Marketing

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Course structure

Chapter 1: Defining marketing. Company orientations toward markets

What is marketing?, Company orientations, Core marketing concepts

Chapter 2 Marketing Environment

Microenvironment marketing (controlled/ task environment),
Macroenvironment marketing (uncontrolled/ broad environment)

Chapter 3 Developing marketing mix

Product, Price, Place, Promotion

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Selective references

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What is marketing?

- **Marketing** is one of the most misunderstood and confusing terms used in business.
- The word "marketing" has an Anglo-Saxon origin and comes from the verb "to market" (to carry out market transactions, buying and selling); it includes the idea of continuous action.
- Marketing represents the process of delivering goods from the producer to the ultimate consumer, with the purpose of obtaining profit, through meeting consumer needs.

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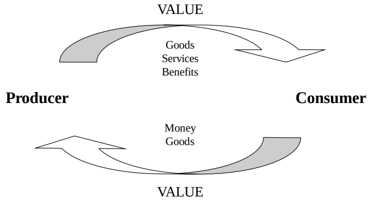
What is marketing?

To offer the right product, in the right place, at the right price and in the right moment.



Exchange process

What is marketing?

- Marketing represents the performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user. (American Marketing Association, 1948)
- Marketing is not only a concept larger than selling, not a specialized activity in all. Marketing is so important that it can not be treated as a separate function. Marketing is the whole business seen from the final result point of view - the client; business success is not determined by the manufacturer, but by the customer. Therefore, in all activities of the organization, there must be concern and responsibility for marketing. (P. Drucker, 1954)
- Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others. (Ph. Kotler, 1997)

What is marketing?

- Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (American Marketing Association, 2007)
- We define marketing as the process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value. (Ph. Kotler, Armstrong, 2018)

Marketers' FAQ

- How can we spot and choose the right market segment(s)?
- How can we differentiate our offerings?
- How should we respond to customers who buy on price?
- How can we compete against lower-cost, lower-price competitors?
- How far can we go in customizing our offering for each customer?
- How can we grow our business?
- How can we build stronger brands?
- How can we reduce the cost of customer acquisition?
- How can we keep our customers loyal for longer?
- How can we tell which customers are more important?
- How can we measure the payback from advertising, sales promotion and public relations?
- How can we improve sales force productivity?
- How can we establish multiple channels and yet manage channel conflict?
- How can we get the other company departments to be more customer-oriented?

Marketing development

Q: Where and when have marketing appeared?
A: in practice, developed markets (S.U.A.)

Favoring conditions:

- goods and services abundance
- economic and social dynamism
- development of production, increasing specialization, demographic changes, changing in working and living conditions
- development of international economic relations
- international division of labor
- increasing separation of production and consumption

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Marketing development

What can be marketed?

- Goods
- Services
- Experiences
- Events
- Persons
- Places
- Properties
- Organizations
- Information
- Ideas

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Marketing development

Who are the buyers?/ Markets decisions

- Customer markets
- Business markets
- Global markets
- Nonprofit and governmental markets

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Marketing development

Company orientations toward the market:
(marketing philosophies)

- Production orientation
  „all we can produce we sell"
- Product orientation
  „the best product can be sold easily"
- Selling orientation
  „we can sell all we produce"
- Marketing orientation
  „we produce what we can sell"

Further developments include relationship marketing and societal marketing

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Marketing development

Orientation	Focus	Period	Features
Production	Production methods	until 1950	Increasing production and distribution for obtaining cost decreasing and efficiency
Product	Products quality	until 1960	Products quality is the most important. Focusing on products despite customer needs
Selling	Selling methods	1950 – 1970	Selling and promotion are the motric factors for success
Marketing	Customer needs and wants	1970 – prezent	Focusing on delivering goods and services to satisfy customers needs
Relationship marketing (CRM)	*Creating and keeping a good relationship with customers*	*1980 – prezent*	*Relation between company and customers. Transforming customers in clients.*
Societal marketing	*Benefits for society*	*1990 – prezent*	*Customer – company – society relationship*

Company orientations

Production orientation
When?

- based on customer preference for available and low cost products
- managerial focusing on maximising production efficiency and intensive distribution of products
- suitable for homogenous products, when buying decision is price based

Company orientations

Production orientation
Features

- acting on a market with weak competition
- management purpose is obtaining low cost products by increasing productivity
- offer physiological (convenience) products, satisfying fundamental needs
- marketing efforts are not necessary

Company orientations

Product orientation
When?

- ✓ customer preferences for best quality, performing and innovation products
- ✓ managers are focusing on increasing performance and development of products without consulting customers

Company orientations

Product orientation
Features

- consider that potential customers appreciate well done, quality and performing products
- consider that R&D managers know how to create and develop products without investigating potential markets
- marketing department role is to sell the product

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Company orientations

Selling orientation
When

- potential customers never buy enough products if they decide alone
- company should make intensive efforts to sell and promotes products

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Company orientations

Selling orientation
Features

- believes that potential customers are reserved in buying and therefore they must be convinced to buy
- management purpose is to identify and persuade potential customers to buy products for recovery of investments made as soon as possible
- provides, in general, specialty goods or are nonprofit organizations, or have production overcapacity

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Company orientations

Marketing orientation
When

- company objectives are achieved through identifying potential customers needs and wants and satisfying them more operative and efficient than competition
- in marketing concept, satisfying customers needs and wants represents company economical and social reason of existence

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Company orientations

Marketing orientation
Features

- *Starting point*: Target segment
- *Focus*: Customer needs
- *Instruments*: Coordinated marketing
- *Final objective*: Profit through satisfying customer needs

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Company orientations

Relationship marketing
- the most important concept of modern marketing
- the main source of profit are not company assets, but in customer relations

Main advantages:
- provide long-term customer loyalty, decrease marketing costs
- strengthen security and stability of the company
- contribute to market economy efficiency

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Company orientations

Societal marketing
- company objectives are achieved through identifying potential customers needs and wants and satisfying them more operative and efficient than competition in order to maintain or enhance consumer and society welfare

Balance the following factors:
- Satisfying customers needs
- Company's profit
- Society welfare
- Natural environment health

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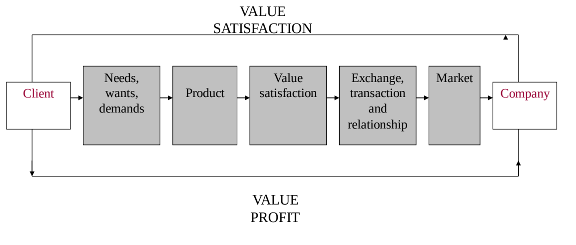
Core marketing concepts



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Needs, wants and demands

Need

- *a basic human requirement* (Kotler, 2006)

- expresses a state of lack, deprivation or discomfort, causing an imbalance that can be consumption of goods and services taken from the market (Ş. Prutianu, C. Munteanu, C.Caluschi, 1998)

Needs, wants and demands

Maslow
- Particular needs (limited, arranged in a hierarchy)
- Particular times

Freud
- Psychological forces shape people's behaviour
- Peoples cannot fully understand their own motivations

Herzberg
- Dissatisfiers – factors that cause dissatisfaction
- Satisfires - factors that cause satisfaction

Abraham Maslow's pyramid of needs

Sigmund Freud's theory

- A person react not only to stated capabilities, but also to other, less conscious cues like certain associations and emotions (shape, size, weight, brand name)
- Implication: marketers can decide at what level to develop the message

Frederick Herzberg's theory

- Two-factors theory: dissatisfiers and satisfiers
- Ex: a computer that does not come with a warranty would be a dissatisfier, but the presence of warranty would not act as a satisfier or a motivator of a purchase.
- Implication: sellers should do their best to avoid dissatisfiers and the sellers should identify the major satisfiers/ motivators of purchase and then supply them

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Needs, wants and demands

***Wants** are desires for specific satisfiers of deeper needs.*

- Wants arise from the impact of needs with perception, willing and man's subjective consciousness.
- Wants are different ways of satisfying human needs.
- While people's needs are few, their wants are many
- Human wants are continually shaped by social forces and institutions such as family, schools, churches, and large organizations.

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Needs, wants and demands

***Demands** are wants for specific products backed up by an ability to pay and willing to buy them.*

- Consumers can have unlimited wants, but they can buy products and services only in their budget limits.
- Only a part of the consumers' desires turn into effective demand, that part which is covered by money. (solvent demand)

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Products

***Products** represent anything that can be offered to someone to satisfy a need and/or want.*

- The word *product* brings to mind a physical object, but their importance lies not so much in owning them as in using them to satisfy wants.
- A physical object is a means of packaging a service and the marketers job is to sell the benefits or services built into physical products rather than just describe their physical features.

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Value-Satisfaction

Value is primarily a combination of quality, service, and price (qsp), called the customer value triad.

Satisfaction reflects a person's judgment of a product's perceived performance in relationship to expectations.

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Exchanges, transactions and relationships

In the center of all human activities is the consumer with its needs and desires.
Usually, needs and wants are achieved through purchasing products.

Exchange *is the act of obtaining a desired product by offering something in return.*

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Exchanges, transactions and relationships

Transaction *consists of a trade of values between two parties.*

- Monetary transactions: exchange products with money
- Barter transactions: when both values are products
- Transfer: a party does not receive anything tangible in return in a specific period (charity, gifts, etc.)

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Market

Economic concept: Market is the place where sellers and buyers meet to exchange products.

Marketing concept: *A* ***market*** *consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchanging to satisfy that need or want.*

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Market include producers, sellers, buyers, intermediaries participating to the exchange.

Those participating in the market have three characteristics:

- **Interest** - is determined by the existence of an unmet need or want
- **Access** - is given by income and in some cases by restrictions
- **Willing to buy** - is reflected in the purchasing decision manifested by accepting the price

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The lack of any of these three features is leading to nonconsumer state.

Nonconsumers can be:

- Relative nonconsumers - individuals who lack access and / or willingness to buy product
- Absolute nonconsumers - individuals who lack the interest, so they do not need the product

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3 dimensions of the market:

- **Real market** consisting actual consumers
- **Potential market** consisting actual consumers and relative noncustomers
- **Theoretic market** consisting actual consumers and noncustomers

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Market segmentation

Market segment is a group of consumers with common needs or characteristics, or as close as possible.

Target market is the segment on which the company focuses its operations and marketing efforts in order to achieve strategic objectives.

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Chapter 2
Marketing environment

A company's marketing environment consists of the actors and forces that are not under direct control of the company and that affect the company's ability to satisfy customers' needs and wants.

1. Microenvironment of the company
2. Macroenvironment of the company

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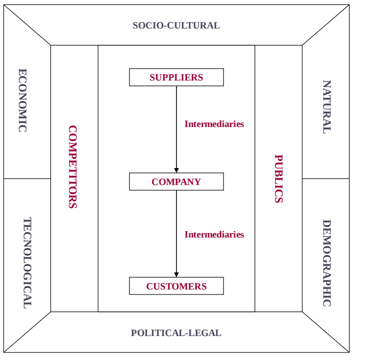
Marketing environment



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Marketing Microenvironment

All actors that have direct relationships with the organization, relations generated by its present and future achieving objectives, with the company itself represent marketing ***microenvironment*** of the company.

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Microenvironment components are:

Suppliers
Intermediaries
Customers
Competitors
Publics
Company

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Suppliers

Company, suppliers and supply relationships that exist between them form the ***upstream (amonte) market***.

Suppliers role within companies' operations is very important because they **provide resources** needed to produce and offer goods and services on the market.

Choosing criteria of suppliers

- ✓Economic power
- ✓Supplier image on the market
- ✓Reliability, seriousness
- ✓Geographical location
- ✓Payment facilities
- ✓Delivering conditions
- ✓Offered goods and services quality etc.

Company' vulnerability in front of suppliers' power

- When a provided product can not be substitute or replace the company is dependent on supplier
- When the customer prefer or request a product from a particular supplier
- When the supplier switching is too expensive
- When strength and negotiation power of supplier is stronger than the company

Suppliers can be:

- **Direct producers of goods and services sold;** they are used when the company is supplying in large quantities.
- **intermediaries**; they occur when the company purchased smaller quantities .

Intermediaries

SUPPLIERS
↓
INTERMEDIARIES
↓
COMPANY
↓
INTERMEDIARIES
↓
CUSTOMERS

Marketing literature mentions the presence of four **types of intermediaries:**

1. Merchant middlemen
2. Agent middlemen
3. Physical distribution companies
4. Mediators

Intermediaries

Merchant middlemen are companies that:

- ✓ Buy
- ✓ Take title and risk of ownership
- ✓ Resell merchandise

Their purpose is to **buy** goods and **sell** them to other organizations to obtain **profit**.

Ex.: wholesalers, retailers and other resellers

Intermediaries

Agent middleman are companies that:

- Only **intermediates** transactions (find customers and/ or negotiate contacts)
- **Make connection** between seller and buyer
- **Do not take title** to merchandise
- Work on **commission**
  - percentage of transaction value
  - fixed amount per unit of product

Ex.: agents, brokers and manufacturers' representatives

Intermediaries

Physical distribution firms

- assist the company in **storing**, **stocking**, **handling** and **moving** goods to destination
- provide **physical transfer** and **protection** of products in the supply chain.

Ex.:

-warehousing firms – store and protect goods before they move to the next destination

-transportation firms: railroads, truckers, airliner, barges, freight-handling companies that move goods from one location to another

Intermediaries

Mediators

- Marketing service agencies
- Financial intermediaries
- Consulting companies

Customers

Customers can be grouped into four categories:

- **Customer markets:** individuals/ households – personal consumption
- **Business markets:** organizations – producing other products OR resell
- **Global markets:** buyers from abroad
- **Nonprofit and governmental markets:** buy to produce public services or transfer products to others who need them

New Consumer Capabilities

- Can use the Internet as a powerful information and purchasing aid
- Can search, communicate, and purchase on the move
- Can tap into social media to share opinions and express loyalty
- Can actively interact with companies
- Can reject marketing they find inappropriate

Competitors

Competitors are organizations trying **to satisfy the same needs** of buyers and are perceived by them as **alternatives** to meet their needs.

Competitors are distinguished by their economic power, offering features, style of market intervention etc.

Competitors

The best way for a company to grasp the full range of its competition is to take a viewpoint of a buyer.

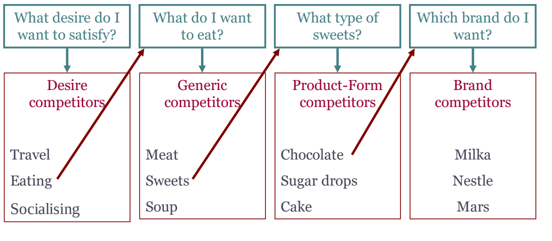
What does a buyer think about eventually leads to purchasing something?

Competitors

Kotler outlined four levels of competition based on the degree of product substitutability:

1. Industry competition (desire competition)
Different possibilities to satisfy a desire that pop into customer mind in a specific moment.
2. Generic competition
Different basic ways to satisfy the same need.
3. Form competition (product competitors)
Different forms for satisfying a desire for product.
4. Brand competition
Companies that are offering similar products and services at similar prices.

Competitors



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Publics

- o Shareholders and financial and banking groups
- o Media
- o Public administration, political interest groups and legislators
- o The public

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Company

- The organization enter into relationship with all microenviromnent components
- The marketing department together with all other functions of the organization, and relations between them represent the internal environment of the company
- All components of the internal environment affect the marketing department programs and activities

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New Company Capabilities

- Can use the Internet as a powerful information and sales channel, including for individually
- differentiated goods
- Can collect fuller and richer information about markets, customers, prospects, and competitors
- Can reach customers quickly and efficiently via social media and mobile marketing, sending
- targeted ads, coupons, and information
- Can improve purchasing, recruiting, training, and internal and external communications
- Can improve cost efficiency

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Macroenvironment marketing

Macroenvironment contains a set of uncontrollable factors that form the framework within which the organization operates and creates favorable opportunities and / or threats to the company, influencing how it realised its marketing activities.

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Any company must monitor the evolution of six major forces:

1. Demographic
2. Economic
3. Natural
4. Technological
5. Political/ legal
6. Socio-cultural

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Economic	Socio-cultural	Demographic
Economic development Income per capita GDP trend Monetary and fiscal policies Unemployment exchange rate Salaries level Nature of competition Membership of regional economic associations	Consumers, norms, values Language Expectations Social institutions Symbol of social status Religious beliefs Lifestyle Attitude towards foreigners Level of literacy Human rights	Percentage of population by age and income levels Urban and rural population size Population growth rate Ethnic groups Average size of family Education Availability of medical services Mortality rate

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Technologic	Political-legal	Natural
Technology transfer regulations Transport network Qualification of labor Protecting patent / trademark Information infrastructure	Government type Political ideology Taxes Government stability Government attitude towards foreign companies Trade regulations Protectionism Foreign policy Terrorist activity Legal system	Climate Availability of natural resources Energy availability / cost Enviromentalism

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Demographic environment

Demography represents the science that studies population mainly in term of number, density, location, structure of age, gender, racial etc.

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Features and major worldwide demographic trends

- **Worldwide explosive population growth**
  - Identifying the demand for certain goods and services
  - in 1991 the world population was 5.4 billion
  - in October 2011 - 7 billion people
- **Population structure by age**
  - aging population of Europe, U.S.A and developed Asian countries markets
    - long-term slowdown in birthrate
    - increase of life expectancy

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Features and major worldwide demographic trends

- **Family structure**
  - **Traditional family consists of wife, husband and children**
  - **Major changes:**
    - Later marrying
    - Decreasing in number of children in families
    - Increasing number of active wives in employment
    - Increasing number of unmarried persons
- **Increasing number of better-educated persons**
  - **Increasing demand for higher quality goods and services**

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Economic environment

In economic factors are included those which are influencing:

- buying power
- spending patterns (structure of customers expenditures)

Major trends in economic environments are:

1. **Economic globalization**
2. **Increasing difference between rich and poor persons**

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Economic globalization:

- increasing trade barriers across countries and regions to protect domestic production from foreign competition;
- increasing external debt of especially Third World countries, along with increasing international financial system fragility;
- opening new markets like India, China, Arab countries and Eastern Europe;
- changing individuals lifestyles as a result of communications development.

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Increasing difference between rich and poor

In terms of economic development level, the following categories of countries can be distinguished:

- underdeveloped countries with economies in which agriculture is practiced mostly rudimentary;
- countries with underdeveloped economies, but rich in one or more natural resources (Zaire - rubber, Saudi Arabia - oil etc.).
- countries with undergoing industrialization economies (emergent countries), which generally imported raw materials, machine tools, consumer goods etc.;
- industrialized countries with economies that generally exported finished products, consumer goods, industrial products etc.

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Natural environment

Natural environment consists of all natural resources necessary for conduct companies' activity.

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Increasing importance of natural factors is determined by the following trends:

- ✓ **Shortage of raw materials**
- ✓ **Increased cost of energy**
- ✓ **Increased pollution**
- ✓ **Changing role of government in environment protection**

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Technological environment

Technology is one of the forces generating change in human society, and from economical point of view it creates markets and new opportunities.

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Main arguments in sustaining the importance of technological factors are:

- New technologies bring new ways to satisfy customers
- Identification of latent needs
- Changing nature of competition in an industry
- Increasing the efficiency of marketing activities

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Political-legal environment

- **Political factors** are particular to each country and mainly represent structures of society, social classes and their role in society, political forces and relations between them, the involvement of state in the economy, the stability of the political climate at domestic, regional and international level.
- **Legal factors** are all legal regulations and laws, which affect directly or indirectly market activity of the organization.

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Generally, legislation affecting the businesses have one of the following objectives:

1. **Protect customers**
2. **Protect the interests of society**
3. **Protect companies**
   - **Protection by license/patents:** *are legal documents that guarantee those who meet the criteria, the exclusive right to sell the invention.*
   - **Registration of Marks (trademarks)** *prevent imitators to take advantage of the lengthy and costly process of building a company image.*
   - **Prevent unfair competition**

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Socio-cultural environment

• Analysis of human society culture allow to identify the **main beliefs, values and behavioral norms** that lead that society and also provides valuable information on preferences for different products or services.

• Beliefs are transmitted from parents to children and are enhanced by educational, legal and social institutions.

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The main cultural characteristics and trends of interest to marketers are:

- Core cultural values have high persistence
- Each culture consists of subcultures
- Secondary cultural values undergo shifts through time

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Chapter 3

Marketing mix

- Represents a combination **(mixing)** of some variables, designed to meet the changes in marketing environment.
- Marketing mix variables are considered as **internal variables**, with which managers make decisions and provide control.

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Marketing mix

• Marketing mix concept was introduced in 1964 by Prof. Neil Borden, including the following 12 elements:

product, advertising, brand, sales promotion, packaging, product presentation, price, after-sales services, distribution, logistics, personal selling and marketing research.

• In the same year, Prof. Jerome McCarthy, simplifies Borden's model synthesizing it into the 4P:

Product, Price, Place & Promotion

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„4P" versus „4C"

4P	4C
Product	**C**ustomer
Price	**C**ost
Place	**C**omodity in acquisition
Promotion	**C**ommunication

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Product

- According to the classical concept, the product is viewed as an **amount of tangible attributes and features**, physical and chemical together in an identifiable form.
- In the marketing concept, the product represents all tangible and intangible elements that trigger the demand expressed by the consumer on the market
  - must be designed in a **system concept integrating the whole ambience of the object that surrounds him, consisting of a wide range of intangible, symbolic, informational elements**.

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The product is built from a set of features that are grouped as follows:

- **Observed features** including:
  - Physical characteristics: shape, color etc.
  - Functional features: the ability to perform certain functions
- **Services offered by product:** delivery time, payment terms, after - sales service, information of exploitation;
- **Symbolic features:** brand, prestige, freedom.

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Any product meets:

- ***Basic function***, which reflects the consumer's purchase motivation
- ***Secondary function*** which gives additional benefits

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Products classification

From marketing concept point of view 3 criteria are relevant for product classification:

1. Nature of the product;
2. To whom are addressed;
3. Durability of the product.

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Products classification

From the **nature** of the product point of view:

- ✓ **Goods:** are tangible products
- ✓ **Services:** are intangible, inseparable and perishable

From the **recipient** of the product point of view:

1. **Consumer-goods, which includes:**
   - **Staples/ convenience goods -** purchase on a regular basis
   - **Impulse goods -** sweets, chewing gum
   - **Emergency goods -** umbrella during a rainstorm
   - **Shopping goods -** look, quality, price
     - **Homogeneous products**: similar in quality, but different in price
     - **Heterogeneous products**: product features are more important (furniture)
   - **Specialty goods -** electronic equipment, perfumes
   - **Unsought goods -** specialty journals, encyclopaedias, life insurance

From the **recipient** of the product point of view:

2. Industrial goods: bought by organizations.
- **Materials and parts**: enter the manufacturer's product completely;
- **Capital items**: enter the finish product partly – installations and accessory equipment;
- **Suppliers and services**: do not enter the finished product at all – typing paper, pencils etc.

From the **durability** of the product point of view:

1. **Durable goods** – survive many uses;
2. **Nondurable goods** – are consumed in one or a few uses.

Competitive differentiation and positioning of the marketing offer

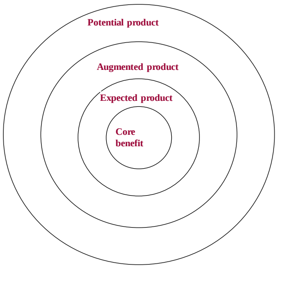
Offer differentiation is the act of designing a set of **meaningful differences** to distinguish the company's offering from competitor's offerings.

Differentiation - potential competitive advantage of the company

Product mix levels

1. ***Expected product*** consists of the core product plus the minimum conditions expected when customers purchase product.
2. ***Augmented product*** consists of additional benefits that allows differentiation of the same kind of goods in a competitive market.
3. ***Potential product*** includes all the features that might be useful to consumers, warning them about possible evolution of the product.

Product mix levels



Offer level	Example
Core benefit	After shave
Expected product	After shave + Conditioner
Augmented product	After shave + Conditioner + SPF15
Potential product	After shave + Conditioner + SPF15 + Guarantee

Differentiation tools

1. **Products:** *features, performance, conformance, durability, reliability, maintenance etc.*
2. **Services:** *delivery, installation of the product, customer training, consulting services etc.*
3. **Personnel:** *competence, courtesy, credibility etc.*
4. **Image:** ***identity*** *– symbols, written and audio/ visual media, atmosphere,* ***notoriety***

Offer positioning

Positioning – the act of designing company's offer so that it occupies a **distinct and valued place** in the target customers' minds.

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Offer positioning involves 3 steps:

1. Identification and selection of features and attributes that can create differences between the company's offer and competitors
2. Evaluation and selection of the most important differences that can be promoted to the selected attributes and features
3. Communication positioning

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Positioning errors:

1. **Underpositioning** – lack or ineffectiveness of communication
2. **Overpositioning -** narrow picture of the company's supply
3. **Confused positioning** – frequent changes in positioning
4. **Doubtful positioning** – lack of credibility

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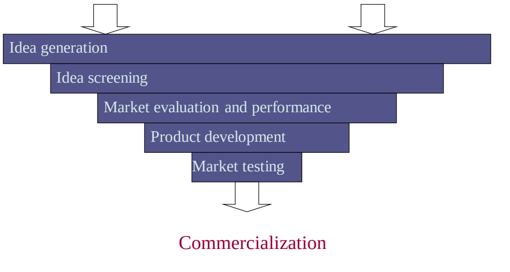
Process of new products development



Steps of new products development process

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Idea generation

Internal sources

- R&D
- Design, Engineering, Production, Supplier Departments
- Marketing
- Market research
- Sales force
- Customer service
- Top Management
- Others: Employees' suggestions

External sources

- Competitors
- Clients
- Specialists – design companies, consulting, advertising agency, marketing agencies
- Others: business partners, research environment of universities

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Idea screening

- Factors regarding the product
- Factors concerning the company
- Market factors
- Financial factors

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Market evaluation and performance

- market investigation and marketing analysis, financial projecting and cost estimation -

- ✓Concept development
- ✓Concept testing
- ✓Market evaluation and designing of business plan
- ✓Economical analysis: turnover forecast, necessary investments, costs and profit projection

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Product development

- total effort of a team -

➢**Inputs for new product designing and development**

- *Market study and consumer behavior*
- *Company objective*
- *R&D department*
- *Product policy*
- *Supplying*
- *Logistics and raw materials*
- *Engineering*
- *Production planning*
- *Added services*
- *Marketing consultancy:* product test, *consumer tests etc.*

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Market test
- commercial risk decreasing -

- ❖Reliable forecast of future sales
- ❖Determine costs of necessary marketing operations
- ❖Testing entire marketing mix
- ❖Practice in manufacturing, delivering and sailing

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The findings after the market test

		Trial rate	
		High	Low
Repurchase rate	High	Good product Good marketing	Good product Poor marketing
	Low	Unsatisfactory product Good marketing	Unsatisfactory product Poor marketing

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Product commercialization

- ✓Establish market-entry timing **When?**
- ✓Defining geographical strategy **Where?**
- ✓Choosing distribution channels **How? – To whom?**
- ✓Consumer adoption process

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Adoption and commercialization

- ✓Innovators - **2,5%**
- ✓Early adopters - **13,5%**
- ✓Early majority - **34%**
- ✓Late majority - **34%**
- ✓Laggards - **16%**

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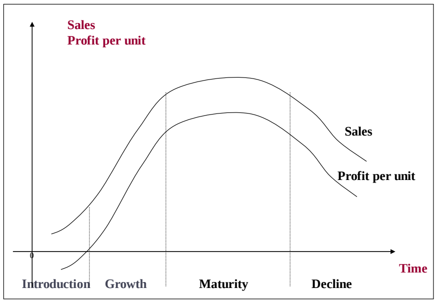
Product life cycle

Period of time between product appearing on the market and product eliminating of manufacturing.

Product life cycle



INTRODUCTION

The objective is to create awareness and stimulating product trial.

Features of Introduction:

- slow start of sales ;
- reduced benefits, even negative in the beginning;
- relatively high price
- weak competition, the product is not known;
- segment of consumers - innovators.

INTRODUCTION

Marketing strategies and policies:

- Standard, basic product;
- Cost-oriented price;
- Selective distribution;
- Promotion tools: informing advertising, strong sales force to persuade consumers.

GROWTH

The objective is to maximize competitive position and to increase brand preference

Features of Growth:

1. sales are growing fast;
2. benefits are increasing;
3. unit cost is average
4. competition is weak to medium
   buyers – mostly early adopters

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GROWTH

Marketing strategies and policies:

1. Product: product line expansion;
2. Price decrease, market penetration prices;
3. Intensive distribution;
4. Promotion tools: increasing awareness, product image creation, sales promotion.

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MATURITY

Maturity in growth
Stable maturity
Maturity in decline

Objectives of maturity:

1. Maximise profit
2. Defending market share
3. Increase costumer loyalty.

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MATURITY

Features of maturity:

1. highest sales in stable mature;
2. highest benefits in maturity in decline;
3. unit cost is the lowest;
4. competition is very strong;
5. buyers consists of majority

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MATURITY

Marketing strategies and policies:

- Product: differentiation;
- Price: adapted to the main competitors;
- Intensive to selective distribution;
- Promotion tools: reminder advertising, image building and increasing loyalty.

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DECLINE

Decline objectives are:
1. Reduce expenditures
2. Market harvesting

Main features:

1. declining sales;
2. benefits are declining;
3. production and marketing costs decrease;
4. competition is in decline;
5. product is required only by traditional customers (laggards).

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DECLINE

Marketing strategies and policies:

- Product: removal from manufacturing;
- Price: continuous decrease;
- Distribution: selective;
- Promotion actions: reduce to minimum.

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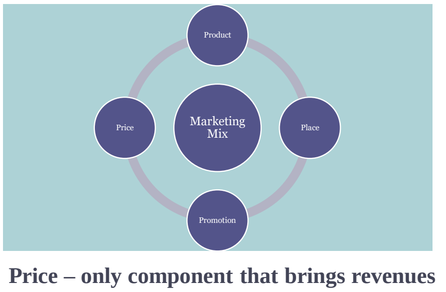
Price
- marketing mix component -



Price – only component that brings revenues

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Price
- definition -

- Price is an **amount of money** that customer **accepts** and **is willing** to pay the seller in exchange for purchased products.

- The size of the price reflected the amount that a client is able and willing to "**sacrifice**" to meet a particular need or desire.

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Price particularities:

1. Price is a mobile and flexible element of marketing mix

- price can be changed easily
- effect of price change is usually immediate and measurable

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2. Price is a result of endogenous and exogenous factors interaction

Endogen	Exogen
▪ Internal conditions of company ▪ Technical and organisational level of production ▪ Production costs ▪ Transport, distribution, commercialisation ▪ Quality of company management	▪ Particularities of national economy ▪ Balance of power in the market ▪ State pricing policy ▪ International regulations and restrictions

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3. The price is considered a measure of adaptability of the company to a highly dynamic competitive environment

4. Company must obtain an interaction, interdependence between pricing and policies of product, distribution and promotion – in marketing strategy.

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Price can vary between 2 limits:

1. **lower limit corresponding to the production and marketing costs and ensure a minimum profit margin (rate).**
2. **upper limit determined by the product acceptability**

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Pricing objectives

- ***Objectives related to profit***
- ***Objectives related to sales***

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Objectives related to profit

- **survival**
  - Production overcapacity
  - Strong competition on the market
  - Changing consumer wants
- **maximum current profit**

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Curent profit maximization

Theoretically, the maximum profit point (considered as a function of II grade and with the graphical representation of a parabola) is where the first derivative is zero

$$\left.\begin{array}{ll} q = a - bp & \textbf{(demand equation)} \\ TC = FC + VC & \textbf{(total cost equation)} \\ VC = cq & \\ TR = pq = ap - bp^2 & \end{array}\right\} \Rightarrow TC = FC + ac - bcp$$

$$\pi = TR - TC = ap - bp^2 - FC - ac + bcp = -bp^2 + (a+bc)p - FC - ac$$

where: q – quantity; p – price; TC – total cost; FC – fixed cost; VC – variable cost; TR – total revenue; π – profit; a,b,c – positive parameters.

$$\pi' = 0 \Rightarrow -2bp + a + bc = 0$$

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Objectives related to sales

- Sales maximisation
- Total revenues maximisation
- Maximization of market advantages

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Sales maximization

Achieving is possible in the following situations:

1. The market is price sensitive;
2. Production and distribution costs fall with accumulated production experience;
3. Competition is low.

Enter to specific markets

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Total revenue maximization

- Long term effect is maximization of profit and market share of the company.
- Pricing that maximizes turnover is based on demand and total revenues equation.

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Maximization of market advantages

Achieving is possible in the following situations:

- Current demand is high;
- Production costs are not extremely high;
- Competition is low;
- It is promoting the image of a product quality leadership.

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Determinants of price

1. **Costs**
2. **Competition**
3. **Demand**
4. **Product life cycle**
5. **Other marketing mix elements**

133

Costs

- **Fixing the price that cover total costs and a minimum profit margin (rate)**

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Competition

- Big companies
  - Low prices (market-penetration pricing)
  - High prices (market-skimming pricing)
- Small companies (competition orientated pricing)
  - Imitative aligning
  - Differentiated aligning

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Demand

- **Is used in case of elastic demand**

Price elasticity of demand

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Product life cycle

- in introduction the price is fixed at a high level
- in growth and especially in maturity, prices are decreasing because of the competition and costs decreasing
- usually in decline price falls further to align to the decrease in demand.

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Other marketing mix elements

- **Final price should take into account the quality of the brand and the company's promotion policy, as well as competitors prices.**

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Pricing methods

1. Cost based methods;
2. Customer perceived value methods;
3. Competition based methods.

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1. Cost based methods

1. Markup pricing
2. Target-return pricing

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Markup pricing

A producer registrate:

Variable cost = 10 Euro/ unit
Fixed cost = 300.000 Euro
Expected unit sales = 50.000 units

Unit cost = Variable cost + Fixed cost/ unit sales
Unit cost = 10 + 6 = 16 Euro
Assumed the producer wants to earn a **20% markup on sales**, markup price is given by:
Price = Unit cost/(1 – 0,2) = 16/0,8 = 20 u.m.
Producer **earns 4 u.m.** per each unit sale.

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This method is frequently used for the following reasons:

- Producers have more certainty about costs than about demand;
- Where all companies in the industry use the pricing method, their prices tend to be similar, minimising price competition;
- Is a method fairer to both buyers and sellers; sellers earn a reasonable return on their investment and do not take advantage of buyers when the demand become acute.

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Target-return pricing

The company determines the price that would yield its target rate of return on investment.

Variable cost = 10 Euro/ unit
Fixed cost = 300.000 Euro
Expected unit sales = 50.000 units
Invested capital = 1.000.000 Euro
Desired return = 20%

ROI = 20% * 1.000.000 = 200.000 Euro

Target-return price = Unit cost + (Desired return * Invested capitalul)/ Expected unit sales
Target-return price = 16 u.m. + (0,2 * 1.000.000 Euro)/ 50.000 = 20 Euro

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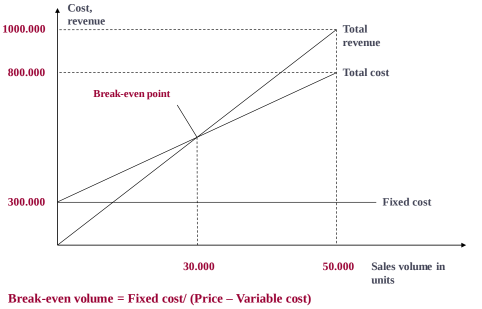
Break-even chart for target return pricing



Break-even volume = Fixed cost/ (Price – Variable cost)

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2. Customer perceived value methods

- Companies are basing their price on the product perceived value.

Risks:
- Overpricing of products, sales volume decrease
- Undervaluation of products, earn profit will be lower than potential earned profit

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3. Competition based methods

- **Going rate pricing**
- **Sealed-bid pricing**

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Selecting the final price

There are 5 categories of prices:

1. **Negotiated prices**
2. **Product mix prices**
3. **Differentiated prices based on some criteria**
4. **Psychological prices**
5. **Promotional prices**

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1. Negotiated pricing

- prices that reward consumers for:
  - immediate payment (cash discounts)
  - purchase a large quantity of goods (quantity discounts)
  - purchase seasonal products at the end of season (seasonal discounts)
  - Turning in an old item when buying a new one (trade-in allowances)
  - preferential prices for distributors (functional discounts)
- original price is increased by "emergency tax"

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2. Product mix pricing

- Captive-product pricing (printer – cartridge)
- Product-bundling pricing (desktop + monitor)
- Byproduct pricing (meat, milk)
- Optional feature pricing (cars)

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3. Discriminatory pricing - Differentiated prices based on some criteria

- **Geographical pricing**
- **Customer-segment pricing**
- **Product-form pricing (product image)**
- **Location and time pricing**

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4. Psychological pricing

Setting the size of these prices is based on responses to two questions:

1. What is the **minimum price** you consider the product has poor quality?
2. What is the **maximum price** above which you consider the product is too expensive?

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Types of psychological prices:

- Prestige pricing
- Customary pricing
- Professional pricing
- Odd-even pricing

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5. Promotional pricing

- Low prices, aiming to promote the product.

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Distribution

Distribution consists of all operations that a product is made available to the consumer.

The distribution includes a set of activities that separates the end of production by product purchasing.

154

Distribution role

Based on position it occupy in the economic cycle of products, distribution plays an important role in achieving marketing objectives for:

- customer
- company
- society

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For customer:

- products needed by consumers in terms of quantity and structure;
- reduce the time needed for purchasing goods and required variety by approaching producer-consumer;
- add value to the product and conserve its properties.

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For company:

- efficient transfer of products from producer to final consumer;
- continuity of production flow;
- increasing economic efficiency of commercial activities;
- a way of balancing supply and demand ratio in different periods and areas through storage;
- increase financial profitability of the company;
- obtaining information useful for marketing research.

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For society:

- increasing the employment, being creator of jobs

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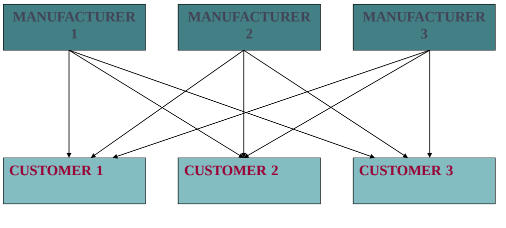
Commercial contacts without intermediaries



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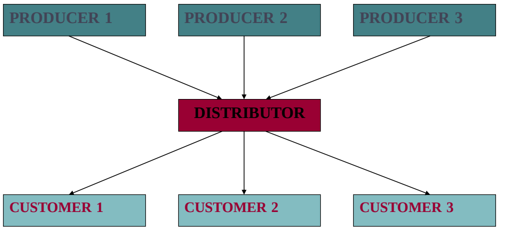
Commercial contacts with intermediaries



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The basic components of distribution are:

- routes of products from producers to customers
- all economic acts that are carried out on these routes
- physical processes for products on these routes (transport, storage, handling, storage, packaging, labeling etc.)
- system of human and material resources that ensures the transfer of products

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Main marketing flows between participants to distribution activities are:

1. **negotiation flow** – establishing terms and conditions for ownership transfer;
2. **ordering flow** – transmit buying intension;
3. **products flow** – physical transfer of product, ownership;
4. **payment flow** – pay debts for purchased products;
5. **information flow** - collect information about the environment in which business operates;
6. **promotion flow** - establish methods and techniques to communicate the offers on the market.

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Distribution channel

- represents **itinerary** of moving goods from producer to consumer, and the ways in which their **successive transfer** takes place between participants to the distribution process
- includes producer and final consumer as extreme points, and between specialized companies in distribution activities, called intermediaries.

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Distribution channels have 3 dimensions:

1. Length
2. Width
3. Depth of channel

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Length of the distribution channel

- ✓ represents the number of intermediary links involved in the distribution process

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Depending on their length distribution channels can be:

1. ***Direct (one level) channel***, when manufacturer sell directly to the final consumer, without intermediaries
2. ***Indirect (multi level) channel***, when one or more intermediaries appear in distribution process.
   - ***short***
   - ***long***

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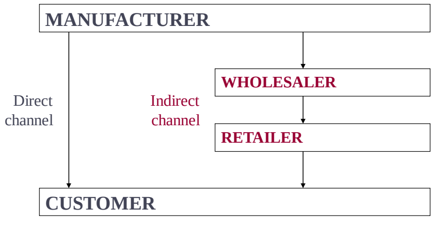
Distribution channels depending on their length



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Width of the distribution channel

- Represents the total number of units composing a certain intermediary link
  - Wide channels are for commercial products
  - Narrow channel for industrial products

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Depth of the distribution channel

- how close to the final consumption location does an intermediary deliver the products
  - mailing or sale of milk at home
  - books in different places

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Channel design decisions

1. number of intermediaries
2. selecting and evaluating channel members
3. terms and responsibilities of each channel participant

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1. Number of intermediaries

Company sets the width of the distribution channel:

- quantity (number of distribution points)
- quality (nature, type of operational units)

171

2. Selecting and evaluating channel members

- Choosing and setting the most appropriate distribution channels must be the result of a careful examination of the factors which influence sales.

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Product characteristics

- value of the product
- product size
- technical aspects
- required type of storage

173

Customer/Middlemen characteristics

- buyers and their behavior
- purchasing methods
- number of potential clients

174

Distribution costs

- organizational expenses
- physical distribution expenses
- general expenses

175

- Competition and distribution networks used by them
- Financial resources of the company
- General economic development

176

3. Terms and responsibilities of each channel participant

The main components of the "commercial relations mix" are:

- price policy
- commercial conditions
- territorial rights of distributors
- services and mutual obligations

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Distribution channel control

- each channel member wants to have as much influence as possible to control and obtain higher profits
- as long the channel is as complex and intense is the competition for power and control
- control of the channel is a necessary ingredient for system to work

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Leader of the channel

- **Manufacturer**
  - economic and financial power is greater than the remaining members
- **Wholesalers**
  - producers are not giants
  - compete in markets where is a large number of small and medium size enterprises
- **Retailer**
  - giant retailers

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Channel types of organisation

1. Conventional marketing channels
2. Corporate vertical marketing channels
3. Administered vertical marketing channels
4. Contractual vertical marketing channels

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Conventional marketing channels

- independent manufacturers, wholesalers and retailers with the aim of maximizing their profit
- no member of the channel has control over others

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Corporate vertical marketing channels

- production and sales processes are coordinated by a single unit for:
  - economic reasons (to reduce distribution costs)
  - strategic (channel control)
- integration can be done both upstream and downstream

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Administered vertical marketing channels

- production and sales processes are supervised by a company
- company cooperate with intermediaries for activities that aims:
  - merchandising goods
  - products promotion
  - pricing of products

183

Contractual vertical marketing channels

- different manufacturers and intermediaries established contractual relationships in order to reduce costs and increase sales volume

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Franchise

1. **franchisor** (host of the system)

2. **franchisee** (business beneficial)

185

Franchising can be of three types:

- **Product** franchise
- **Industry** franchise, by product or production
- **Services** franchise

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Promotion - definition

- *Promotion - actions and tools of informing and attracting potential buyers to the point of sale, in order to meet their needs and desires and increase economic efficiency of companies.*

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Promotional mix components

- **Advertising**
- **Sales promotion**
- **Public relations**
- **Personal selling/ Sales force**
- **Direct marketing**

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Advertising

Any paid form of nonpersonal presentation and promotion of ideas, goods or services by an identified sponsor.

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Advertising

- Print and broadcast ads (TV, radio, cinema, press)
- Posters, displays (rollup, point of purchase, motion picture etc.)
- Packaging (outer and inserts)
- Leaflets
- Presentation films
- Brochures and booklets
- Symbols and logos

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Sales promotion

Short term incentives to encourage purchase or sale of a product or service.

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Sales promotion

- **Contests, games, sweepstakes, lotteries**
- **Gifts**
- **Sampling**
- **Fairs and trade shows**
- **Exhibits**
- **Demonstrations**
- **Couponing**
- **Rebates**
- **Possibility of change an old product with a new one**
- **Packs**

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Public relations

A variety of programs designed to improve, maintain or protect a company or product image.

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Public relations

- Press releases
- Speeches
- Seminars
- Annual reports
- Charitable activities
- Sponsorships
- Publications
- Company magazines
- Special events
- Community relations
- Lobbying
- Identity media

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Personal selling/ Sales force

Oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales.

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Personal selling

- Sales presentations
- Sales meeting
- Incentive programs
- Samples

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Direct Marketing

Interactive system of marketing which uses one or more advertising media to effect a measurable response and/or transaction at any location.

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Direct marketing

- Catalogs
- Direct mail
- Telemarketing
- Electronic shopping

198

Any communication action must respect 3 conditions:

- *truth about the product* - its essential performance;
- *truth about the company* - any company has an identity and a culture that can not be ignored;
- *truth about consumers* - communication must be adapted to their expectations.

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Developing effective communication

Promotion strategy of the company must be in correlation with the strategies adopted for the product, price and distribution. Its starting point is the overall marketing strategy.

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Major factors in developing promotional mix:

a) **Nature of each promotional tool**
b) **Product/ market couples**
c) **Adopted communication strategy**
d) **Customers expected answer**
e) **Product life cycle stage**

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A. Communication tools characteristics

Advertising	**Sales promotion**	**Direct Marketing**
Public presentation *Power of influence* *Amplified expressiveness* *Impersonal character*	*Power of communication* *Power of stimulation/ Incentives* *Invitation*	*Is individualized* *Is updated continuously* *Is not public*
Sales force	**Public relations**	
Interpersonal dimension *Long term impact* *Necessity of receiving and giving an answer*	*High credibility* *Lack of public reticence* *Considerable capacity of expression*	

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B. Product/ market couples

Consumer markets	**Industrial markets**
• Advertising • Sales promotion • Sales force • Public relations	• Sales force • Sales promotion • Advertising • Public relations

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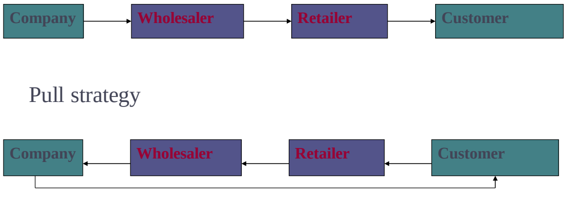
C. Adopted promotional strategy

Push strategy

Pull strategy



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D. Customers expected answer

- Advertising and public relations are more efficient than sales force in awareness stage and for developing notoriety.
- In order to convince the customer and to close the sale the most efficient method is sales force.

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E. Product life cycle stage

- **introduction**
  - advertising and public relation have high cost effectiveness
- **growth**
  - promotional investments can be toned down
- **maturity**
  - maximum level of all promotional instruments
- **decline**
  - promotional activities are reduced gradually

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Determining the target audience

- Consists of actual and potential buyers of the product

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Determining the communication objectives

- **Notoriety -** informing
- **Action/ Purchase-** attracting customer
- **Image -** creating and developing a positive image

  Image is a set of believes, ideas and impressions that a person holds of an object.

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Establishing the promotion budget

1. Percentage of sales method
2. Competitive parity method
3. Affordable method
4. Objective and task method