MARKETING STRATEGY CONCEPTS

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LEARNING OBJECTIVES

When you have successfully completed this module, you will be able to:

- identify and develop the essential components of a comprehensive and integrated marketing strategy
- develop a meaningful description of the products/services sold by your business
- identify, describe and choose market segments that could be targeted by your business
- develop effective marketing communications strategies for your products/services
- establish appropriate prices for your products/services
- select appropriate channels of distribution for your products/services

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Marketing

Marketing can be viewed as a set of functions that include product development, packaging, pricing, advertising, selling, distribution and customer service. Marketing is also a way in which an organization determines its best opportunities in the marketplace, given its objectives and resources.

The marketing process is divided into a strategic and a tactical phase. The strategic phase has three components: segmentation, targeting, and positioning (STP). The organization must distinguish among different groups of customers in the market (segmentation), choose which group(s) it can serve effectively (targeting), and communicate the central benefit it offers to that group (positioning).

The marketing process includes designing and implementing various tactics to achieve its intended strategies. These tactics are commonly referred to as the “marketing mix”. These tactics are also referred to as the “5 Ps”: product, place/(or market), promotion, price, and distribution/ (or placement of the product).

The "Marketing Mix"

A comprehensive marketing strategy must address all components of the "Marketing Mix":

- Product
- Place/Market
- Promotion
- Pricing
- Placement/Distribution

Otherwise the strategy is not complete. Calling it a mix reminds you to try and get the balance right between the different components.

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We tend to think about marketing in terms of everyday consumer products that we all purchase and use. That is what we call consumer marketing.
However there is another whole sector called industrial marketing which is focused on selling products or services to corporate clients as opposed to consumers. Bear these differences in mind as there are differences in strategies if you are marketing to consumers as opposed to corporate clients.
Another difference that we must bear in mind is the distinction between products and services. Services are different in nature than tangible products that we can put our hands on, so there can be some differences in marketing strategy concepts.

Product

What is a product?

A Product is:

"a package of benefits"

"as perceived by the customer"

The key is that the benefits must be perceived by the consumer, not the product developer or promoter. This definition is the acid test as to whether we have a good product or service to sell.

You may be a brilliant technologist and you may understand this technology and develop this really exciting product, but if the consumer doesn't see a need for the benefits offered by the product, then the consumer will not buy and therefore you do not have a product or service.

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The first important lesson in marketing is that if you are looking at marketing a product or service, you have to put yourself into the shoes of the consumer and try to evaluate whether the product or service is a real value proposition.

The classic story of a failed business is the entrepreneur who had a wonderful idea or a wonderful concept. The problem is the consumer had no interest in it. So you do not have a product or a service unless there is a consumer need to be satisfied as perceived by the customer, and not by the supplier of the product or service.

Package of Benefits
Possibilities:

- brand name;
- price/quality combination;
- convenience;
- accessibility;
- reliability;
- other attributes important to the customer.

Brand name
Some products are sold today on the basis of brand name. A lot of people, for instance, buy Nike products because of the recognition of the Nike brand name and they want to be seen wearing that brand name. Brand name is an important strategy in retail clothing and many other products or services. Having the brand name can be an important benefit to the consumer. Often brands are associated with a "brand promise". For example, the Volvo brand is associated with automobile safety.

Price/Quality combination
The combination of Price and Quality can be a benefit. Yes, I am paying a higher price, but I am getting a higher quality product or service (e.g. I am buying an IBM or COMPAQ computer, because the IBM or COMPAQ name means something for me as opposed to buying a clone where I am not sure if I am getting the right computer).
Higher price, but there is a higher quality benefit perceived by the consumer.

Convenience & Accessibility
Convenience and accessibility of the product. If it is everywhere, you don't have to go far to get it and that can be an important package of benefits.
Convenience stores are based a marketing strategy that is built wholly around the word "convenience". They are in every neighborhood and, while it costs more to shop from there, you only need to run down the street. You will buy certain groceries, odds and ends in that kind of an outlet.

Reliability
Reliability is an important benefit. When we buy transportation services, we want to be sure of the reliability of an airline. When we are planning a family vacation, we want to be sure that we are going to get there. Obviously there are some things that an airline cannot control, but even in adverse conditions it gets you there although the flight may be a little late.

Other attributes
There are many other attributes and benefits that are important to the customer and these are not mutually exclusive. The key thing is that you are going to be able to see what the customer sees in your products and services, because you cannot develop a good marketing strategy without looking at the package of benefits that

you want to offer, and your package of benefits might be different from those of your competitors.

Different groups (segments) of consumers might place different emphasis on the various benefits.

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Product Planning Issues

- **Product Planning:**
  - Is the product/service serving a need?

    Let's consider the marketing of this course, for example. If we are to market this course as a distance education product, we should ask the questions:
    "Is there a need on training in business fundamentals?"
    "Are there people out there that have limited knowledge of business fundamentals that would like to learn about business at their own time and pace and perhaps in their own home, and could use this as a substitute for doing an undergraduate degree in business administration or commerce or an MBA"?
    So the question becomes, "Would a course like this satisfy a need"?
    If it doesn't, then there is no market for the course

  - Can the need be served profitably?

    Obviously, unless you can offer a product or service that is going to gain profits your business is not going to survive. Part of product planning is pricing and costing and assessing whether or not you can service the product or need profitably. It is one thing to have a great idea, it is another thing to look at the cost of delivering the idea to the customer and it is yet another thing to find out how much your customer is willing to pay for the great idea. You might think that the product is going to cost a certain amount, and tack on a profit margin saying that is what the customers are going to pay.
    You don't decide what the consumer is going to pay, the consumer is going to decide that.

  - Do you have the capacity to fill the need?

> This is another fatal error that businesses make, particularly in the start-up phase. They are so excited about their product or service, they forget about one important detail. What is their capacity to deliver the product or service? If you create a big hype about your product and all of a sudden there is a huge demand for it and you can't deliver, then clearly you are going to frustrate the marketplace and your reputation is going to suffer. In the business plan, we look at how the business is going to evolve, taking into account the production and service capacity that you have within your business at different stages of its evolution.

- What effect will the product/service have on other products/services?

> This is an important concept for businesses that are well established or have well established product lines. When they introduce new products, they may impact the sales of other products, and particularly if the benefits overlap between one or more products within a company's product portfolio. If the benefits overlap, there is a chance that the consumer may switch between the product that they are currently buying from your company to the new one that you are introducing into the marketplace. This is often referred to as cannibalization.

- Will the product/service enhance the company's image?

> When talking about business planning, it is important to know what kind of business we want to be, how we want to be seen in the marketplace. If we have a goal that we want to be seen as an innovator at the leading edge of technology, then clearly we don't want to introduce a product that can be perceived as dull and not on the leading edge, where competitors have products that are even better than what we have to offer. That kind of product would not fit with the image of the company. Product/Company fit is an important concept. Make sure that the product fits with the kind of company we are trying to be and the kind of image we are trying to build as a company.

- How will competitors react?

Obviously, an important part in marketing strategy planning is to understand how we are positioned in relation to our competitors and how they are going to react when we introduce this new product. Are they going to attack the product? Are they going to cut prices which may affect the profitability of this product introduction? If they do, are we going to be able to sustain the introduction of this product?
We are going to have to think about the downside, to have a Plan B and to respond to the competition's reaction that we face with the introduction of a new product.

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These issues are the important things that must be addressed in the business plan when doing product planning. It is the guide that you use in setting the strategy with respect to the introduction of your product in whatever market you choose to introduce it in.

Product Differentiation

Another concept that we will hear of with respect to product is the concept of product differentiation. This is a wonderful thing if you can achieve it. If you are able to create product differentiation, it means that the customer sees something unique in your product as opposed to an alternative product.
The customer "perceives" benefits that are unique, relative to competitive offerings.

A very famous example is Purdue's Chicken, which is widely available in the U.S. market. Purdue's Chicken was introduced by Frank Purdue, who some say looks like a chicken.

Purdue chickens are fed very nutritious food. Frank Purdue successfully convinced the market that his chicken was of superior quality to other chicken. He took a commodity item which is available everywhere and differentiated it. His claim of differentiation is the way in which the company raises and feeds the chickens. The marketplace accepted the claim, and Purdue's chicken was able to command a price premium over the other chicken because there was a perceived benefit there, relative to other offerings.

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When addressing differentiation, we ask ourselves whether there are any unique attributes or benefits in our product, relative to other competitive offerings. If we can claim that there are, and if the consumer accepts that, then we have achieved product differentiation. If we achieve differentiation then we may have achieved a certain degree of sustainable competitive advantage. If differentiation can be achieved, a price premium is often attainable.

Differentiation is difficult to maintain in service businesses, though, because service innovations are often easily copied by competitors.

Market

The aim of marketing for an organization is to meet certain needs, and in profit-oriented organizations to meet those needs profitably. Companies must therefore first define which needs, and whose needs they can satisfy.

What is a market segment?

A market segment is a group of customers that are alike in terms of:

- the way they perceive the product benefits;
- the way they value the product;
- the way they use the product;
- their buyer behaviour.

" There is no such thing as a market. There are only market segments! "
In developing marketing strategy it is absolutely critical that a comprehensive market segmentation analysis be done. Products and services are targeted at "market segments", not at "the market".

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In defining market segments on the basis of such factors as demographics, geography, product usage or psychographic considerations, what you are really doing is developing a profile of the consumers that you are ultimately going to target in your marketing strategy. This profile gives you a better understanding of those consumers and how you might appeal to them. Market segmentation analysis also helps you decide what segments your company is well positioned to target.

The "bottom line" is that you should not be thinking in broad terms about "the market". If you want to have a focused, effective marketing strategy, it has to be geared towards specific market segments which you define and profile through your market segmentation analysis.

Market Segmentation Analysis

The second part of the marketing strategy involves deciding what markets we are going to target with our products or services. When talking about what markets we are going to target, we will use the term "market segment". A market segment is a group of customers that are alike in the following ways:

- similar in the way that they perceive the product benefits;
- similar in the way that they value the products;
- similar in the way that they buy the product.

This is where the creativity of marketing comes in, because we need to get into consumer psychology to get to understand consumer behaviour. Unless we do that, it is difficult to be able to see the differences in the groups of consumers. In segment analysis, we are really trying to identify different groups of consumers that are alike in some key ways.

There are four different generic ways to segment a market:

- demographic;
- geographic;
- psychographic;
- and product usage.

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Market Segmentation

Demographic

- Income: Are we trying to target some consumers on the basis of their income bracket?
- Age: Are we talking about children, and within this group are we talking about children between ages 3 and 7 that might be able to use a certain toy? Are we talking about seniors, for maybe a new kind of insurance policy that doesn't require a medical exam, for example?
- Ethnic origin is particularly important in the global economy where many companies are looking at selling their products and services in other countries. This becomes an important factor because cultural norms and values have to be taken into consideration.
- Education: Educational level is another way to segment the market for our products and services, particular to those in the educational field. For example, this type of course is targeted towards those that do not necessarily have a university education; it is also targeted towards people with little knowledge of the field of business. That is why they are taking this course, to raise their education level.
- Gender: products that are targeted towards males versus products that are targeted towards females.

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Using demographics only, we have different ways that we can break the market down into market segments. For example a market segment might be described as "males between the ages of 20-30 with at least one university degree".

We can combine this kind of scheme with other segmentation schemes such as geography, for example, to get an even more meaningful breakdown of the market.

- **Geographic**
  - Nation/Region**:**
    In our business planning, are we going to make our product available to consumers that visit our location on this street? Are we focused on a particular town or city? Are we in a position to market our product or service to the entire province, perhaps to the entire country, perhaps to the entire continent or the whole world?
    In your business plan you have to address this geographic issue. Perhaps there is an evolution to that, in that today you are limited in the geographic scope of your activity, but maybe three years from now you want to enter the export business. But before you move into exporting the product you are going to improve it in a local market. If that were the case, then you would definitely have a strong geographic dimension to your marketing strategy.

  - Culture,Government and Language**:**
    Culture may be a significant contribution in a geographic segment. Government regulation and policies and laws can vary within countries and certainly between countries. Language may also be important. In this course, for example, there may be a need for business education in other countries that would require different languages. We would need to translate the course into other languages that are understandable in the other countries. In addition to that, we still have to look at the culture and the political environment of the country and decide whether the content of the course needs to be modified to fit the cultur. What would be acceptable business practices in those countries might be very different here in Canada.

    Many market segmentation schemes have a geographic dimension to them, particularly in the early stages of the business when financial constraints may limit the geographic scope of activity.

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- **Psychographic**

  Psychographic segmentation focuses on lifestyles, attitudes, values and beliefs of consumers. We see this more and more in marketing strategies.

  Lifestyles, Attitudes, Beliefs and Values.
  In introducing their products to the marketplace, companies are trying to appeal to emerging attitudes, beliefs, values and lifestyles. For example, with the "green movement", there is a growing sensitivity to the environment. Many companies have adopted marketing strategies that try to appeal to that attitude.

  Beer ads are heavily marketed towards psychographical strategies. Who do we see in beer ads? Young, healthy, attractive people having fun. That is an example of psychographical segmentation. It appeals to a lifestyle
  Psychographic considerations are becoming increasingly common in marketing, for example, environmentally friendly products.

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- **Product Usage**

  Another way to break down a market is by product usage.
  We have to understand the usage profile of the consumer. Categories such as Current user, Non-user currently, Light user, Heavy user and Purpose of usage can be helpful in doing this.

  One thing we have to find out is if the customer is currently a user of the product. If they are a non-user, they may not even be aware of the products or service. If we are focusing on current users, they might be light users that we want to convert to heavy users of our products or services.

  If we have very loyal patrons to our restaurant, but they only come once a month, how can we do marketing promotions to try and get them to come in more often? Maybe special promotions can convert them from being light users to a heavy users.

  The purpose for which the product is being used is another dimension of product usage segmentation.

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The marketing strategy targets non or light users of a product in an attempt to convert them to heavy usage. The segmentation schemes are not mutually exclusive however. Many schemes involve two or more of the above dimensions.

That is what we are trying to do in market segmentation, we are trying to identify groups of consumers that have certain profiles. We use these four segmentation schemes as a guide to break the market into market segments.

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Again using this course as an example, does the customer want to take the course to get credits towards a university degree? For that kind of customer, the package of benefits is different from those of a customer that needs the course to help start up a business. They are not really interested in the benefit of three credit hours towards a university degree. So in segmenting the market, we take all the people that are interested in taking this course and break them down into groups: those that want degree credits, those that just want to learn, or maybe those that are in a corporation and they want it for management development so they can get promoted.

So we know that we do not just have learners in the course. We have learners with specific benefits in mind that they are looking for. We can tailor the same course and present it in a different way that appeals to particular learning needs if we break the learners down into meaningful groups called market segments.

- **Choosing Market Segments**

  Segment Mapping

  An example of segment mapping is illustrated by the automobile market. We have chosen two demographic dimensions. One dimension is income, which we have broken down into high, medium and low. We have also chosen age grouping: 20-30, 30-50 and 50+.

  If we were to choose the segment "high income/young people", what kind of automobile might we see in that segment? A sports car, e.g. a Porsche, would be positioned in that segment. Young professional athletes with money would be targeted by marketers to buy those expensive sports cars.

  Consider "high income/50+". Lexus or Cadillac would be a likely choice of a wealthy older person who is unlikely to have a Porsche as it does not fit their lifestyle. Similarly, "low income" categories would likely choose a compact car.

  Here we have a segmentation scheme that is all demographic. We could incorporate a geographical dimension to this by including continents, like North America vs Europe. If we said that the Cadillac is preferred in North America, what might replace it in Europe? A Mercedes or BMW might be more popular in Europe than a Cadillac.
  We have added a third dimension in the segmentation scheme and if we were selling automobiles in Europe, then we would have a different product offering than if we were in North America.

  Automobile Market Segment Mapping

AGE	**20 - 30**	**30 - 50**	**50+**
INCOME			
HIGH/AUTOMOBILE	PORSCHE		LEXUS
MEDIUM/AUTOMOBILE		HONDA ACCORD	CADILLAC
LOW/AUTOMOBILE	K-CAR (used)	K-CAR	HONDA CIVIC

  Segment maps are typically based on two or three critical dimensions of segmentation. Segment maps help identify positioning of competitors and where there might be some attractive market "niches" to target.

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Market segment mapping is very useful because it can help you identify where there might be gaps in the marketplace, i.e. segments or consumer needs that are not being serviced by existing competitive offerings. You may want to do a few of these segment maps and discard those that are not really relevant. Which market segment is your company best positioned for, given its strengths and weaknesses. In which segments would your company be strongest against the competition that it will be facing?

Choosing Market Segments

"Fit" Analysis

Once we get the segments that we want to target, we can then analyze and determine which ones fit with our company. We undertake a "Fit" analysis.

Evaluate "Fit" with:

- Corporate goals: Given our goals, if we want to grow at 20% a year and in some of the segments we are looking at the population is declining, then obviously that is not a good fit;
- Corporate strengths/weaknesses: What are our company's strengths and weaknesses? There might be some segments that are too geographically remote that we cannot access right now;
- Growth objectives: The growth potential of the company has to be examined;
- Market share objectives: Where are you positioned with respect to your competitors? If you want market share, then you have to be in a segment where you have a realistic possibility of achieving share targets rather than in a segment where you will be up against competitors with greater resources and the ability to sustain price wars. That is not where you want to be if market share is an important consideration;
- Competitive threats/opportunities.

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Probably one of the most important things of all in a marketing strategy is to maintain focus.

You can see that with just four generic segmentation schemes, each of which has several dimensions, there are probably hundreds of ways to segment the market. What you want to do is focus your strategy. You don't try to be everything to all consumers. If you do, you are going to dilute your resources so badly that you are not going to do an effective job of presenting your product or service to the marketplace.

This is another classic error by companies, particularly start-up companies. They try to target too many markets. They dilute themselves so that they don't serve any of them well and effectively.

Maintaining focus is an important concept in market segmentation strategy. It is important to be realistic. Given the size of the company and the available resources, the skills in the company, what segments can you realistically serve with excellence. Choose those segments and focus on them, build a base and then move on to other segments.

Promotion

At this point we have done product planning, and have identified, defined and profiled the market segments to which we are going to target our product or service. Now we have to communicate our product or service.

Marketing Communications

- Marketing communications can be and are broken down as follows: Target, Intensity, Message, Medium, and Economics. This is another framework for doing marketing strategy, and is focused on communications between the company offering the product or service and the buyers of that product or service.

  Target

  Who are the intended recipients of the marketing message? What are the target markets? Who are those identified in market segmentation analysis?

  If you want to communicate with consumers for whom the message is intended, then you hopefully avoid wasted communication efforts by not communicating with those consumers that are not in your market segment. In targeting our message we first determine the intended recipients through market segmentation analysis. Market segmentation analysis gives us the recipient profile: who are they, what are their needs, what are they interested in, and how do they value the product or service, allowing us to tailor the communications to those issues.

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- **Decision-making unit (DMU)**

Who is in the decision-making unit (the "DMU")?; i.e. Who makes the decision on the purchase? Who has influence on the purchase decision? It may involve more than one person.

An important concept in marketing communications is the DMU, the Decision Making Unit, and the role it plays in buying the product or service. In your business plans you must think about who you are targeting your marketing efforts towards. When talking about the DMU, we have to ask ourselves who makes the decision to buy the product.

Another thing we have to ask is, are there others within the DMU that are going to have some influence on the purchase decisions? That suggests that there might be more than one person involved in the decision to purchase the product or service.

In thinking about the DMU, let's think about this course. If we are trying to sell this course in the distance format to a corporation, who is likely to make the decision? Probably not the employee in the corporation that is going to be taking the course, but rather perhaps the human resources department, or perhaps a committee within the company that decides on the training. So I have to find out who is the DMU that is going to buy the course for the company. That is very different than if I were to communicate with a start-up entrepreneur. Maybe I have to focus on an economic development agency that is in regular contact with such people and communicate the course through that kind of medium. The DMU in this case is likely to be one person, the person that is going to pay for the course. There is probably nobody else in the decision making unit.

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In assessing the purchase of this particular goods or services it is important to ask:
- How is the purchase going to be made?
- Who is going to be involved?
- Who is going to have an influence?
- Who is going to make the final decision?
Clearly you have to communicate with all of the members of the DMU.

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Let's examine the decision making unit for a family vacation. The parents are going to make the ultimate decision that this year, the family is going to Disney World, for example. But who else would have been in the decision making unit or DMU? The children may have a big influence on the choice of the vacation trip to Disney World. So we may have to focus some marketing communications on children to tell them all the exciting and wonderful things that happen at Disney World. As part of the DMU on the family vacation, the children can be provided information which they use to influence the decisions of their parents.

- **Intensity**
  How often do the targets need to receive the message? How often does the recipient of the communication have to hear the message?

  We have all seen TV ads that we keep seeing over and over again. That is a strategy of high intensity, commonly associated with building corporate image. This airline or bank, Pepsi, Coke, every day we will keep hearing about them. Nike is another example; Nike wants to keep you aware of its brand name. It is intense communications with the intended receivers of the message.

  Part of understanding intensity is understanding what we call the DMP, the Decision Making Process that consumers and companies go through in deciding to buy a product or service. Intensity depends upon where the customer is in the decision-making process (the "DMP").

  Decision-Making Process (DMP) involves the following:

  - **Awareness of need/company/product.** First the target consumers must become aware that they have a need that is related to the service or product being offered. They also have to be aware of the companies that are offering it, and they have to be aware of the product availability. If they don't have the awareness, then they are not going to make a decision in your favour.
  - **Decision to buy.** They have to decide that they are going to spend some money and buy the product or service.
  - **Information search.** Once they have decided to buy, they have to search for information. Deciding to buy toothpaste is one decision; deciding to buy a home computer is another decision. The search for information in the latter case is much more complex. Particularly if you are a first time buyer of a computer, your knowledge of the computer is going to be limited. You are going to have to learn some of the terminology, so you are probably going to have a pretty intensive search for information. You are not going to have an intensive search on information for choosing alternative toothpaste. You are well down the learning curve because you have been buying it for a long time and you know all about it.
  - **Selection of best alternative.** With the toothpaste selection, the product is right in front of you. It is an impulse decision, you are probably just going to grab one. Or maybe there is a brand name in your head because of intensive advertising. The computer is a different story; you are going to want to shop around, you are going to want to look at the performance and specifications of the computer. How much can you spend? That is going to influence your decision.
  - **Post-purchase evaluation.** The post-purchase evaluation is an often forgotten aspect in the consumer DMP, but many companies are paying a lot of attention to this right now.
    When you purchase a car, most automobile dealerships survey you to find out how you felt about buying that car from their dealership. What was the car like when you picked it up? Were all of the things that you expected done? Was this explained to you?
    This is all a part of the post-purchasing evaluation.

Not only do we need to understand who is involved in the decision to make the purchase, but we have to understand where they are in the process, because depending on where they are, we have to provide them different kinds of information.

It is important, though, to note that as a product matures and consumers become more familiar with it, their information needs change.

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The challenge in making this course available as a distance education product is that nobody knows that it is available in that format. So I have to decide where to target the course first and then I have to decide how I am going to inform the target consumers that this product is available. They have to decide that they have a need for it but I am going to try and target people who I think do have a need for it.

Message

The message is important in day-to-day life, and it is important in marketing as well.

What needs to be communicated?

- **Company awareness/image**. This depends on where we are in the DMP and with whom we are trying to communicate. One of the possible messages is company awareness and image. Using the example of this course, I may want to communicate about UNB as an institution, and that this is not a "fly by night course". It is a credible degree-granting institution. I can tell them about my own credentials and experience.
- **Information on price/performance of the product.** How does it work? How much do I have to pay for it? These are probably the questions that are going to come up earliest.
- **Where and when to buy.** Where and when can they get the product, e.g. when can you register for this course? What is the financial process? How can you pay for it?
  Questions raised here would be: where can I buy the product? can I buy it locally? or do I need to order it?
- **New product introductions.** If you are going to introduce new services or new products, nobody is going to buy them unless they hear that you are introducing them. You have to communicate them to the intended recipients, i.e. the intended market segment you are targeting.
- **Brand and packaging familiarity.** If branding is an important strategy and you have been able to establish a brand name, it is there and is recognized, then clearly you are going to want to communicate it. Perhaps intensive advertising is needed to create the brand identity.
- **Positioning against competition (differentiation).** This is a very risky kind of communication, when one company compares the product to another. Often competitive products are presented in a negative light.
  It is a very risky strategy because it invites the competition to find flaws in your products. If they can find them and credibly prove that they are there, then they can destroy the credibility of your product.

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Those are the issues you have to think about when putting your message together. Communications strategy may involve different messages in different channels and different levels of intensity depending on who is receiving them, when they need to receive them and where they are in the decision making process or DMP. Marketing communication is not necessarily one message through one medium to one individual.

The messages mentioned here are not mutually exclusive. Most communications strategies have several messages that have to be delivered to consumers. The key is making choices on how to allocate scarce marketing resources to the components of the overall communications strategy.

- **Medium**
  The medium is very important in deciding how to communicate.

  Communications Media:

  - **Radio, television, newspapers, Internet.** Unlike radio, television and newspapers, the Internet is a new medium with all its own challenges. It can be difficult to attain focus in internet communications, but there are ways to do it.
  - **Magazines (vertical and horizontal)**. A vertical magazine would be Sports Illustrated, or PC World. They are vertically focused on a particular area, like sports and computers. TIME magazine would be an example of a horizontal medium. It covers a broad range of issues and it is a general interest magazine. Would we advertise in PC World for first-time buyers of computers? Not likely because it is not a good medium for first time buyers of computers who do not know much about computers and are not likely to read PC World. How about computer professional? Yes. If we want to advertise a new software product we have just developed to computer professionals, PC World might be the place to do it because we are going to reach all the heavy users of software.
  - **Billboards.**
  - **Direct mail.**
  - **Sales force, personal selling**. A sales force and personal selling iare both ways to communicate. You will note that large computer suppliers and manufacturers rely heavily on sales forces that are not even a part of their company. There are salespeople in computer retail outlets that sell computer products for large corporations like IBM. Such companies have to develop incentive and communications packages, training packages that cause the sales force to represent them the way that they want to be represented.

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Media Selection Criteria:
How do we select the right medium to deliver the messages that we want to get out there?
The key thing is that the more clustering there is in a market segment around a particular medium, then the more efficient the communication. We do not want to waste promotion dollars communicating to consumers that really have no relevance to us and who are not in our market segment. That is what you want to try and minimize, paying for communication effort that is going to reach a lot of unintended recipients. You want to maximize the efficiency of your reach. Choose the medium that is going to give you the most efficient reach of the intended recipient of the message.

Some Media selection criteria:

- **Well suited to message**. Once we know the profile of the market segment, we then have to ask ourselves what is the best medium, in what time and in what way can we best reach that particular audience? If we want to advertise to children of a certain age, there is no point in advertising on the national news every night. During Saturday morning cartoons might be a better time to reach them on the TV. If we want to reach businesses, perhaps the radio during the drive to work would be better.
- **Target audience can be reached efficiently**. We are trying to pick a medium that is going to be efficient. That is why the need to integrate the marketing mix is so important. Unless we know who we are trying to communicate with and their profile, we cannot select the medium.
- **Potential buyers will be receptive to message.** This is becoming an important issue in terms of ethics. A lot of adverting today is based around human sexuality. It is very offensive to some people to market a product in that way. In advertising you have to make sure that the potential buyers will be receptive to the message. This is where you get into important personal issues in business, such as your own values and ethics, and where you draw the line in terms of what you will do in marketing your product or service. Clearly this is were you should be thinking about the moral and ethical issues in your business strategies, so you don't catch yourself in a situation where you are violating your own principles and standards. If you work for different companies, you may find yourself in very difficult situations where you are being asked to do something that is against your own moral and ethical standards.
- **Potential sales can support cost of using the medium.** Depending upon the medium we use, it can be extremely expensive. First you have to evaluate how much you can spend on communication and how you can spend it effectively. You have to look at what kind of return you can get from your communications effort and from your communications investments. You want to make sure that the sales can support the cost of doing your communication.
- **"Push" strategy: "push" the product to the customer through personal selling.** Example: With the selling of a home computer, there is so much complicated information that is needed. In our sales and marketing strategies, you have to rely heavily on pushing out information to the consumer about that product and what the alternatives are and what the tradeoffs are.
- **"Pull" strategy: "pull" the customer into the marketing channel where the product can be purchased.** Example: The Tickle Me Elmo Doll is an example of how consumer demand was created. Nobody knew that they needed the doll until the company that marketed it convinced children that that was the one that they had to have for Christmas. They communicated with that member of the DMU and that then became the must for their parents. The marketing

communications effort "pulled" the parents into the marketing channel to buy the product.

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In a marketing communications strategy you are planning actions and tactics that will be effective in persuading customers to purchase the product. For example, in terms of marketing this course, I might have to use a push strategy with corporations i.e. put a sales effort together, visit the human resources department of a corporation, inform them of the course, how it works, and try to convince them to purchase it for their employees.

Whereas for the entrepreneurs that are trying to run their businesses out of their basements, perhaps a pull strategy would be more effective using the appropriate media to inform them that the course is available and try to pull them into the channel to purchase it.

- **Economics**
  This relates to the cost and affordability of the communications strategy. We have to think about all the factors such as who we want to target, how often we have to tell them in terms of intensity, what the various messages have to be at various times, what media we use to communicate. It is all a part of a package and we only have so many dollars to spend. The communication budget has to be allocated so that you get the maximum return on investment.

  Cost and affordability:

  - What is an appropriate level of promotional expense given potential sales? Most companies decide that they like to allocate a certain percentage of the budget, say a certain percentage of the sales to marketing communications. That determines the amount of money that they have to spend. So then it becomes a question of how they maximize the impact of that investment in marketing communications.
  - What is the cost effectiveness of the medium given the message and the target market? We may want to have an ad on TV, but can we really afford it? If we can't, what is the best alternative?
  - How should the promotional budget be allocated to different promotional activities? Like different messages, how do we allocate the budget to different market segments? Do we want to allocate more money to one segment, because they are light users and therefore allocate less to another segment who are heavy users? There are many different ways we can allocate this budget.

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Pricing

We know our product, we know our market segment, and we know how to communicate our product, so we have to price it. This is a part of the strategy, it is part of the detail that has to be decided because ultimately the consumer is going to say, "How much?"

- **Pricing Alternatives**

  What is an appropriate price?

  An appropriate price is the seller's estimate of the value of the product to the customer, taking into account the price/performance of competitive offerings in the same market segment.

  First of all you have to realize that it is the consumer that ultimately decides what an appropriate price is. You want to get the highest price that you can from the consumer or "what the market will bear"

  There is a lot of creativity that has to go into determining a price. Clearly one of the questions is, "What is the competition charging?" This does not mean that we have to charge the same. Maybe we do have product differentiation, and we do have unique benefits and can command a price premium, but these are all the things that we have to take into account in setting our price.

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Pricing Alternatives

X	X	X	X	X	X
Losses	Cost of Product	Low Margin	High Margin	Value to Customer	No Sales

At one end of this continuum we have the cost of the product; at the other end, we have the value of the product to the consumer. Deciding what price to charge for a product or service is one of the most difficult decisions in developing marketing strategy. Pricing below the fully allocated cost of a product will produce losses. Pricing above the value perceived by the customer will result in no sales. A company might adopt a low margin pricing strategy that is designed to achieve "market penetration" and high volume. Alternatively a company might adopt a "market skimming" strategy by seeking a higher margin per unit of sales but lower volume.

For example, there is an airplane leaving regularly and making scheduled flights from point A to point B. Those flights are very costly: first you have very expensive equipment, the costs of which have to be recovered from sales, you have flight crew, fuel, maintenance on the aircraft, food and refreshments that you are serving. You have all the infrastructure like ticketing and baggage handling. That is one look at cost, called "**fully allocated cost**" which you want to recover from the price of the flights.

Here is another look at cost. An airplane is leaving today from point A and there are 90 seats on it, 85 of which are reserved and five empty. Unless someone comes forward, those 5 seats are going to fly empty. What is the cost of putting a passenger on one of those empty seats? It is virtually nil. It might mean the cost of the meal, but the marginal cost of putting a passenger on that otherwise empty seat is almost zero. So if I charge 20 dollars for that empty seat, my airline has gained. That is why cost is a difficult thing to deal with in terms of pricing because you always have to be thinking about "**variable cost**" or "**marginal cost**" versus "**fully allocated cost**".

Clearly in the long run, my revenues have to exceed my fully allocated cost, but in the short run, it might make sense to price below fully allocated cost but above marginal cost. This is a difficult thing to decide, and airlines have seat sales because of this factor.

At the other end of the primary continuum, there is the value that the customer can perceive. The customer may think, "I can buy it from you at this price, but I can also buy it from another company at that price, so why should I buy it from you?" So the value to the customer is another consideration, and that is where market research is valuable in putting ourselves into the position of the consumer and understanding what options they have.

If we price ourselves above what the consumer perceives as the value of the package of benefits, then we are not going to have any sales.

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There are also other choices that we could consider. We could adopt a strategy of pricing at a low margin and trying to get a high volume. We know what our costs are; we will price slightly above cost and if we get more consumers, then our total profit impact may be just as good as if we go to a high price, high margin, but fewer unit sales. So it is a tradeoff between margin and volume. In "**market penetration strategy**", we are trying to gain market share, getting many consumers buying our product at a low profit margin. In a "**market skimming strategy**", we communicate through the price that we are offering a high-end product. We are going to suffer a lower volume, but we are going to make a higher margin on each sale. So our profit impact may be just as good if we had more sales at a lower cost.

We have to think about these issues when pricing. What is best for your company? Do you need high volume to get your cost of production down? If you need high volume, then a low margin - high volume strategy may be effective. If you don’t have significant economies of scale and you are trying to present yourself as a premium quality product, then maybe you go for a high margin -low volume strategy.

- **Pricing and Cost Structure**

  Break-even Analysis
  Break-even analysis is the process of determining the number of units that must be sold such that the total revenue will equal total costs.
  Here are the components of break-even analysis:

  - Fixed Costs
    Fixed costs (FC) are costs that do not vary with the volume of production.

    For example, overhead costs such as the presidents salary, the controller's salary, administrative support, and rent on your building would not vary within a certain range of production volume. If you have one unit or a hundred, those costs do not vary with volume of activity of the business. Clearly the more units that are produced, the less the average fixed cost per unit is.

  - Variable Costs
    Variable costs (VC) are those that vary directly with the volume of production and/or units sold.
    If we are producing chairs, the more chairs we produce, the more wood and fabric we use. Those costs are variable with volume, unlike the president's salary which isn't going to change. The amount of wood we use is going to vary if we produce 500 chairs rather than 1000 chairs.
    Variable costs increase or decrease depending on the volume of production/sales.

    For example, if a product has a typical or standard cost per unit of $10 per unit, then variable costs are $10,000 if 1000 units are produced.

- Contribution
  Contribution is revenue less variable costs.
  For each unit that we sell, if we subtract from the selling price unit the variable cost of that unit, what remains is the contribution that we make to the fixed cost.
  If we sell a chair for $300 and there is $200 of material and labour that went into making it, then the contribution will be the difference of the selling price and that variable cost. That is what's left over to cover the fixed costs and ultimately to make a profit.
  When we talk of contribution, we mean selling price per unit, less variable cost per unit.

  On a per unit basis contribution is selling price (SP) less variable cost per unit (VC).
  Contribution (C) = SP/unit - VC/unit

- Break-even Volume
  The break-even volume of production (BE) is calculated by dividing the Fixed Costs (FC) by the Contribution per unit (C).

  To calculate the break-even volume, we need to know the fixed cost, variable cost per unit and what price we are going to sell the unit at.
  How are we going to find the number of units that we have to sell to breakeven, in other words to make enough just to cover our fixed costs and our variable cost?
  The break-even volume is calculated by dividing the Fixed Cost (FC) by the Contribution per unit(C). We have learned that contribution is selling price per unit less variable cost per unit. So if we take $300 as the selling price(SP/unit), less $200(VC/unit) as the variable cost, we then have $100 Contribution (C) to pay for the fixed costs. If we have $100,000 of fixed costs(FC) and we are making $100 dollars of contribution per chair, then we have to sell 1000 chairs in order to cover those costs. If we sell a thousand chairs, then we have just exactly broken even. If we sell 1001 chairs, then we are going to end up making $100 of profit and every chair we sell after that is going to add $100 to profit. The break-even volume in this case was 1000 units.
  BE = FC/C or BE = FC/(SP-VC)

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- Profit Impact
  The profit impact (P) of a given sales volume is the Revenue (R) less the Total Costs (TC) where Total Costs equal Fixed Costs (FC) plus Variable Costs (VC).
  The profit impact of any given volume of sales is really saying what level of profit we are operating at, and at that level, what is our total revenue?
  Total revenue is the number of units we have sold times the price per unit.
  Total cost is the Total Fixed Cost plus the Total Variable Cost.
  Fixed costs do not change, but variable cost is the variable cost per unit times the number of units we have sold.
  The profit is our revenue less the total cost (or less the fixed cost and the total variable cost).
  P = R - TC or
  P = R - FC - VC
  Returning to our example, at a sales volume of 2000 units the profit impact is:
  P = $300 (2000) - $100,00 - $200 (2000)
  P = $100,000

- Average Cost
  The Average Cost (AC) per unit is the Total Cost (TC) divided by the number of units (X).
  Average cost is taking the Total cost per given volume divided by the number of units.
  The Total cost is the fixed cost plus our variable cost. If we divide by X, letting X be the number of units that we have sold, then we get our average cost.

  AC = TC/X or AC = (FC+VC)/X

  At 2000 units, the average cost is:

  $$AC = \frac{\$100{,}000 + \$200\ (2{,}000)}{2{,}000}$$

  $$= \$250 \text{ per unit}$$

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If fixed costs are high in relation to total costs, a firm or industry is exhibiting what is known as economies of scale. For example, in an electric power utility substantial investment in generation and transmission capacity has to be made before you produce the first unit of output, a kilowatt of electricity. The more electricity you move over the transmission lines, the more units of output you have to cover the fixed costs. The term "economies of scale" means that the company has significant fixed costs and therefore the greater its volume, the lower its average cost per unit. Those fixed costs will be spread over more units of production. If you have economies of scale in your business, then you are going to want as a strategy to maximize your volume.

Break-even Analysis - Example

The following example illustrates how to do a break-even analysis, given assumptions about selling price, variable and fixed costs. Default values have been assigned to variables. Change variable values and observe the effect.

Break-even Volume	**20,000**
Selling Price/unit (SP)	**$10**
Variable Cost/unit (VC)	**$5**
Contribution/unit (C)	**$5**
Fixed Costs (FC)	**$100,000**

Volume	Revenue	Fixed costs	Variable costs	Total costs	Profit Impact
X	R	FC	VC	TC	P
0	$0	$100,000	$0	$100,000	-$100,000
5,000	$50,000	$100,000	$25,000	$125,000	-$75,000
10,000	$100,000	$100,000	$50,000	$150,000	-$50,000
15,000	$150,000	$100,000	$75,000	$175,000	-$25,000
20,000	$200,000	$100,000	$100,000	$200,000	$0
25,000	$250,000	$100,000	$125,000	$225,000	$25,000
30,000	$300,000	$100,000	$150,000	$250,000	$50,000
35,000	$350,000	$100,000	$175,000	$275,000	$75,000
40,000	$400,000	$100,000	$200,000	$300,000	$100,000
45,000	$450,000	$100,000	$225,000	$325,000	$125,000
50,000	$500,000	$100,000	$250,000	$350,000	$150,000

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click here for an interactive example
Interactive Break-even Analysis example **[http://www.unb.ca/web/jhsc/TME_courses/tme3113/m4s1-28b.htm]**

Audio Transcript

Here is an example of break-even analysis. We have different levels of production or sales from 0 to 5000 units, 10,000 units and so on. We have our selling price set at $10 per unit and variable cost at $5 per unit. Contribution would therefore be $10 - $5 or $5 per unit. Fixed costs are set at $100,000. If we sell 5000 units, our revenue is going to be 5,000 times $10 to give us a total revenue of $50,000. Our fixed cost is always $100,000 no matter how many units we sell. Our variable costs clearly increase as we sell more units. So if we sell 5000 units and the variable cost per unit is $5, then our total variable cost is $25,000. The total cost is the sum of our fixed costs and the variable costs which is $100,000 plus $25,000 or $125,000. The profit impact at 5000 units is our revenue of $50,000 less a total cost of $125,000, so we lost money at that level of sales. We lost $75,000. As we increase our level of sales we eventually get to a point where profit is zero. At 20,000 units, our revenue is going to be $200,000 and the total cost is $200,000 so our profit is zero.
That is what we call the break-even volume.

When the total revenue gets to the point where it equals the total cost, that is our break-even point. Any sales beyond the break-even point will yield profit.

The important thing in pricing and cost structure is when we calculate the break-even volume, then the issue becomes, what are the prospects of reaching that break-even volume?
If the market is huge, and in order to reach break-even only 2% market share is needed, then I can say that my company has a pretty good chance of reaching that target. However, if I estimate that 3 million units are needed to break even and the market is only 4 million units in total, then I need to get 75% of the market just to break even. In this case there is cause to worry. This company is not likely to achieve its profit projections.

Breakeven Analysis - Example

Enter SP, VC, C and FC: (Modify the value labeled in red only)

Selling Price (SP): 10.00

Variable Cost/unit (VC): 5.00 **Note: SP must be greater than VC**

Fixed costs (FC): 100000

Volume X	Revenue R	Fixed Costs FC	Variable Costs VC	Total Costs TC	Profit Impact P
0					
5000					
10000					
15000					
20000					
25000					
30000					
35000					
40000					
45000					
50000					

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- **Pricing Strategies**
  - Gain market share.
    There are various generic pricing strategies.
    Maybe you priced to gain market share. You decide to cut price to lower your margin to get more volume. This is a strategy of pricing aggressively to gain market share.
  - Prevent market entry.
    If you fear other companies may enter your market, then you might price to prevent new market entry by lowering the price and discouraging others from entering a market because there is a significant risk that they might not be profitable.
  - Meet competition.
    Sometimes you are faced with matching a competitor's price. The competition takes an aggressive price action and you have to follow it or you are going to lose market share. As undesirable as that might seem, it might be the only option available to you. Once you lose a customer, it can be very difficult to get them back.
  - Price leadership.
    If you are in a position where you can exert price leadership, whenever you move your price, everybody usually follows. In many industries, there tend to be certain companies that are price leaders, and if they introduce a price change then the other competitors tend to follow.
    In order to have price leadership there must be some characteristics about your company, perhaps market dominance or a history that would cause that sort of cohesive reaction in the marketplace.
  - Prevent cannibalization.
    Cannibalization occurs when you have one product already in the marketplace and you introduce another one and that new product kills the sales of the incumbent product. In your pricing strategy you might want to introduce the new product at a higher price, go with a low volume and try to go into a transitional stage. Maybe you don’t want your other product to phase out so quickly, so maybe use your price to control cannibalization.
  - Milk product.
    As a product nears the end of its life cycle, a "milk" strategy would involve maintaining price and margin allowing market share to decline until the product exits the market.
    Milking" a product typically occurs at the end of a product life cycle. As sales decline, margins are maintained to maximize cash flow until the product is removed from the market.

    The first three strategies typically involve price reductions.

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Distribution/Placement

- **Typical Distribution Channels:**
  - Manufacturer
  - Wholesaler
  - Retailer
  - Customer

  In typical distribution channels, there is a manufacturer of the product, a wholesaler who acts as an intermediary to the manufacturer who then sells to retailers, who ultimately sell to the customer.
  Some manufacturers may decide to go directly to the retailer or the consumer. There are many choices here in the distribution strategy. You can go through this chain where each intermediary takes a share of the revenue versus trying to go more direct or skip a stage in the distribution channel.

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Another factor in distribution is deciding how intensive you want the distribution to be. How do you decide whether to use selective versus intensive distribution?

- **Selective vs. Intensive Distribution**
  - Selective:
    - seller's unit costs for stocking are high;
    - customers are willing travel to location.

    When we decide to use selective distribution, it means that there are fewer locations where the customer can buy our product. We are not everywhere.
    We take this approach when the cost to stock our product is very high. For example for home computers, you might sell through a retail outlet. The inventory cost is very high for that retailer so you don’t want to license several retail outlets in a small market to sell your product. Their inventory cost is so high and if you create all kinds of competition for them then you are weakening their position.
    Another consideration is whether customers are willing to travel to a location to purchase the product. For high ticket items like cars, furniture or computers, the customer may be willing to travel to a number of outlets. But for items like toothpaste, it had better be everywhere. Because they are not willing to travel all around to buy toothpaste, it needs to be available in every outlet.
    A Selective distribution example could be Porsche automobiles.

  - Intensive:
    - seller's unit costs for stocking are low;
    - convenience for customer is critical.

    In intensive distribution the product is everywhere. An example would be the retailing of gasoline. If you look at all the major retail outlets, they are on every corner. In an intensive distribution, the stocking costs are typically very low. Convenience for the customer is critical. When they decide that they need gas or toothpaste, you'd better be there. Convenience is more important to the customer, whereas in selective distribution they are willing to travel to a retail outlet and have fewer choices for that type of product.

  An Intensive distribution example could be Gillette razor blades

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- **Direct versus Indirect Distribution**
  - Cost of distribution relative to sales.
    How do we decide how to proceed with respect to direct versus indirect distribution?
    How do we decide whether to go directly to the consumer or go directly to the retailer, as opposed to going indirectly through one of the other channels?

    First there is the cost of distribution to consider.
    Clearly if we go directly to the consumer, we have to consider that consumers are dispersed and distribution might be more costly than a logistics system that is already established and can realise economies of scale and efficiencies with more volume. Using the example of groceries, clearly trying to sell groceries directly to the customer at their homes is a lot more inefficient and costly than trying to sell them to a retail outlet where consumers typically show up to buy groceries.

  - How the customer wants to buy.
    How does the consumer want to buy? For different kinds of products and services, the consumer typically buys them in a certain way. Usually they just show up at a grocery store to get groceries. For a home computer they are willing to shop around. So how they want to buy is an important factor in how you are going to distribute.

  - Degree of control required over sales strategy.
    How much control do you want to have over your sales strategy? The ultimate level of control is when we do everything ourselves. We produce the product and we actually sell the product to the customer. As we start to rely on intermediaries like wholesalers or retail outlets, e.g. computer selling at retail outlets, we start to lose control as to how our product is communicated to the consumer.
    That is where you have to design incentives, training or communications for intermediaries to make sure that they represent you properly to consumers.

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SUMMARY MARKETING STRATEGY CONCEPTS

The Marketing Mix

The Marketing Mix is a combination of five marketing components that are integrated into the marketing strategy. In the Marketing Strategy the company decides what the most appropriate mix is. These components are also referred to as the 5 Ps :

Product

Market (or **P**lace)

Promotion

Pricing

Distribution (or **P**lacement)

The Product

A Product is a package of benefits as perceived by the consumer. In developing a product strategy you have to address several issues:

- Determine the product/service need
- How do you serve the need profitably?
- Do you have the capability to fill the need?
- What will the effect be on other products?
- Will it enhance the company's image?
- How will the competitors react?

The Market

A "market" is subdivided into market segments. Each market segment represents a group of potential consumers with similar needs and interests. The target market segments are identified in the Marketing Segmentation Analysis. There are many ways to segment a market and they are not mutually exclusive:

- Demographic: age, gender, family size, marital status, etc.
- Geographic: language, regions, government, etc.
- Psychographic: hobbies, lifestyle, interests, etc.
- Product Usage: frequency, purpose, etc.

"There is no such thing as one market. There are only market segments"

A "Fit" Analysis is carried out to evaluate the market segments against key objectives and issues such as: corporate goals, corporate strengths/weaknesses, growth objectives, market share objectives, competitive threats/opportunities, and the need to maintain focus.

Promotion

Promotion involves communicating the marketing message of your product to the potential buyers. The components of marketing communications strategies are:

- Target

- Intensity
- Message
- Medium (Push versus Pull)
- Economics

  The push strategy is more commonly used when you have to deliver a more complex message to the consumer.

Price

What is the appropriate price? Market research can help you estimate what customers are willing to pay.

> *To set your price you have to understand the relationship between fixed cost, variable cost, contribution, profit impact, and break-even volume. Break-even Analysis is a tool used to analyze these relationships*.
>
> *You cannot charge any more than what the consumer perceives as the value of the product/service compared to the other available choices.*
>
> Pricing Strategies can be set to:
>
> - gain market share
> - prevent market share
> - meet competition
> - price leadership
> - prevent cannibalization
> - milk product

Distribution

Distribution involves getting the product from where it is produced to where the consumer purchases it. Types of distribution Strategies are:

- Selective Strategy: the availability of the product is limited
- Intensive Strategy: the product is available everywhere
- Direct Distribution: the product goes directly from the producer to the consumer
- Indirect Distribution: there are intermediaries between the producer and the consumer (e.g. wholesaler, retailer, sales representatives)

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