions, successful recruiters like to employ structured interview built around job requirements, and to use more than one interviewer

- During the recruitment process, service companies should let candidates know the reality of the job, thereby giving them a change to “try on the job” and assess whether it’s a good fit or not

**Unions**

- The power of organized labour is widely cited as an excuse for not adopting new approaches in both service and manufacturing businesses
Jeffrey Pfeffer: “the effects of unions depend very much on what management does”

The higher wages, lower turnover, clearly established grievance procedures, and improved working conditions often found in highly unionized organizations are all characteristics of the cycle of success: yielding positive benefits in a well managed service organization.

Four advantages to incremental profits of a loyal customer.

1) Profit derived from increased purchases
   - Individuals or businesses may purchase more as their families or businesses grow larger and need to purchase larger quantities.

2) Profit from reduced operating costs
   - As customers become more experienced, they make fewer demands on the supplier (less mistakes made).

3) Profit from referrals to other customers
   - Positive world of moth recommendations are like free sales and advertising, saving the firm from having to invest as much money in these activities.

4) Profit from price premium
   - New customers often benefit from introductory promotional discounts, whereas long-term customers are more likely to pay regular prices, and when highly satisfied are even willing to pay a price premium.

Membership relationships and loyalty programs

Membership relationship

- A formalized relationship between the firm and an identifiable customer, which may offer special benefits to both parties.
  - Advantage to firms is it allows services to know who it current customers are and, usually, what use they make of the service offered.
  - Good for segmentation purposes.

The wheel of Loyalty
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- A framework for thinking about how to build customer loyalty
- Comprises 3 sequential strategies:
  1) Build a foundation for loyalty:
     a. Segment the market
     b. Be selective- acquire customers who fit the core value proposition
     c. Manage the customer base via effective tiering of services
     d. Deliver quality service
  2) Create Loyalty Bonds:
     a. Build higher level bonds: social, customization, structural
     b. Give loyalty rewards
     c. Deepen the relationship via: cross-selling, bundling
  3) Reduce churn drivers (see REDUSING CUSTOMER DEFECTIONS section)

FIGURE 22.1: The wheel of loyalty Pg. 483

Reducing customer defections

Reducing customer defection (also called customer churn):

- The first step is to understand the reasons for customer switching-
  - These include: core service failure (greatest reason); dissatisfactory service encounters; high, deceptive, or unfair pricing; inconvenience in terms of time, location or delays; and poor response to service failure.
- address key churn drivers:
  - after understanding some generic churn drivers, you should address these problems by delivering quality service, minimizing inconvenience and other non-monetary costs, and fair and transparent pricing.
- Implement effective complaint handling and service-recovery procedures
  - Effective complaint handling crucial in persuading unhappy customers not to switch providers
- increase switching costs
  - many services have natural switching costs (time consuming to switch major bank account etc.)
  - you can increase or create new switching costs by instituting penalties through contracts

5 different perspectives of service quality

There are 5 different perspective one can view the word quality according to the context:
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1) **The Transcendent view:** Quality is synonymous with excellence; argues that people recognize quality only through the experience gained from repeated exposure. Customers will know quality only when they see it.

2) **The Produce-Based approach:** quality is a measurable variable. Difference in quality represent differences in the attributes possessed by the product. This view fails to account for differences in the tastes, needs and preferences of individual customers.

3) **User Based definitions:** “quality lies in the eye of the beholder”. Quality equals maximum satisfaction. Recognizes that different customers have different wants and needs.

4) **The manufacturing-based approach:** concerned primarily with engineering and manufacturing practices. Focuses on conformance to internally developed specification, which are often driven by productivity and cost-containment goals.

5) **Value Based definitions:** define quality in terms of value and price. Trade-off between performance and price.

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**Gaps in service design and delivery**

There are 7 types of gaps that can occur at different points during the design and delivery of a service performance:

1) **The knowledge gap:** the difference between what service providers believe customers expect and customers’ actual needs and expectations.

2) **The standards gap:** the difference between management’s perceptions of customer expectations and the quality standards established for service delivery.

3) **The delivery gap:** the difference between specified delivery standards and the service provider’s actual performance on these standards.

4) **The internal communications gap:** the difference between what the company’s advertising and sales personnel think are the product’s features, performance, and service quality level, and what the company is actually able to deliver.

5) **The perceptions gap:** The difference between what is delivered and what customers perceive they have received (unable to accurately evaluate service quality)

6) **The interpretation gap:** the difference between what a service provider’s communication efforts actually promise and what a customer thinks was promised.

7) **The service gap:** (THE MOST SERIOUS GAP) the difference between what customers expect to receive and their perception of the service that is actually delivered.

Gaps 1, 5, 6, 7 are external gaps (between customer and organization)

Gaps 2, 3, 4 are internal gaps (between departments within the organization)

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**Customer-driven approaches to improve productivity**

Productivity measure the output produced relative to the input used.

The task of improving service productivity usually assigned to operations managers. Such actions include (but not limited to):

- control costs
- reduce waste of materials or labour
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- using automated machines
- training employees to work more productively

Customer-Driven Approaches:
- Many situations involve high customer input
- Managers should examine improving customer inputs
- Examine 3 strategies:
  1) Changing the timing of customer demand (shift demands away from peak times; offering demand through other channels i.e. internet)
  2) Involve customer more in production (customers can assume roles of organization employees)
  3) Ask customers to use third parties (delegating one or more support functions; eg. Delivery team so customer doesn’t need to travel, eg. Travel agencies; third parties can be cheaper and more productive and allow the main organization to specialize on service features)

4 levels of service performance

Service performance can be categorized into four levels:

1) **Service Losers**:
   - Organizations that are at the bottom of service quality
   - ‘bottom of the barrel’ from both managerial and customer perspective
   - Typically survive because there is no viable alternative

2) **Service Nonentities**:
   - Performance leaves much to be desired
   - Eliminated the worst features of losers
   - Marketing strategies unsophisticated
   - Difficulty distinguishing one from another

3) **Service Professionals**:
   - Different league from nonentities
   - Clear market-positioning strategy
   - Customers seek out these firms based on good reputation
   - Explicit links between backstage and front stage activities

4) **Service Leaders**:
   - “crème de la crème” of their industries
   - Service leaders are outstanding
   - Reputation of excellent service and ability to delight customers

Firms can either move up or down the performance ladder.

**John Kotter’s 8 stages of leadership**

John Kotter argues that in most successful processes of change management, those in leadership roles must navigate through eight stages:

1) Creating a sense of urgency to develop the impetus (momentum) for change
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2) putting together a strong enough team to direct the process
3) creating an appropriate vision of where the organization needs to go
4) communication that new vision broadly
5) empowering employees to act on that vision
6) producing sufficient short term results to create credibility and counter cynicism
7) building momentum and using that to tackle the tougher change problems
8) anchoring the new behaviours in the organizational culture

Evolution versus turnaround

Transformation of an organization can take place in two pays: evolution or turnaround

Evolution:
- in business context involves continual mutations designed to ensure survival of the fittest
- management must evolve focus strategy of the firm to take advantage of changing condition and new technologies
- firm can’t remain successful without a continuing series of mutations

Turnaround:
- leaders (usually new ones) try to bring failing organizations back from the brink of failure
- advantageous to bring a new CEO in from outside the organization in turnaround situations
- 4 hurdles leaders face in reorienting and formulating strategy:
  1. Cognitive hurdles- when people cannot agree on the causes of problems and the need for change
  2. Resource hurdles- when the organization is constrained by limited funds
  3. Motivational hurdles- prevent a strategy’s rapid execution when employees are reluctant to make needed changes
  4. Political hurdles- organized resistance from powerful vested interests seeking to protect their positions

Leadership, Culture, and climate

Organizational Culture:
- Shared perception or themes regarding what is important in the organization
- Shared values about what is right and wrong
- Shared understanding about what works and what doesn’t work
- Shared beliefs and assumptions about why these things are important
- Shared styles of working and relation to others

Organizational Climate
- Represents the tangible surface layer of the organization’s underlying culture
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- 6 key factors that influence and organizations working environment are it’s flexibility—how free employees feel to innovate; responsibility to the organization; the level of standards people set; the perceived aptness of rewards; the clarity people have about mission and values; and the level of commitment to a common purpose
- climate represents the shared perceptions of employees about the practices, procedures, and types of behaviours that get rewarded and supported in a particular setting
- multiple climates often exist within an organization

Organization Leaders

- leaders are responsible for creating cultures and the service climates that go along with them
- transformation leadership may require changing culture that doesn’t work

Service-profit chain

Fig 24.1

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