Chap 11. Unique Marketing Issues

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Finding your market.

Who wants to pay for your product or service and why would they want to (or better yet: have to) pay for what you offer?

- As we saw in our discussion of the new Rabies Mono-clonal antibody, that question can be the determining question as to whether you have created a marketable product or service –or whether you had just another great idea.
- When you begin to think about those questions, you have to do so in a very specific and well targeted fashion. The fundamentals of marketing can give you a framework on how you identify that market in the most specific fashion possible and then identifies the many ways that you can connect with that market.
- Key points in this chapter include:
  - Segmenting the market
  - Target Market
  - The 4 "P's" of marketing
    - Product
    - Price
    - Promotion
    - Place – how do you get to the market?

Segmenting the market and finding your target

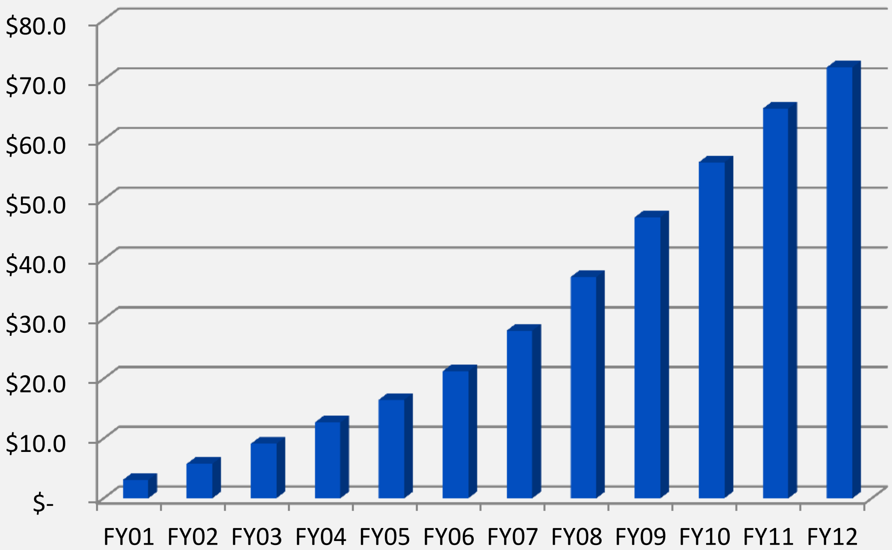
- When UMass Online was being created in 2001, we began to think about who might want to take our online courses. We knew that there were lots of students in higher education. According to the National Center for Higher Education Statistics there are 17,487,475 students enrolled in the 1440 institutions of higher education in the United States. Now THAT is a good sized market.
- Of course we did not plan to limit ourselves to the United States, and we knew that there were many people employed who might like to be enrolled, but could not do so in a traditional institution.
- In our more realistic moments we also knew that this last group might be a more interested market and that most traditional students might no consider online education as an alternative.
- In order to sort this out we began to consider the market in segments (we began to segment the market). There were graduate and undergraduate segments. You could segment the market by age –traditional 18-22 year olds and the older students. You could also consider various domains of expertise: business, engineering, nursing, hospitality management, humanities, criminal justice, and many more.
- We eventual settled on a general target market with two pieces. Our target market was employed persons who were 25-45 years old, and needed to finish a degree to reach their professional goals in life. The two pieces were:
  - 1. Students who had some college but left before finishing a degree to take a job.
  - 2. Students who already finished their bachelors degree, but were in a job situation where they needed a graduate degree, perhaps in another field, to continue to advance in their career.

- Once we had settled on this target market with two pieces, we then began to think about the kinds of degrees that might fit, and the kinds of programs and courses we would have to offer to meet this need.
- For those who were interested in completing a Bachelor’s degree we identified three initial possibilities:
  - a general BA degree,
  - a general BS in Business degree, and
  - an RN to BS degree program.
- For those who were interested in the graduate programs we also found a few good initial targets:
  - Professional MBA –this could serve needs of those already in business, but could also help engineers or others who were working in areas in which they were expected to take more of a managerial and leadership role.
  - MS in Information Technology –in an era when IT was transforming everybody's job!
  - MS in Hospitality and Tourism.
  - We had many others coming long soon thereafter.

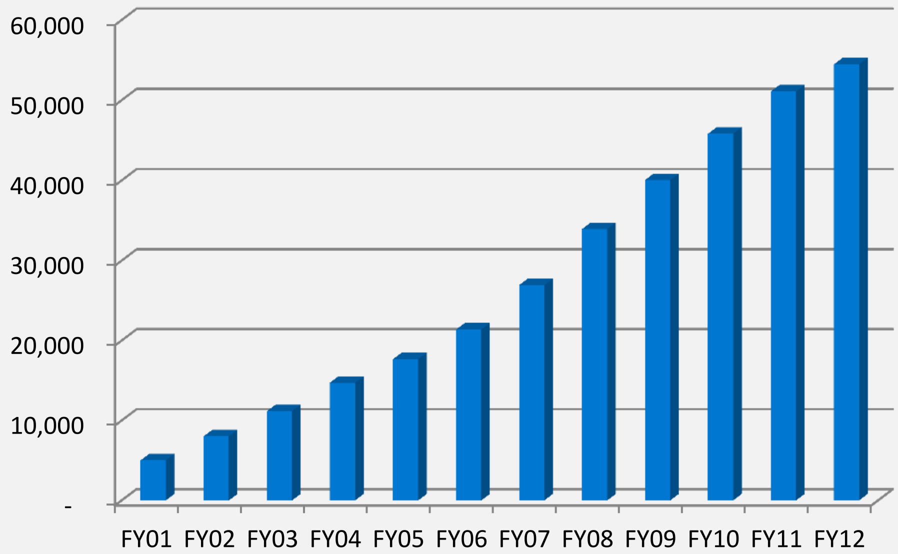
So how did we do?

- So how did we do at segmenting the market and finding a target market? The numbers tell the story:

Revenue ($ Millions)



Enrollment



Revenue is generating nearly 60% net margins.
You may also notice that UMOL managed to get through the two great recessions of 2002-2003 and 2008-2009 without even a slight hitch!

Selecting a market and establishing a position

Let us consider this process in a systematic fashion –step by step:

- Segmenting the market
  - What subgroups do we find in our desired market and which of those subgroups might find our product most appealing?
- Selecting a target market
  - Which specific sub-groups do we want to target first?
- Developing the positioning strategy.
  - How do we position our product, company, or service in the minds of our target market that will differentiate our selves from competitors and substitutes for what we offer.

Segmenting the Market

You begin with a study of the industry in which the firm intends to compete and determine the different potential target markets (market segments) in that industry.

At this point it is important not to be too ambitious. Recall our discussion of the lack of market focus that doomed Segway to a very disappointing start. Segway did not identify a target market. Instead they addressed a overly broad range potential markets. It is often said that a person with ten priorities has no priorities. Similarly, a new company with ten target markets has no target markets. In general a new organization does not have sufficient resources to target more than one target market in the beginning.

As we saw earlier in discussing the start-up of UMassOnline, markets can be segmented in terms of

- Characteristics of customers served
- Type of product or service developed
- Price range of product or service

Selecting a Target Market

Begin by evaluating the attractiveness of each potential target market

Different markets may be at different stages and rates of growth as well as sizes.

UMassOnline picked the age range of 25-45 year old students since this was the fastest growing and least well served part of the market. We picked the particular group of employed 25-45 year olds since they had an ability to pay for the experience and they could not easily attend more traditional graduate and undergraduate programs.

Establishing a Unique Position

- Positioning
- Differentiates a firm from its competitors.
- Two or three of its product's attributes that define the essence of what the product is and what separates it from its competitors.

Key Marketing issues– Establishing a Brand

- Establishing a Brand
  - A brand is the set of attributes that people associated with a company.
    - Positive: trustworthy, dependable, or easy to deal with.
    - Negative: cheap, unreliable, or difficult to deal with.
- How to establish brands
  - Choose a name easy to remember
  - Create a logo symbolizing your business
  - Create a brand personality
  - Communicate to your target market

What went wrong?

- Why do you think Snapple was successful prior to its acquisition by Quaker Oats?
- Why do you think Quaker Oats didn't work harder to more fully understand the nature of Snapple's brand before it made the changes?
- How would you describe Snapple's positioning strategy before the Quaker Oats' acquisition? How would you describe the way that Quaker Oats tried to position Snapple?

The Four Ps of Marketing for New Ventures

- Product, Price, Promotion, and Place make up the marketing mix for any new product or service. These are listed in that order for a reason: This is the path to market. It starts with a **product** or service that is designed to appeal to a market, and then needs to be **price**d in order to become a value to the market. Letting the market know about the product through **promotion** is necessary (but perhaps not sufficient) for early market acceptance. Finding a way to **place** the product or service into the market is the last piece of the puzzle needed to bring the product, service, or venture to the market.
- However, the actual path to market is iterative, and each step may provide important information to cause you to go back and re-evaluate aspects of the product, price, promotion, or place.

Product: What are you selling?

- A firm's product, in the context of the marketing mix, is the good or service it offers to its target market.
  - In marketing one needs to focus on the actual product more than the core product. If you were to design a video game, then the core product would be the software needed to play the game, but the actual product would include the core product plus the context around that product. This might include packaging (or alternatively how and from where it is digitally delivered), the perceived quality of the game, the brand, and the innovative features.
  - Making a good first impression on the market is imperative. The initial rollout is one of the most critical times in the marketing of a new product. A flawed product or service introduction can create a negative image in the mind of the market that can be difficult to overcome –even with a lot of later good news.
  - Marketing is a two way street. It is a path to bring information aobut the product to the customers, but it is also a path to bring information back from the customers to the product developers.

Price: What it says about your products

- Price is the amount of money consumers pay to buy a product.
- Key pricing factors
  - Cost
  - Value
  - Competition
  - Market demand
  - Image
- There are two main pricing strategies that one uses, and which are used often depends upon the type of product and the type of market. As price is being determined, you will generally use both strategies before you settle on the final strategy.
  - **Cost based pricing**. -In cost-based pricing, the list price is determined by adding a markup percentage to a product's cost. The advantage of this method is that it is straightforward, and it is relatively easy to justify the price of a good or service. The disadvantage is that it is not always easy to estimate what the costs of a product will be.
  - **Value based pricing** -In value-based pricing, the list price is determined by estimating what consumers are willing to pay for a product and then backing off a bit to provide a cushion. What a consumer is willing to pay is determined by his or her perceived value of the product and by the number of choices available in the marketplace. Most experts recommend value-based prices because it hinges on the consumer's perception of what a product or service is worth.

Example – Web design: Cost-plus Pricing

- A web designer knows that a certain project will cost $1,500 per day and will require 8 days to complete. If she requires a gross profit margin of 28 percent, how much should she bid for the project?
  - First, find total project cost: $1,500 x 8 days = $12,000
  - Second, find total cost (%): 100% - 28% = 72% (or.72)
  - Finally, find bid price:
  - Total Project Cost / Total Cost (%)
  -

    $12,000 / .72 = $16,667
  - This leads to a profit of $16,667 – $12,000 = $4,667
  - To check your figures: Profit / Bid

    $4,667 / $16,667 = 28%

Value Based Pricing

- The web designer from the previous example then will do some market research to find out what others might charge for the same job. By talking to customers and visiting some of the competitors web sites she decides that her competitors would probably charge from $14,000 to $17,000 for the same service. She now has some choices to make:
  - She could hold to her desire for the 28% margin and stick to her $16,667 price with customers while trying to convince them she provides better service and higher quality.
  - She could reduce her price a bit to position herself in the middle of the market and charge $15,500.
  - She could decide she should come in under the low end of the market, say at 13,888, and take market share from her competitors. Once she had acquired some satisfied customers, she could expect to be able to raise her prices a bit for subsequent jobs from those same customers.

Caveat!

- One last caveat on value based pricing: consumers often base part of their decision on the value of something based upon the price being asked. This is particularly true of product for which a customer is lacking other information about the quality of a product.
  - A customer that is buying wine, and is not particularly knowledgeable about the range of wines available, is probably going to avoid the lower priced wines –assuming they are of lower quality.
  - Another customer may have read about the higher ratings of certain modestly priced wines and then select one of the modestly priced wines in the confidence that they are actually getting a greater value at a lesser price.
  - Price is one (but only one) indicator of the value of a product or service. Whether that is a positive or negative factor may depend upon the presence or absence of other information.

- Universities provided another example of this effect. Students and families often find it difficult to assess independently the value of any particular college or university, and thus they turn to third party ratings and (not surprisingly) price. For a couple of decades during the 80’s and 90’s, colleges discovered that if they raised their price, the public would see them (paradoxically)as a greater value. Some who lowered their price learned the hard lesson that the public would lower their value judgment. This led to a price insensitivity that ran up the cost of private colleges to a point when significant price resistance has set in today. Also the kinds of rankings of the salaries of graduates that payscale.com has provided has revealed that paying high tuition is certainly not a guarantee of a better result upon graduation! Thus students and their families have become more value conscious and enrollments are surging at public research universities while expensive smaller private colleges are fighting to build enrollments – and a few have gone out of business or been sold to proprietary universities.

Pricing Tactics

- Skimming pricing—high-end products
- Penetration pricing—low-end products
- Sliding pricing—along the demand curve
- Odd pricing—psychological pricing
- Price lining
- Leader pricing
- Geographic pricing
- Discounts
- Bundling

Promotion: Advertising + Publicity

- Promotion
  - Refers to the activities the firm takes to communicate the merits of its product to its target market.
  - Advertising
    - Raise customer awareness of a product
    - Explain a product's comparative benefits
    - Create associations between a product and a certain lifestyle
  - Public Relations – Publicity is King!
    - Public relations refer to efforts to establish and maintain a company's image with the public.
    - One of the most cost-effective ways to increase the awareness of the company's products

Promotion Methods

- Banner Ads
- Billboards
- Broadcast media
- Brochures/flyers
- Business cards
- Catalogs
- Coupons
- Direct mail
- Directories
- Print media
- Promotional clothing
- Samples/demonstrations
- Signs
- Telemarketing
- Press releases
- News conferences
- Media coverage
- Articles in industry press and periodicals
- Monthly newsletter
- Civic, social and community involvement
- Blogging

Internet Marketing

- Social network website
- Search Engine Marketing
  - Maximum keyword bid
  - Which keywords to bid on
    - Keyword frequency
    - Specific terms
    - Bid on a sufficient number
  - Track results

Place

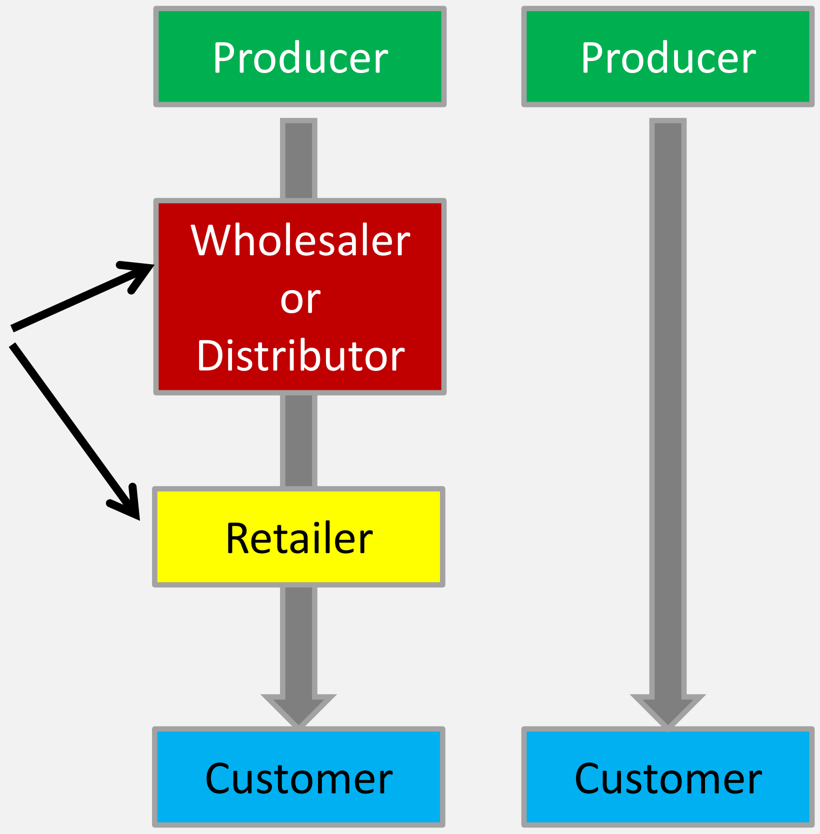
- Distribution channel –how do I get to market?
  - Direct sales?
  - Wholesalers?
  - Distributors?
  - Exclusive distributors?
  - Disintermediation
    - Example was Dell Computer

Place

Place encompasses all the activities that move a firm's product from its place of origin to the consumer.

One key decision is whether to sell the firms products directly to consumers or through intermediaries.

As we saw in our discussion of business models, Dell decided to sell directly to consumers rather than through intermediaries. This is referred to as "**disintermediation**," and is a key strategy found in many innovative business models.



Disintermediation

Place – Internet

- Myths of E-Commerce
  - Setting up a business on the web is easy and inexpensive.
  - If I launch a site, customers will flock to it.
  - Flash makes a web site better.
  - It’s what’s up front that counts.
  - The greatest opportunities lie in the retail sector.
  - On the web, customer service is not important.
    - Wrong again!

Sell benefits not features

- When a company tells you that their new smart phone has a 5.5-inch (diagonal) LED-backlit widescreen Multi-Touch display with IPS technology and 1920-by-1080-pixel resolution at 401 ppi with 1300:1 contrast ratio and 64 GB of memory, they are selling you **features**.
- If they tell you that this display does the very best job of displaying live video from the internet and high resolution pictures and can store all of your pictures and music library, they are selling you the **benefits**.
- For very knowledgeable customer, selling them the features may work because they will be able to translate those features into the benefits of the use.
- For the mass market, the features do not mean much until you can translate those into the benefits that the customer will enjoy by using the new smartphone.
- Features are nice, but benefits are what sells the product.

Seven Steps to Selling

1. Prospect for leads –use your network and available databases
2. Make the initial (often cold) contact
3. Qualify the lead
4. Make the sales presentation
5. Meet objections and concerns
   -(this is not a setback-only the next step)
6. Close the sale
   -NEVER talk past the close. Shut up and stop selling. Just say: “Thank you!”
7. Follow-up

Personal Selling

- Make a good personal impressions
- Prepare your sales presentation
- Know your product or service
- Know your field
- Know your customers
- Think positively
- Treat everyone you sell to like gold

- You are now ready to take your product or service to market!