Introduction to marketing: Part 1 - Course Notes

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Wharton School - Introduction to marketing

Week 1: BRANDING: Marketing Strategy and Brand Positioning

1.1: Building Strong brands

What is marketing ?

- Study of market exchange between two or more partners.
- This simpliest example is having one buyer and one seller.

Spectrum between two extremes:

1. Seller's market:
   - Customer have to come to the seller.
   - There is a strong focus on products.
   - Profit comes from volume
   - Success is measured with market shares and economy of scale.
2. Buyer's market:
   - Seller have to meet the needs of the customer.
   - Every customer wants something different, so the seller has to pick and choose customers
   - Leads to segmentation.
   - Profit comes from creating value and selling at a premium price, building loyalty over time
       - Success is measured with customer share.
       - Expensive to acquire customers but cheaper to keep them over time
       - Use cross-sellong of complimentary products
3. Connected community:
   - Based on globalization and internet.
   - Can get good and bad opinions widely spread fast.
   - Notion of customer experience:
   - customer value

- happens through the whole purchase process : before and after transaction
4. Economic uncertainty
    - Recession: people lose trust in market
    - Sellers have to be
    - authentic and deliver genuine services and value to keep trust over time
    - disciplined
    - adapting fast to changes

4 Orientations of marketing

1. Production: Persuade customer they want your product
2. Marketing: Persuade firm to offer what the cusomer wants
3. Experience: Manage entire experience with firm
4. Trust: Building a relationship of trust and discipline

Sources of value for the customer

1. Generic
2. Differentiated product and services
3. Experiential value
4. Genuine value

Competitive advantage

No.	Advantage	Measure
1.	Lowest cost	Market share
2.	Quality and service: Customer knowledge and data	Customer share and loyalty
3.	Transformation: custoemr as co-creator of value	Buzz / Word of mouth / Referrals
4.	Trust: discipline	Reduced cost of acquisition of a customer

Three principles of marketing

1. Customer value
2. Differentiation
3. Segmentation, targeting and positioning

4 P's of marketing (marketing mix)

Name	Refers to
Product	Seller
Place	Distribution
Promotion	Advertisement
Price	Buyer

1.2 Strategic marketing

Framework: Market-driven principles

1. Know your markets
   - What customers want
   - How competitors react
   - By doing market research
2. Customers have the final say
   - Assume customers go through data in 3 bundles
     1. Price and functionality
     2. Product features and design
     3. Can be customized to meet needs
   - Focus on one bundle and be satisfactory on the two others
3. Commit to being first in the markets you serve by looking at
   - Structure
   - Resources prioritization
   - People you hire

Value map

Provide a fair value for 2 of the 3 bundles. Provide superior value for 1 on the 3 bundles.

Strategies for leadership

1. Product attributes -> Operational excellence -> Customization
2. What are customer expectations -> fair value
3. Where you are vs. your competitors

Short term goals: Be at fair value for everything Long term goals: Be the best at one of the bundles, be good at others

Examples

1. Operational company
   - Allocation of resources
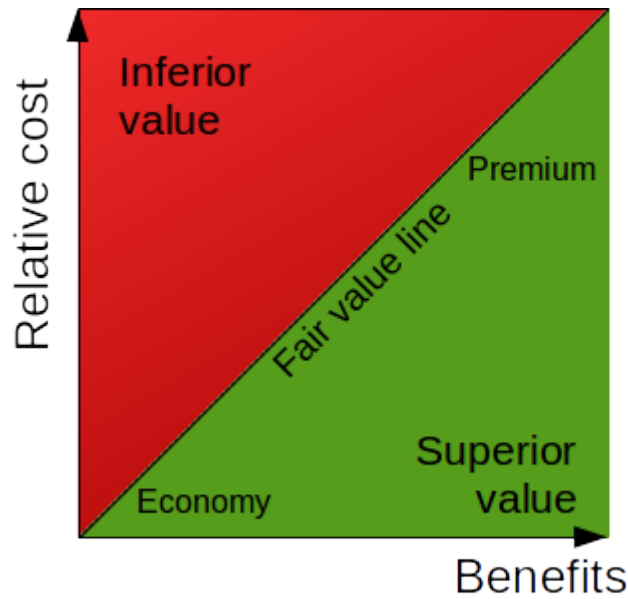   - Prioritize IT
2. Performance superiority
   - R&D company

Figure 1: Value map

- Innovative staff who doesn't like heavy hierarchy and structure
3. Customer intimacy
   - Market research
   - Customer comes first

Mature products: High cost efficiency and high performance superiority Personal services: High customer intimacy, low cost efficiency

1.3 Segmentation and marketing

Segmentation, targeting and positioning framework (STP)

1. Segmentation: Variables that allows segments
2. Targeting: Evaluate attractiveness of each segment and choose one
3. Positioning: Concept for each target segment, select best and communicate it

Market segment:

- Dividing into subsets
- Marketing target
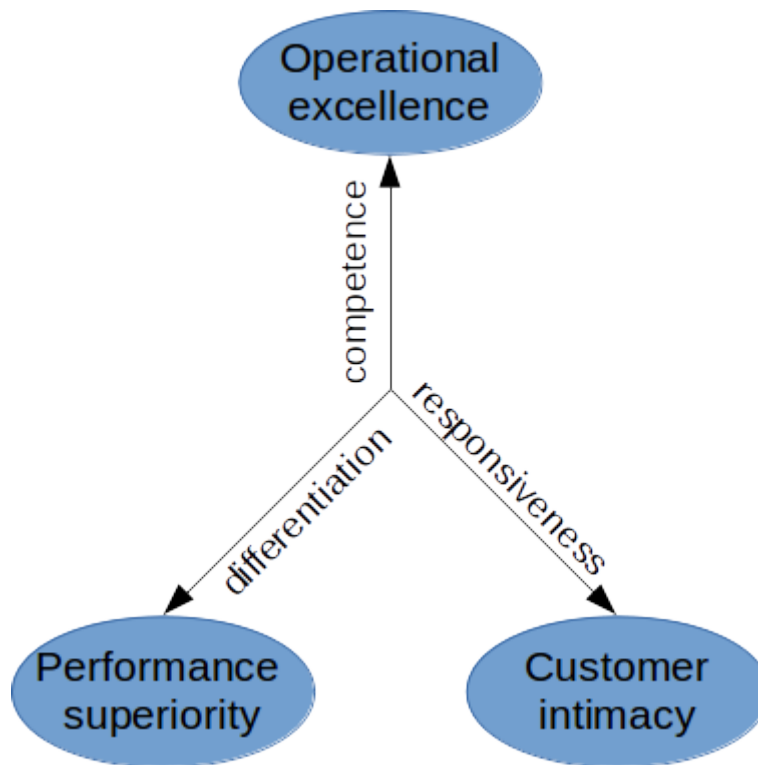- Reach with a distinct marketing mix (4P)

Figure 2: Expectations

How to divide market segments

1. Characteristics of the customer
   - Most common
   - Age, richness, gender
2. Benefits sought
3. Systematic, product-related
   - Purchasing behavior
   - By channel
   - Frequency
   - Shopper vs loyal
4. Cohort analysis
   - Generations
     1. Great depression
     2. World War II
     3. Post War
     4. Boomers
     5. Generation X
     6. Generation Y
        - Likes:
          1. Free content
          2. Telecommunication
          3. Everything is social
          4. Wireless, right fit
        - Dislikes:
          1. Anonymous mass market
          2. Beaten paths
          3. Restricted access
     7. Millenials
        - Big shoppers:
          1. Co-purchase with parents
          2. Live or supported by parents
        - Information is experienced electronically
          1. Multi-tasking
          2. Co-creator of content / products / medias
          3. Connected
          4. Socially responsible
5. Geographic segmentation
   - Regional segmentation
   - Zip clustering
   - PRIZM algorithm

Select a target segment

What makes a segment attractive ?

1. Segment attractiveness vs capability

2. Monitoring if actual buyers match segment
3. Criteria
   - Segment size
   - Growth potential of segment
   - Value
   - Stability over time
4. Competitors within segment
   - Number and strength of competitors
   - Current company position
   - Ease of entry
   - Easy of competitive entry

Market targeting

- Develop measures of segment attractiveness
- Select based on business capabilities

	Segment attractiveness	
Competitive strength	*Low*	*High*
Low	Stay away	Beware
High	Domination is essential	Perfect

1.4 Positioning

A brand is a proprietary trademark:

- An informal contract, a relationship:
- Promise
- Specific benefits
- Quality
- Value
- It is whatever the customer thinks it is, in a relationship mindset

Positioning:

1. Target segment (for whom)
2. Point of difference (reason to but)
3. Frame of reference (points of parity)

A positioning:

- Make use of all of the elements in the marketing mix
- Focus on a few key benefits
- Must be defendable
- Require making choices, because you can't do everything

A strategic idea:

- Big picture:
- What products to sell
- Customers and competitors
- Tactical
- Messaging
- Strategic and technological

Points of parity

What is shared with other brands:

- Category: What is a grocery store (what it must have)
- Competitive: Negate competitors' points of difference

Points of difference

Points of difference are what differentiate from other brands:

- Strong, favorable, unique brand associations
- Similar to notion of USP (Unique selling proposition)
- SCA (Sustainable competitive advantage, long-term advantage)
- Performance attributes, benefits, imagery, design

Criteria:

1. Desirable:

    - Relevant
    - Distinctive

2. Deliverable:

    - Feasibility: affordability, possibility
    - Communicability
    - Sustainability: internal commitment, difficult to attack

1.5 Brand mantra (Elevator speech)

Define a brand in 30 seconds

Mental map: brand associations and responses for a target market. What comes to mind when you think about it ? Separate brand associations in categories.

Core brand values:

- Set of abstract concepts and phrases
- Select 5-10 most important for points of parity and points of difference

Brand mantra:

- Heart and soul
- Brand essence: core brand promise

- Function (nature, type of experience)
- Descriptive modifier (clarifies nature)
- Emotional modifier (how provide benefits)
- Communicate
- Simplify
- Inspire

Use internally to guide decisions and what should/shouldn't be associated with.

1.6 Experiential branding

Connected community

Customer experience is:

- Social, behavioral, emotional
- Triggered stimulations

Process / Result / Living / Undergoing / Situations

- Connect brand and company to customer lifestyle.
- Put actions and purchase occasions in a broader social context

Traditional view	Experience view
Differentiation	Experience
Promise	Relationship
Attributes	Personality
Static	Dynamic
Mass	Individual
Awareness	Relevance

Experiential brand positioning

Experiential brand positioning is:

- Multisensory
- Different from all competitors

Brand value promise: describe what customers:

- Gets, sense, feel, think, act, relate to, . . .
- For all channels of distirubtion

Experiential components

Experiential components are: (Schmitt 1999)

- 5 senses: Across senses
- Emotions: Mild / Strong positive feeling

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- Cognitive: appeal to intellect / creativity / surprise
- Behave: Experience / lifestyle / enrich / alternative
- Social: community, belonging, culture

Strong vs weak brands

Strong	Weak
Make clear promises kept over time	Vague promise that change
Rich unique brand equity	Very general equity
Strong thoughts and feelings	Low emotional commitment
Dependable, delivers consistently	Spatly reputation, create doubt
Loyal frachise	little loyalty, pricing based and short-term
Superior product and processes	Promotional incentives
Distinctive	Not distinctive
Alignment of internal and external commitment to the brand	No internal alignment
Stay relevant	Gets outdated

Week 2 - Customer Decision Making and the Role of Brand

2.1 Shopper marketing

How customers make decisions: shopping experience

- Impulse purchase
- Habit, intuition, emotion
- What they see and what they miss
- Personal relevance

Multi-staged / Multi-channeled process

Simple stage models:

- Customer behavior
- Marketing actions:
    1. Awareness of need
    2. Identification of products
    3. Information
    4. Evaluation
    5. Purchase
    6. Use
    7. Post-purchase evaluation

Strategy: Sources of information axis and time of day axis: focus on each stage at each time

2.2 Shopping process

The shooping process consists of the following steps:

- Recognise a need: Satisfy by buying a product
- Natural need: food, replace a product
- Create a need:
    1. Pay attention to product and brands
    2. Know the trigger events and when they occurs
    3. Create a new trigger event
- Shopping goals:
    1. Seasons and holidays (triggers in store and online)
    2. Exclusive offers (emails)
    3. Oil change (reminders)
    4. Haircut (notices)
- Create "news" for customers on website and social networks

2.3 Information search stage

The next stage after identifying a need:

- Different products
- Consideration set:
    1. limited to 3-4 alternatives
    2. Evoked set (number of brands that you can remember)
    3. From all brands set, through:
        – In store considerations
        – Accidentally
        – Found through search
        – Evoked set
        – Branding advertisement
        – Unrecalled set
    4. Aim: The consideration set

Online:

- Interactive display
- Website search
- Online flagship store

In store:

- Flagship stores
- External search (what drives attention, goal for going in store)
- Social influences: social networks, salesperson, customer reviews

Get customer's attention:

- Capacity is limited
- Information can be too much: filters, cocktail party effects
- "get it"
- Color blocks / packaging
- Pack structures: different lines of quality / natural / flavours

2.4 Choice overload

Too much information = Choose not to choose

Perceived variaty vs actual variety: reconciling the paradox

- Assortment stage: Variety is good
- Choice stage: Variety can be complex
- Align the attributes (one shelf for a characteristic)
- Have an expert on-site
- Aligh products the way the customer thinks they should be

2.5 Purchase stage

1. Product must be in stock
2. Evaluate alternatives and pick a brand
   - Fair price
   - Increase accessible variety (multiple purchases)

Mindless shopping

- Price awareness is 12 seconds
- 85% only chose the product they first handled
- 90% only look at onesize
- After putting in cart, 21% can't estimate price, 50% are right on price
- Price is evaluated relatively to a reference price. Context matters:
  1. Internal benchmark
  2. External benchmark: list price vs. sale price
  3. Competitors
- Discount too often : not a fair price
- How much variety: attractive names for flavors and colours

2.6 Post-purchase

Choose to repurchase or tell others

Customer satisfaction:

- Actual performance not really evaluated
- Perceived performance
- Expectations are reasonable: happy or unhappy in respect to expectation

Positive	Negative
Repurchase	Switch to competitor
Positive word of mouth	Negative word of mouth
	Complain to company (address complaint can result in positive)
	Lawsuit

- Customer reviews are effective.

Messages that catch on

STEPPS	Meaning	—
S	ocial currency	Share what makes us look good
T	riggers	When reminded, one share
E	motion	Emotional messages are more powerful
P	ublic	Public is more catching
P	ractical value	Useful and informative
S	tories	Like to tell good stories (background of a product)

Week 3 - Effective Brand Communications Strategies and Repositioning Strategies

3.1 Brand messaging and communication

Perception:

- Developing an interpretation of a stimulus
- Most crucial process:
- Affect actions
- Affect what is "true"

Is constructive

- Function of context

Two major factors of bias:

1. Actual stimulus exposure and attention. No occasion to change or collect data
2. Prior expectation and knowledge

Two kind of attention:

1. Involuntary : Collaect data without focus
2. Voluntary: Choose exposure

Process:

1. Sensory inputs
2. Exposure
3. Attention
4. Interpretation
   - Stroop test: slowing interpretation. Can't block this effect
   - Shape of product, optical illusion, proximity bias
   - Brand <> Product

3.2 Choosing a brand name

Choosing a brand name:

- Brand name, logo, symbol, character, packaging, slogan, colors
- They all work together to provide an identity
- What would they think about the product if they only see brand elements

Criteria:

- Memorable
  - Easily recognised
 - Easily recalled
- Meaningful
- Descriptive

- Persuasive
- Appealing
- Fun and interesting aesthetically
- Rich visual and verbal imagery
- Protectable
  - Legally
  - Competitively
- Adaptable
  - Flexible
  - Updateable
- Transferable
  - Within / across categories
  - Geographical boundaries and cultures

Strength and weaknesses, strategically balance

Element	Advantages	Disavantages
Names	Anchor, Quick	Difficult to change, globalization
Logos / Symbols	Attention calling / Associative / Transferable	Outdated / Ambiguous
Characters	Rich meaning / Attention getting	Outdated / Globalization
Slogan / Jingle	Highly memorable / catchy / meaningful	Translation / music taste
Packages	Recognision / info / meaning	Production / Channel

3.3 Color and taglines

1. Color

- Ultimate goal: Own a color (Tiffany, Mary Kay's)
- Separate product lines
- Strong perceptions
- Consistencty is difficult
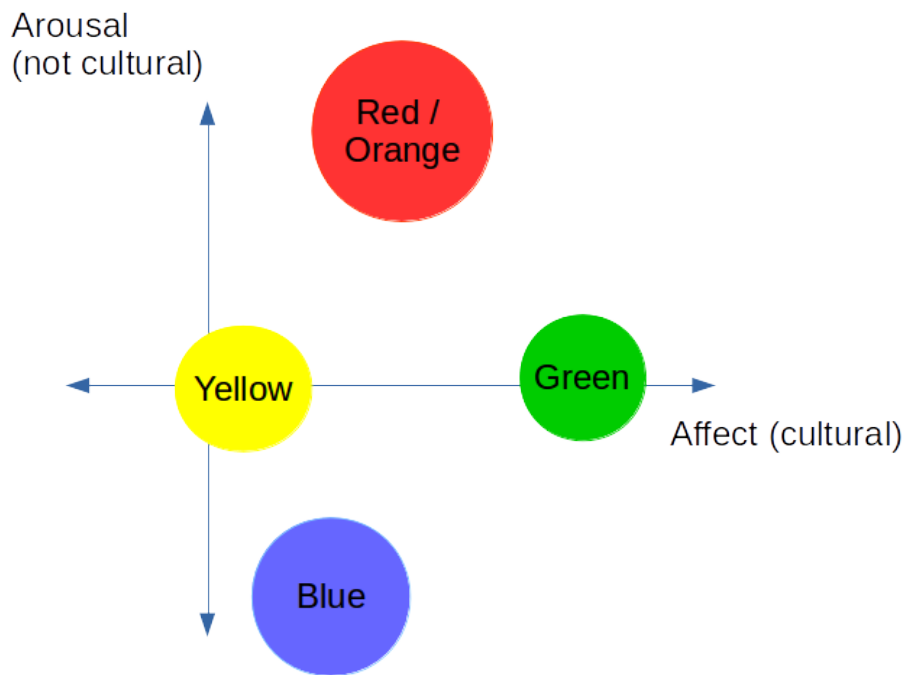
Color table

Color	Attributes
Red	Appetite, love, excitement
Blue	Productive, men, curb appetite
Green	Tranquillity, health, money, nature, fertility
Brown	Reliable, boredom, practical
White	Purity, innocence, empty, spacious
Black	Evil, death, mourning, slim
Yellow	Bright, energy, eye fatigue
Orange	Excitement, enthusiasm, warmth, action
Lavender	Calm, relaxation
Purple	Royalty, waelth, success, wisdom
Pink	Girl, calming, warm

Color emotion guide (by The Logo Company)

2. Symbols

- Communicate associations
- Multiple associations
- Positive feelings: liking
- Can get outdated

3. Slogans

- Positioning strategy
- Remove ambiguity
- Create equity and emotion
- Reinforce the name and symbol

Basics:

- Short
- Differentiated from competition
- Unique
- Easy to say and remember

- Cannt have any connotation
- Protect and trademark
- Emotion

Types:

- Imperative
- Descriptive
- Superlative
- Provocative
- Clever

3.4 Brand elements: Packaging

1930's packaging research: self-service supermarkets

Detergent in two boxes: Circle better than triangle for some products

Aesthetic and function: Grab attention and work well

Distribution channels:

- Retailers
- Changing channels
- Which Retailer like which package

Colors:

- See preceding section

Shape:

- excuse for a new product
- Really strong brand image

3.5 Brand elements: Persuasion

Objective: Changing people's attitude

Elaboration likelihood model: Celebrity spokesperson

Difficult ! Interpret what they already believe

2 routes to persuasion

1. Central route:
   - Motivation (involvment), opportunity and ability to process marketing messages is high
   - central cues in messages
2. Peripheral route:
   - Motivation is low
   - Peripheral cues in messages

- Heuristic way:
    1. Classical conditioning (associations)
    2. Social proof: everybody is doing it
    3. Reciprocity: You owe me something
    4. Consistency: Always done it that way
    5. Liking: Like me, like my ideas
    6. Authority: Because I say so
    7. Scarcity: Quick, before they are all gone

Celebrity endorser

A good celebrity endorser is:

- Expert: Information
- Peripheral: Attractive

1. Considerations:
    - Audience fit
    - Brand fit
    - Attractiveness
    - Cost / Exposure / Risk
    - Social networks
2. High Q-Rating:
    - Appealing to those who do know them
    - Ratio of popularity / familiarity
    - Marketing evaluations Inc.
3. Transfer of meaning model:
    - Appropriate symbolic properties
    - Derive from celebrity to product
    - Mode brain activity
4. Source models:
    - Source credibility:
    - Expertise
    - Trustworthyness
    - Attraactiveness:
    - Familiarity
    - Likability
    - Similarity

Why some companies kept Tiger Woods and others not ?

Use of celebrity

Type of use	Reason
Explicit	Endorse product
Implicit	Use product
Imperative	Should use product

Type of use	Reason
Co-present	Appears with product

Exposure to marketing cues: - Motivation to elaborate + ability -> Central route - Else -> Peripheral route

3.6 Repositioning a brand

Brand equity must be actively managed over time: must be reinforced

5 rationale for brand change

Situation	Rationale
Initial identity and execution was poorly conceived	Consumer interest, brand association, sales
Target for identity and execution is limited	Reach a broader market
Identity and execution is out of date	keep up to date
Identity and execution loses its edge	old fashioned
Identity and execution just became tired	Change generate "news"

Consistency

Cognitive drive to maintain consistency (Oldsmobile = Dad)

1. Evolving brand associations:
   - Symbols: Update without changing meaning
   - Brand name: Hard to change
   - Slogans: Easier to change than name
   - New products: Add a modern element
2. Small noticeable differences (Ivory soap)
3. Butterfly effect
   - Not so extreme but really noticeable (Green giant)
4. Change the brand name:
   - Boston chicken -> Boston market
   - Weather channel -> Weather companies
   - Starbucks -> (logo only)
5. Evolving brand image of BMW:
   - Unpratical
   - Wasteful (money)
   - Stodgy (German)
   - Stuffy (Boomers)

Important that people believe changes

Major points:

- Consistency is valuable for strong brands
- All elements works in harmony
- Change is sometimes necessary but be cautious
- Understand sources of equity: Point of parity / Points of differentiation

Introduction to marketing: Part 2

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Week 4: Customer centricity

4.1 From product-centric to customer-centric management

Three axis of marketing

- Performance superiority: Having the best products
- Operational excellence: Low cost and efficiency
- Customer intimacy: Who is the customer. How intimate we want to get to add value.

What stores are customer inmtimate ?

Product-centric approach

All about making money by maximising the value of the company Total value of the company = time value of money -> Maximising shareholders value Volume and cost reduction:

- Will it scale : Can we deliver our products and services at scale ?
- Different metrics:
  - Volume
  - Costs
  - Market share (how well you will do right in the future)

1. Fine tuning the metrics
2. Growth
    - PS and OE are now standard
    - Search new sources of growth:
      - New customer segments and geographies
      - Innovation (extending products)
    - Companies work in product/service expertise (silos).
      - Competitive advantage
3. Mental process: Divergent thinking, different uses for the same product

4.2 Cracks in the product centric approach

Changes in the last 15-20 years:

- Emerging trends are here to stay

Leading factors:

- Commoditization (technology enables product development)
  - Lifecycle is shorter
  - Always must have a new product coming
  - No more natural monopoly power
- Smart customers
  - Technology enabled informatino flow
  - Aware of options availabl for them
  - Put mode demand of companies
  - Have to extract value from product
- Retail saturation
  - Tech enabled delivery
  - Instant availability
- Globalisation
- Deregularization : Must be more competitive

More demanding customers:

- How will the product solve my problem
- end-to-end solutions with products form multiple vendors
- Example: IBM
  - Customer centric solutions provider
  - Harder to commoditize
  - Left building and slling products

Information systems allow customer tracking

- Before: Know the sales Don't know who buys and how many they buy
- Now: Know who buys what and when

4.3 Data driven business models

Harrahs:

- Casino chain in the US
- Loyalty programs
- Games / meals / rooms at a really granular data
- Detect thresholds (when to offer a meal, . . .)

Tesco:

- Grocery chain in UK
- Loyalty program
- What products are boucht in Tesco vs. products bought elsewhere.

- Know which customer can switch to competition easilyDefending against Wal-Mart

4.4 Three cheers from direct marketing

Individual customers = unit of analysis:

- Who they are, what they buy
- Determine marketing communication
- Segmentation / Customer lifetime value comes from direct marketing

What kind of product for the most valuable customers and how to attract them. Capacity to learn and leverage customer information: Should inspire from direct marketing books

Being Direct Making Advertising Pay

4.5 Which firms are customer centric ?

None of the big firms are really customer centric:

- Walmart: Best at product-centric
- Apple: Best at product superiority, begins to collect data abour customers with iStore
- Starbucks: Customer-centric only at local level.
- Nordstorm: Great personalized service, but not based on CLV, so does not target the best customers but all of them.

Week 5: The Opportunities and Challenges of Customer Centricity

5.1 What is customer centricity

How do you define customer centricity ?

- Development and delivery of product and services
- Fulfill the current and future needs of a select set of customers
- Maximise their long-term value to the firm

You have to be willing to change:

- Risky
- Require data and models

Do something even if someone is not an actual customer because he/she will be one later

5.2 Living in a customer-centric world

- The main goal is still maximising the shareholder's value

- Distinguish the profitable customers from the less profitables ones

- Past is of some guidance for the future

- Focus of future profitability instead of short-term profitability

- Three tactics:
  1. Acquisition
  2. Retention
  3. Development

- Customer-centric organisational structure

- Customer data can't be commoditized easily

- Divergent (different uses for the same product) to convergent thinking (different products for the same customer)

5.3 More reflections on customer-centricity

There is a balance between really valuable customers and not so valuable ones. The latter ones add stability to the business like cash or bonds in an investment portfolio.

Paradox of customer-centricity The more you focus on the most valuable customers, the most you need the other customers too.

5.4 Questions on customer-centricity

Who is your customer ?

Example: Healthcare:

- Patient
- Doctor
- Hospital
- Insurance company

Procter & Gamble: Customer = Retailers

- It could be the customers in a few years: get ready for a direct marketing approach

Barriers to customer-centricity:

- Data
- Regulatory issues
- Control: Impossible to move
- Specific challenges for each company

- Resources available
- Build IT, hire employees

What competitors are doing in this area:

- Financial services
- Hotels and hospitality
- Be the first ones !

Does it make sense to be customer-centric ?

- Technology initiatives
- Experiments

You have to prepare before taking the big step.

Week 6: How Can Customer Centricity Be Profitable?

6.1 How Can Customer Centricity Be Profitable?

Focus on the right customers for strategic advantage

Product-centric approach have some cracks:

- Commoditization
- Well-informed customers
- Globalization

Customer-centric:

- Promising alternative
- Not clearly understood
- Many firms are tauted to be customer-centric but are not really

Clear definition:

- Celebration of customer heterogeneity
- Customer lifetime value

How to manage tactics:

- "Show me the money"
- Can't be world-calss on 3 tactics
- Doing one well can be really lucrative
- A lot trickier than we think of

Where tu put the extra dollar ? - Most managers would put it either in retention or development

Acquisition

Metric: Cost per acquisition (CPA): Big mistake to guide customer acquisition performance

For employees, lawyers, technology: we focus on the best, not the cheapest Why for customers we would like the cheapest to acquire ?

VPA: Value per acquisition = Customer lifetime value

- Upper bound for spending to acquire a new customer
- A lot of value in customers that we don't appreciate
- Match info with what customer prove to be over time

Customer acquisition summary

- Avoid CPA mentality
- Ceiling instead of floors
- Heterogeneity with CLV (search words, geographical, social)
- Be more patient and forward-looking when judging acquisition efforts
- Firms tends to underspend on acquisition

6.2 Customer retention

Metric: Churn / Attrition / Retention rate

- Good measure, but need to examine it at the right levevl
- How the retentino rate variaes across customers

Average retention rate = bad calculation

The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value

Right calculation: Average expected lifetime: Accounts for customer heterogeneity.

Customer retention summary

- There is no average customer
- Difference can be huge between average measures and accounting for heterogeneity
- Attrition elasticity is much lower than in the homogeneous case
- Investment in reducing attrition give more modest returns than expected

6.3 Customer development I

Make existing customers as valuable as possible Loyalty programs themselves are not a tool for customer development

- Cross selling

- Up-selling
- Increase frequency and volume
- Premium pricing

6.4 Customer development II

Metric:

- Share of wallet: How many needs are met by this firm
- Amount of product and services

Share of wallet is not correlated with size of wallet

Good and bad news about cross-selling

Good: Customer's share are correlated Bad: Some customer will not become better customers

- Upside of developmenet opportunities is more limited than managers think
- Icing on the cake: Not to change the customer but unlock value that is already there

But: Acquisition is not valuable in saturated markets

Overall summary

- Celebrating heterogeneity
- Smart acquisition
- Don't overspend retention: flighty customers will fly away no matter what you do or will become unprofitable

6.5 Wrap-up

Making customer centricity profitable:

- Need to have the technology to track data and do projections
- Update regularly the CLV
- Break customers into segments that we cam measure:
    - When they reach us
    - What products they buy first
    - What campaign bring them to us
- Allocate retention and development ressources appropriately: target marketing communications based on a segment characteristics
- Constantly experiment with these tactics
    - Send different messages to different people
- Bottom up perspectives to drive product line decisions
- Think about competition identifying the same high-value customers too

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Week 7 : Go to market strategies

7.1 Introduction and execution

Great idea + Great brand + Target customers = time for execution

7.2 Go to market strategies: Introduction

1. Omni-channel strategy and online-offline interaction
2. How to find lead users and facilitate influence and contagion
3. Targeting and messaging, pricing to value, customer access and distribution

Recap

- 5c's (Constraints)
    - customers (need)
    - Competitors (Relative strength)
    - Company (Resources)
    - Collaborators (Partnership)
    - Context (Change)
- 4P's (Parameters)
    - Product
    - Price
    - Promotion
    - Place
- STP
    - Segmentation
    - Targeting
    - Positioning
- The product should:
    - Deliver exceptional value
    - Address a large market
    - Be easy to explain and describe
    - Require not much capital to test and scale

Execution - The key question:

What is wrong with the status-quo ?

Marketing math 101

Success = Product x Marketing

You have to be good at both, on a scale of 0 to 10:

- Have a great product
- Have the right customer, brand fit, STP and 4P's

7.3 Friction

2 most important frictions

- Search frictions:
    - Where do I buy a TV ?
    - Who will have the best price and assortment
    - Search cost to get a better deal
- Geographical frictions:
    - Cost vs benefits
    - Leave the tyranny of local options

7.4 Goods and information

Prior to the internet: all markets were local

Internet: Allow businesses to pool customers

- In smaller markets: get unavailable goods
- Get information: How to spend our time (complement)

7.5 Academic research

Content:

- A lot is purely local (services, restaurants, people to date)
- Websites: Yelp, OKCupid

1 million population yiends 50-60 websites

Product: Farther you live from physical retail location: go virtual else go to nearby store.

Online:

- Lower prices or lower search costs
- Transact with others more efficiently
- Better information about local activities
- Improved customer convenience

7.7 The long tail
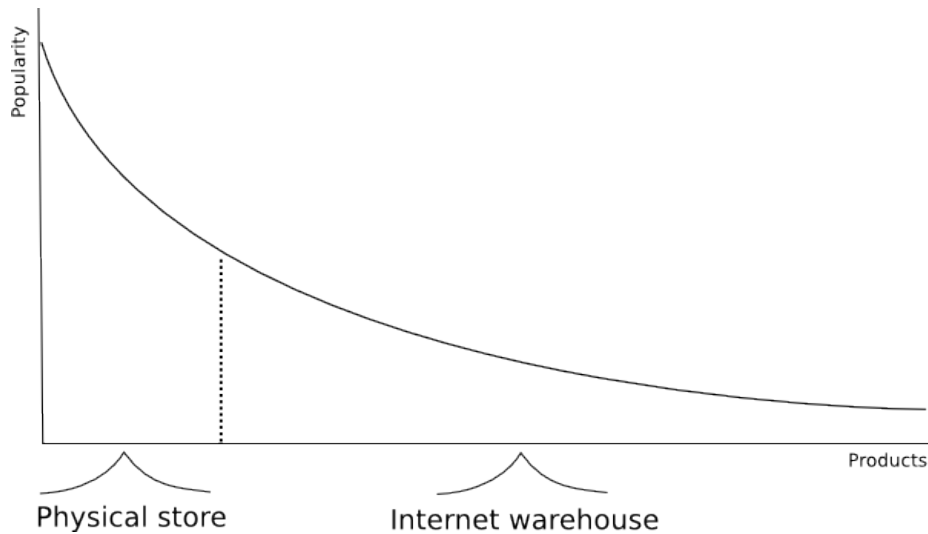
Historically: World of hits
Now: Infinite slots

Long tail exists:

- Economics of storage and distribution (supply side)
- Endogenous: moreways to discover variety (demand side)

Old-new economics:

- Pareto: 80%/20% rule
- Zipf: 2nd: 1/2 of the first, 3rd = 1/3 of the first

Key principles: tyranny of locality

- Once upon a time in India

Not enough demand for a movie theater but profitable from renting.

1. Q1: range Quality/Satisfaction ?
2. Q2: Implies for filtering ? (more variance in satisfaction)

The ratio Niche/Hits is changing Distribution efficiency is amplifying Recommendations and reviews drive sales Collective sales of niche products > Hits

7.8 The long tail II

Research findings:

Disentangling supply side from demand side

Study: Data from retailer with two distribution channels: internet and catalog.

Differences between 2 channels: - Gini coefficient: G = A/(A+B) - Lorenz curve

Cumulative share of income earned

100%

A

Line of Equality (45 Degree)

Lorenz Curve

B

100%
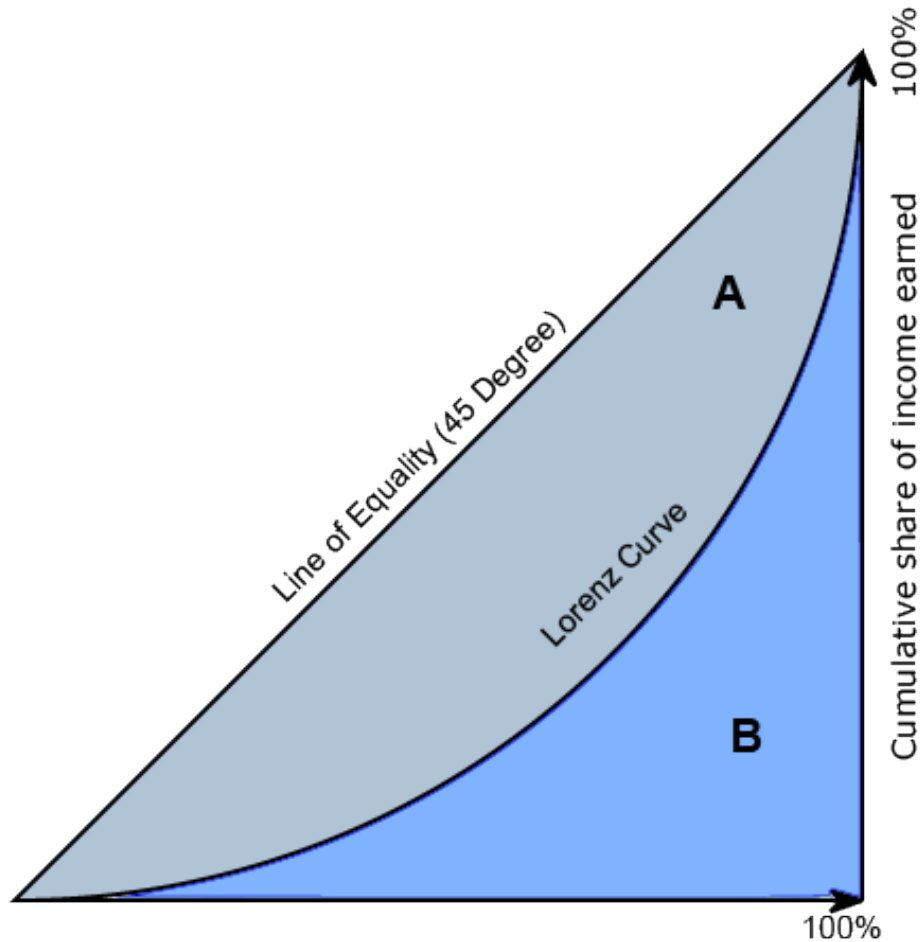
Cumulative share of people from lowest to highest incomes

Internet: More evenly distributed sales. differences not attributed to price and availability. More niche products sold.

- Directed search
- Non directed search
- Recommendation systems

Critiques

- Natural monopoly (hits)
- Double jeopardy: Unfamiliar are less liked (Million short)

Chris Anderson: Technology's long tail

7.9 How internet retailing startups grows

Data required

- Gather sales info
- Customer ID / Date / Transaction / Value / Zip code
- Geo-demo "real world" data

Question: - Why do some locations have more customers than others ?

What matters the most in internet retailing:

1. Alter cost-benefit tradeoff: Making things closer sometime at a better price
2. Sales evolution is structured and predictable: sales-time patterns
   - Customers talking to each others
   - Observation (packaging is a brand)
3. Good to great
   - Expansion to niche locations
   - Spacial structure
   - Find your doppelganger (similar locations far from each other)
   - Physical distance vs. social distance
   - More chances of interactions if customers have similar tastes in different products and services.

2 important patterns:

1. Sales start in larger cities and spread through proximity
2. Sales in smaller areas with "similar" kinds of people (age, education, occupation, . . .)

Long tail over location

5
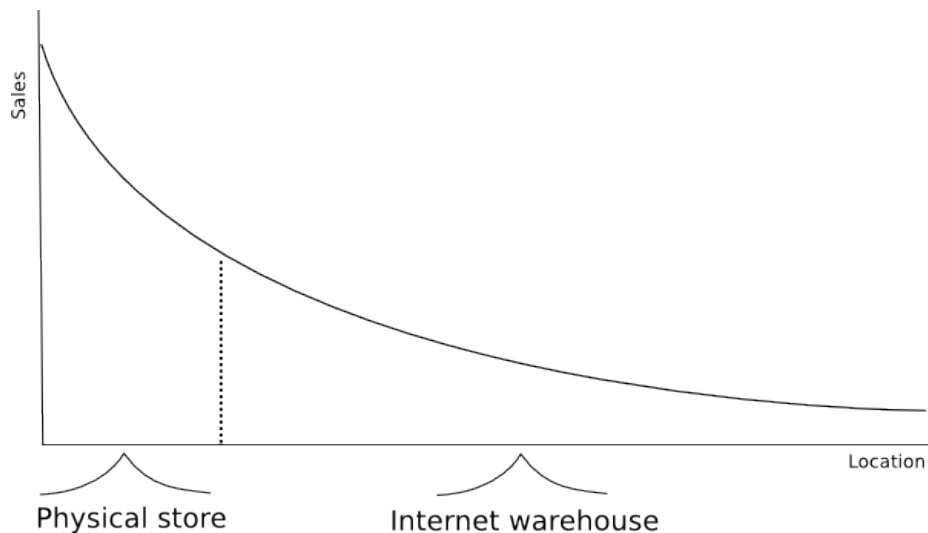
7.10 Preference isolation

Shelf space allocation: Similar % of shelf space than % of population. In total same shelf space in the market for a same amount of customers but is distributed evenly across different stores, indementently of the size of the market.

Preference minority is correlated to internet sales.

Week 8

8.1 Brands and digital marketing

Use of connected devices. It is still marketing.

1. Social commerce: reviews, blogs, network of curators

2. Digital ad, behavioral targeting / big data, micro-level targeting

3. Experimentation and testing

Intangible assets are 50% of the valuation of a business, against 20% in the 50's

A third of the value is attributed to brands.

Stocks for the long run

Goals and tactics:

- Brand goals:
    - Heart
    - Mind
    - Thinking
    - Feeling
- Key tactic:
    - Real world events
- Outstanding value and positioning:
    - Authenticity and transparency (all stakeholders)
    - Brand personality and "hjumanization"
    - "Infinite" life and potential for serendipity (finding valuable or pleasant things that are not looked for)

Example: Jetblue - All you can jet (599$ for 30 days) - 10m blog refs - 31m search queries - 700% lift in traffic

29 days until 29

#McDStories -> Negative stories

Organic celebrity: Ree Drummond, one of the largest blogs in the USA

BRANDZ™ Top 100 Most Valuable Global Brands 2014

	Brand	Category	Brand value 2014 $M	Brand contribution	Brand value % change 2014 vs 2013	Rank change
1	Google	Technology	158,843	3	40%	1
2	Apple	Technology	147,880	4	-20%	-1
3	IBM	Technology	107,541	4	-4%	0
4	Microsoft	Technology	90,185	4	29%	3
5	McDonald's	Fast Food	85,706	4	-5%	-1
6	Coca-Cola	Soft Drinks	80,683	4	3%	-1
7	VISA	Credit Card	79,197	4	41%	2
8	at&t	Telecoms	77,883	3	3%	-2
9	Marlboro	Tobacco	67,341	3	-3%	-1
10	amazon.com	Retail	64,255	3	41%	4
11	verizon	Telecoms	63,460	3	20%	1
12	GE	Conglomerate	56,685	2	2%	-1
13	Wells Fargo	Regional Banks	54,262	3	14%	0
14	Tencent 腾讯	Technology	53,615	4	97%	7
15	中国移动 China Mobile	Telecoms	49,899	3	-10%	-5
16	UPS	Logistics	47,738	4	12%	-1
17	ICBC 中国工商银行	Regional Banks	42,101	2	2%	-1
18	MasterCard	Credit Card	39,497	3	42%	2
19	SAP	Technology	36,390	2	6%	0
20	vodafone	Telecoms	36,277	3	-9%	-3

Figure 1: Top 20 brands

8.2 Customers and digital marketing

Customer goals:

- Attract
- Engage
- Retain

Subject to:

1. Never pay more to acquire than you will recoup (CLV > AV)

2. CLV need to incorporate RLV (referral lifetime value)
   - 8% of customers are marketing agents
   - Top 100 will generate 15000 other customers

Attractive target customer:

- Monologue to conversation with technology
- Amplification through virtual and real world synergy
- Long tail leverage
- Marketing "spend" as an asset

Food for thought:

- Status-quo experience that is broken

- Warby Parker

8.3 Reputation and reviews

Apparently more than 60% of users read reviews before making a purchase and positive reviews increase conversion rates.

One friction of market: we don't want to try new stuff

- Many "up" to build a reputation. One "down" to lose reputation (Franklin)
- Reputation is got without merit, lost without deserve (Shakespeare)

Lots of sites for vacation, restaurants, cars, movies, contractors:

- Chris Dixon from Trip Advisor: Startup build from bringing information into market.
- More info: Almost always better
- Information by firms: might affect behavior as well (better or worse)

Data:

- Hygiene grades cards shown in window of restaurants (mandatory in LA/NYC)
- Impact of demand:
  - A: increase of 5,7%
  - B: Increase of 0.7%

- C: Decrease of 1%
- Objective quality went up: Hospital admission for gfood-borne illnesses down 13%

Principles:

- Review systems change behavior
- Should be objective and verifiable, not actually the case

** Amazon and BN **

Reviews: 5* are frequent, 1* are rare. Average 4.14/4.45 Key findings: - Customer WOM affect sales - Better eviews boost sales - Downside effect of 1* is larger than upside effect of 5* - Text is actually read

Might motivate to review their own books. Review writing service/ fake reviews. Real reviewer, more than 25000 reviews. So many reviews does not mean fake reviews. Need algorithms.

According to Bing Lui, a data mining expert:

- 1/3 reviews are fake
- A lot of money is involved in this market

This Man Made $28,000 A Month Writing Fake Book Reviews Online

Difficult for a data mining algorithm because of sarcasm, jokes, . . .

Summary: Reviews could be helpful but authenticity is a concern.

** Trip Advisor **

Approach and key findings:

- Examine distributions of reviews
- Net gains should be highest for independent hotels with single-unit owners.
- Such hotels have more 5* and neighbors have more 1*

8.4 Product life cycle

1. Innovators (Research and Development)
2. Early adopters (Introduction)
3. Early majority (Growth)
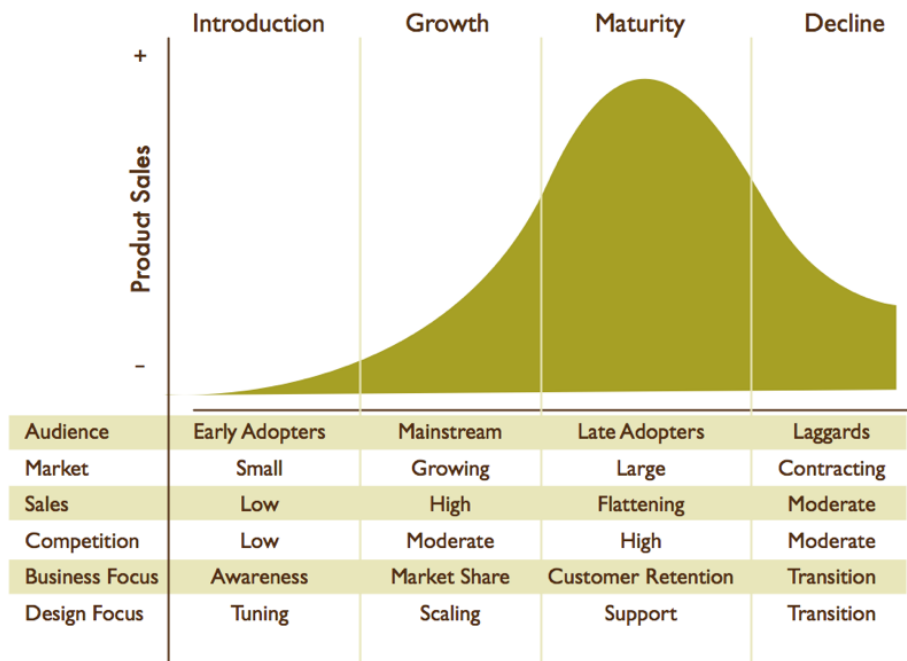4. Late majority (Maturity)
5. Laggards (Decline)

Pricing, customers and distribution are different in 5 stages

8.5 Influence and how information spreads

Obesity: Controversial / Spreads like a virus (video)

Network:

Life Cycle: Four Basic Stages

	Introduction	Growth	Maturity	Decline
Audience	Early Adopters	Mainstream	Late Adopters	Laggards
Market	Small	Growing	Large	Contracting
Sales	Low	High	Flattening	Moderate
Competition	Low	Moderate	High	Moderate
Business Focus	Awareness	Market Share	Customer Retention	Transition
Design Focus	Tuning	Scaling	Support	Transition

Product Sales

Re-drawn from the book "Universal Principles of Design" © 2003 Rockport Publishers idea-sandbox.com

Figure 2: Top 20 brands

10

- Pathways through which information, advice, resources, support flows between people.

- Physical or virtual

- Homophily:
    - Characteristics of participants that are similar (cultural, taste, income)

- Can be simple (dyad) or complex (hundred, thousand of nodes)

- Nodes and connections

- Ability to share information and resources

- Constraints / geography

Participation in a network is a choice. You decide how many contacts you have, how you will be central and how transitive (embedded) you will be.

You are being affected ny a network:

- Strangers and loose connectinos can affect us
- 1 person is 4% of influence
- 15 people are 40% of influence

Six degrees of separation between you and anyone in the world

8.6 Elements of neighborhoods and examples

Unit of analysis: Zip code, city blocks

First order contiguity

$$\begin{bmatrix} 0 & 1 & 1 & 0 \\ 1 & 0 & 1 & 1 \\ 1 & 1 & 0 & 1 \\ 0 & 1 & 1 & 0 \end{bmatrix} \Longrightarrow_{standardization} \begin{bmatrix} 0 & \frac{1}{2} & \frac{1}{2} & 0 \\ \frac{1}{3} & 0 & \frac{1}{3} & \frac{1}{3} \\ \frac{1}{3} & \frac{1}{3} & 0 & \frac{1}{3} \\ 0 & \frac{1}{2} & \frac{1}{2} & 0 \end{bmatrix}$$

Figure 3: Matrices

- Social contagion and trial on the internet: Evidence from online grocery retailing

Influence parameter is positive and statistically significant after controlling for demographics.

8.7 More examples of influence

Observations:

Connections:

```
- Numerous friends
- Few carry a lot of influence
```

Scale:

```
- Inferring who is influencial to whom is difficult
```

First social networks: - Classmates.com - Myspace - Facebook

Heterogeneity: Significant variance (to be expected), influence vs susceptibility to influence.

Average: 20% of friends have an influence. 1/3 are not influences by anyone. Distriubtion of posteriori mean

Regression involving influence parameters: female influience male but not the opposite.

Simple metrics: Friend count, profile views are inadequate.

Retention: If top user defects then disproportionate negative effect

Advantage: Superior identification of best customers.

8.8 More examples of influence pt. 2

Helpful to understand network structure as unexpected leaders emerge

Contagion was at work and is very important in the diffusion process

Social capital:

```
- Ability of individual to secure benefits due to trust, cohesion, reciprocity.
- Frequency and quality of informatino in a community
```

High social capital = more efficient transfer of information

Example: Bonobos.com

- Apparel category has a non digital attribute. Fit and feel is difficult online.

- Focus on new trials: incomplete knowledge ex ante.

- Socially visible

- 50% of trials would not have happened if no additional information about non-digital attributes was transmitted through social learning

- Later trials: Driven by better information about non-digital attributes. Through communication with earlier triers

- Customer category in product life-cycle
- Proxy for offline social capital in target segment ? (20-45 men fashion forward) => Number of bars and liquor stores in area.

How could other firms use this idea ?

Week 9: Targeting and Messaging, Pricing to Value, Customer Access and Distribution

9.1 Pricing strategies 1: Introduction

Overview:

- Motivation and puzzles
- Inputs to the pricing decision
    - Floor, ceiling bound to the EVC (Economic value to the customer) metric
    - 5C's affect the final location of the actual price between floor and ceiling
- Getting deeper into customer factors
    - Price sensitivity: Driver and measurement
    - Psychological factors

Motivation and puzzles

Pricing have a huge impact on profit but is often neglected. Can't find a private label everywhere else so evaluate the pricing is hard.

Trader Joe's: Mainly private brands

Price is more than a number: It sends signals to customer (premium/discount)

** Relate 5c's and pricing **

- Company issues

    - Target margin or IRR (Internal rate of return)
    - Consistency in the product line: Price of the new Toyota Camry is influenced by proces of the Honda Accord or Ford Taurus but also by the prices of Toyota Corolla and Toyota Avalon
    - Consistency in image: It's difficult for Neiman Marcus to cut proces in response to competition

- Competitor issues

    - Competitive aggressiveness: Ability of the competitor to sustain a price-based response. Deep pockets / irrational behavior
    - willingness to respond on price: Direct financial cost to competition
    - Competitor position: Market leaders will initiate, followers will imitate.

- Collaborator issues

  Incentives:

  - How hard will he work to push your product
  - What kind of pull support do they expect
  - What other fucntions will perform, how much influence do they have.
  - Also, it's not jsut abour margins: ROA also matters
    * ROA = Profit/Assets = Profit/Sales * Sales/Assets = Margin * Rotation

- Customer issues:

  - Price sensitivity (elasticity)
    * What drives it ?
    * How can we measure it ?
  - Psychological issues
    * Odd numbered endings
    * Mental accounting
    * Prospect theory
    * Endowment effect

9.2 Pricing strategies 2: customer factors

Price sensitivity is affected by:

- Ease of comparison:

  - Private next to branded:
    * + ease of comparison
    * + Price sensivity
  - You want price comparison to be somewhat difficult

- Expenditure

  - Large volume users are more price sensitive
  - Focal component is large part of total cost: more price sensitive

- Shared expenses

  - Separation between customer and payer: lessen price sensitivity
  - Feeling the "pain" of payment : more price sensitive

- Price quality inferences:

  - Higher price = higher quality
  - It lowers the price sensitivity

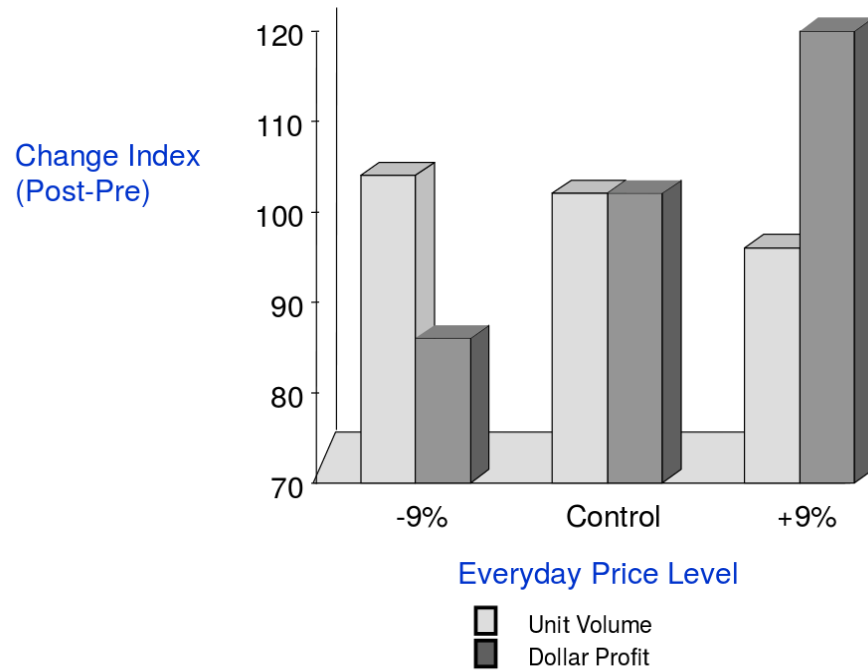| Var measured	Natural	Experimental
Actual purchase	Sales data	Field experiment
Reference / Intention	Surveys	Tradeoff analysis

Field experiment:

Figure 4: fieldexp

In a grocery in the 1990's

Conjoint analysis:

- Warby Parker: Demand is highest at 79\$ but gets flat before 95. $Set s price at 95$.

Survey:

```
- How likely to buy X at Y price.
- Calculate elasticity through statistical analysis
```

** Psychological factors **

9 endings: "Discount, in western culture"

Experiment:

Reg: $0, 83, 2817 Sales Disc : 0, 63$, + 194% sales Disc: 0,59\$, + 406% sales

9.3 Pricing strategies 3: Psychological factors

Mental accounting: who's happier ?

A: Won 50$ and 25$ on two tickets B: Won 75$

A: 56, B: 16, No difference: 15

One big box for gifts or several smaller boxes

Bad news: Should be aggregated

Listing the details: Increase the unhappiness sentiment. Charge more and give a rebate

** Prospect theory **

Prospect theory

- Internal reference point
- Respond differently to deviation from reference point whether negative or positive. (loss aversion)
- Drive the reference point down with a rebate
- Unhappiness when increased

Summary

4 inputs to pricing process:

- Marginal cost
- willingness to pay
- Competitive pressure
- Distributor margins

Consumer price sensitivity: - EVC - Statistical and marketing research methods, regression and conjoint analysis

Consider human psychology

9.4 Distribution strategies 1: Introduction

Overview:

- Channel structure (who is doing what)
- Channel coordination (who gets compensated)
- Place: final frontier
    - Often the less appreciated of the 4 P's
    - Managers often underestimate
        * Sustainable competitive advantage
        * Increasing return to scale
        * Source of customer value
    - Hard good to soft good
- Channel structure: Who are the players

Direct vs. Indirect

Indirect reduce the amount of transactions

Strategic advantage of direct:

- erecting barriers to entry
- quality of direct marketing feedback
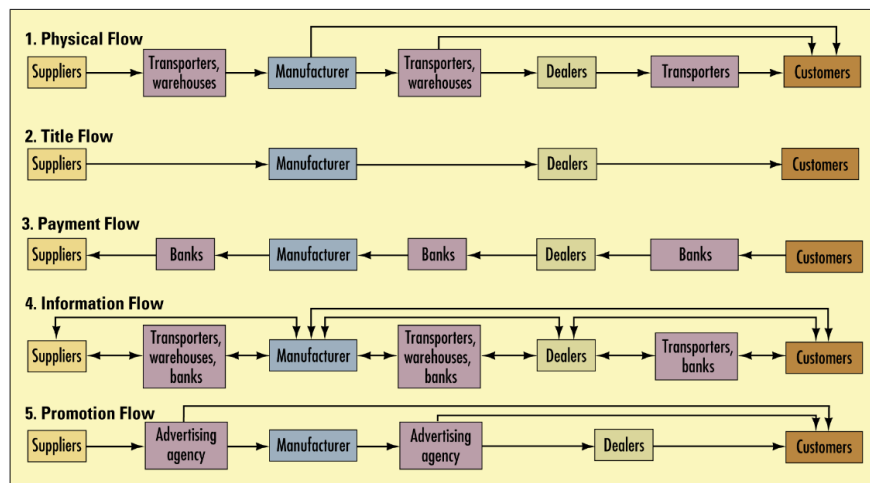- Bundling with high margin products and services

Channel flow / functions

Figure 5: channel-flow

How it can be disrupted by technology

Physical flows:

- Breaking bulk
- Assorting
- Assuring availability (Inventory or BTO)
- Customization
- Delivery
- Installation
- Maintenance and repair

Information flows:

- Identify needs and solutions

- Identify customers and suppliers
- Matching needs and solutions
- Matching customers ans suppliers
- Assessing and certifying quality
- Negotiation / closing the deal
- Ordering
- Market feedback

Tools and framework: Hybrid grid

X axis: Activities Y axis: Individuals and entities

System optimized / operates efficiently and smoothly

Example: Posilac, controversial genetically engineered bovine growth hormone

9.5 Distribution strategies II: Channel design

Intensive:

- Selling support not vital
- Minimize cost over customer

Selective:

- Tradeoff
- Both are important

Exclusive:

- Strongest selling support
- Customer cost of obtaining offering not considered vital

Implications of functional view:

- Function or activities required to succeed depends on the nature of your offering

- You can eliminate intermediaries but not functions. Functions are shifted forwards:

  - Forwards: IKEA (Delivery and installation)
  - Backwards: Apple store to assure consultative selling
  - Sideways: Amazon use FedEx/UPS for delivery

Conflict betwen manufacturers and distributors:

Manufacturers:

- Carry out full line (no cherry picking)
- Need active involvment in selling new products
- Know more about "your" customers to make better products
- Need to improve sales efforts

- Channel margins are too high

Distributors:

- Who wants the dogs ?
- We need exclusive territories
- We do not keep any such records
- Need more trade promotions and discounts
- Your prices are too high

Solutions: - Conflict might have some good side - Vertical conflicts vs. horizontal conflicts

Vertical conflict:

Nike <-> Foot locker

Managing: - Integrate (flagship stores) - Have franchises (downstream) - Monitor downstream partners (mystery shoppers, surprise visits) - Alter incentives via trade promotion policies

Horizontal conflicts

Problem between retailers

Free riding

- Low price and low service vs. High price and high service (customer gets educated)
- Establish boundaries between channels (territories)
- Set appropriate level of distribution intensity
- As distribution becomes more selective. reseller support and merchandising efforts increase

9.6 Horizontal conflict

Smartphone to find a better price

Buy online, pickup in store (BOPS) Some physical inspection: increase store sales and lowers online sales Research online, purchase offline (ROPO)

Mores strategies to manage horizontal conflict:

- Boundaries between channels (how many intermediaries) - Length (how many intermediaries) (conflict proportional to length) - Autonomy (conflict proportional to autonomy) - Density (high conflict at average density)

- Set appropriate level of distribution intensity

- Multiple brands for each retailers

9.7 The 7 M's

Overview: - Trends and data - "Classic" campaign (Milk) - 7M Framework - Mission and message: rational and emotional appeals

Classic campaign

- California milk processor board
- Decrease in consumption
- Milk advertising in 1992 (+ indicators)

The 7M's

- Market (target audience)

  - People who currently drinks milk

- Message content (key benefit/positioning)

  - Make sure you have enough milk (it compliments many other meals)

- Mission (Awareness, knowledge, interest, trial)

  - Increase milk consumption by one glass per week within a year

- Message design (creative solution)

  - Got milk? deprivation campaign

- Media strategy (How do I reach them)

  - TV, print

- Money (how much do I need to spend ?)

- Measurement (Was it worth it ?)

  - 60% aided recall in 3 months
  - 2,67% (30M) increase in annual sales

9.8 The mission and message (rational appeals)

What are we tying to influence ?

Rational appeals - Demonstration (appropriate: key features) - Spokesperson (positive characteristic get transfered to the product) - Testimonial (May end up using a long period of time) - Comparative (Framing, surveys can easily be biased)

9.9 The mission and message (emotional appeals)

Negative (fear: financial services, public interest)

Too much fear is not effective

Money

Methods of setting advertising budget: - Percentage of sales - Match of better competition - Objective and tasks methods

Simplified Parfitt-Colling model:

- Break even market share: 6%
- 30% of awary try the product
- 40% of those who try will buy again
- aware $\times$ try $\times$ repeat = market share
- 50% must be aware