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ASTRA

MARKETING

2° YEAR BIEM

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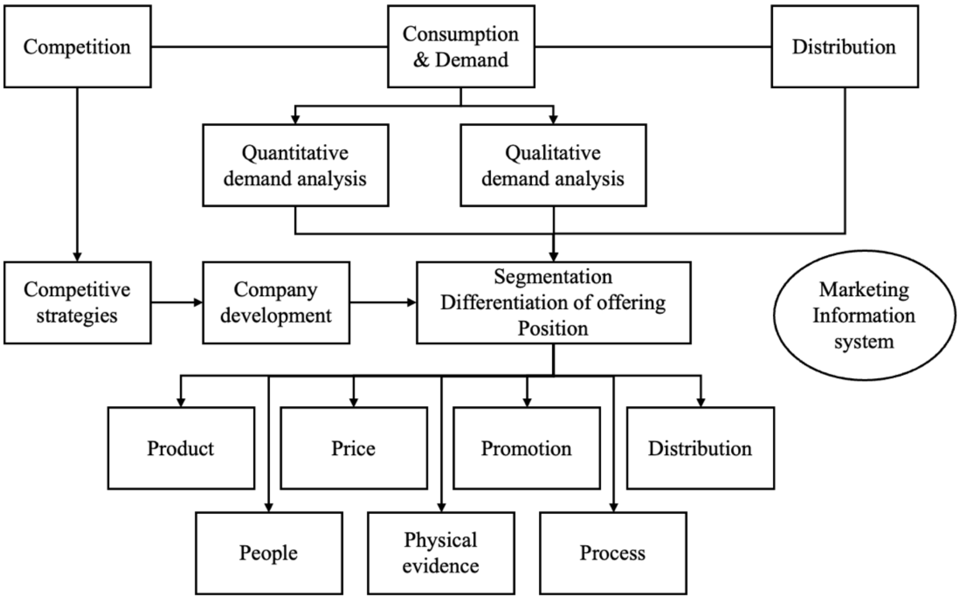
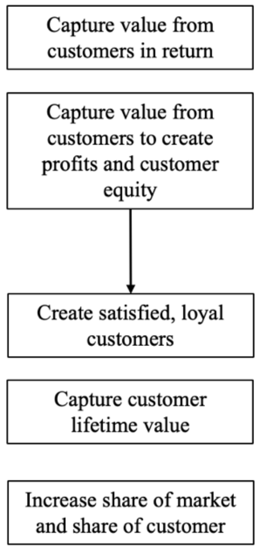
2024-2025 Edition

1: INTRODUCTION

WHAT IS MARKETING?





__Marketing__ is a process by which **companies create value for customers and build strong customer relationships in order to capture value from customers in return.**

Centricity: everything is around customers → **customer centric approach** in terms of attitudes.
The main objective of a company is always **maximizing profits**, which could also become a limit, as other needs and wants from demand must be taken into account.

MARKETING MANAGEMENT ORIENTATIONS

Subsequent definitions of marketing, which reflect the shift from a product orientation to a market orientation by companies:

__Production concept (1870 – 1920ish)__
Focus on **production & efficiency**
Customers prefer highly affordable products
__Product concept (1920 – 1950ish)__
Focus on **effectiveness**: continuous product improvements
Customers prefer products that offer more features, quality and performance
__Selling concept (1950 – 1960ish)__
Focus on **sales** → higher possible number of transactions
Customers prefer products that are pushed into customers' hands through heavy communication and promotions
__Marketing concept (1960 – 1990ish)__
Focus on **needs and wants**
Customers prefer products that they perceive as matching their needs and that grant satisfaction
__Societal concept (1990ish – present)__
Focus on **corporate citizenship**
Customers prefer products that respect society beyond profitability and satisfaction

If companies don't produce in an efficient way, they won't be able to compete

DEFINING MARKETING

Company	Product-Oriented definition	Market-Oriented definition
Amazon	We sell books, videos, CDs, toys, consumer electronics and other products online.	We make the internet buying experience fast, easy and enjoyable – we're the place where you can find and discover anything you want to buy online.

Disney	We run theme parks.	We create fantasies – a place where dreams come true and America still works the ways it's supposed to.
Nike	We sell athletic shoes and apparel.	We bring inspiration and innovation to every athlete* in the world (* if you have a body, you are an athlete)

The AMA provides the official **definitions of marketing.**

Year	American Marketing Association (AMA) Definitions of Marketing
1935	Marketing is the performance of business activities that direct the <u>flow of goods and services from producers to consumers.</u>
1985	Marketing is the process of planning and executing the <u>conception, pricing, promotion, and distribution</u> of ideas, goods and services to <u>create exchanges</u> that satisfy individual and organizational objectives.
2004	Marketing is an organizational function and set of processes for creating, communicating, and delivering <u>value to customers</u> and for managing customer relationships in ways that benefit the organization and its stakeholders.
2007	Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have <u>value for customers, clients, partners, and society at large.</u>

2: CREATING CUSTOMER VALUE

WHAT IS VALUE FOR CUSTOMERS?

Value for customers can be of 3 different types:

- **Functional:** what can I do with the product/service? Linked to technical-functional characteristics that differentiate a product/service.
  - *e.g. cook, charge my device (Post-it)*
- **Emotional (hedonic):** how do I feel when I use the product? Possess, happiness, sense of belonging, self-expression; it is centred on the customer individual feeling.
  - *e.g. happy, affluent, beautiful (Starbucks)*
- **Social:** how do others see me when I use/consume the product? Status, power, ostentation, sense of belonging.
  - *e.g. powerful, upper-class (Audi, Ducati)*

Can some products deliver multiple values to customers?

The weight consumers assign to each type of value can differ:

a. because they can look for different types of value,
b. can read value differently in the company's offer.

This can influence preference altogether.

HOW IS VALUE CREATED?

A) <u>BY UNDERSTANDING CUSTOMERS' NEEDS & WANTS</u>

According to Kotler and Keller, "marketing means meeting customers' needs profitably" (2012: 27). What are needs, then?

<u>**Needs**</u>

States of deprivation

- *Physical*: food, clothing, warmth, safety
- *Social*: belonging and affection
- *Individual*: knowledge and self-expression

A need relates to a personal state of unbalance, of deprivation, of dissatisfaction.
Companies sometimes need to stimulate the needs in an ethical way.

<u>**Wants**</u>

Form that needs take as they are shaped by culture and individual personality

A need becomes a want as soon as the customer identifies an object of a specific brand that might satisfy the need. So wants are an interpretation of needs.

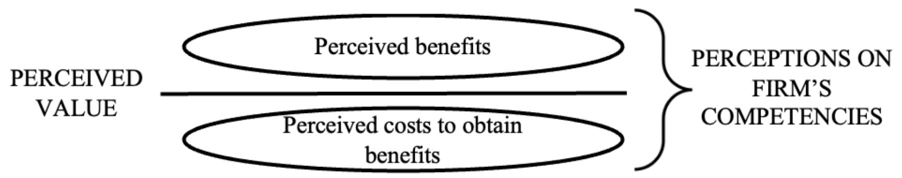
<u>**Demands**</u>

Wants backed by buying power

A want becomes a demand as soon as it is sustained by the due purchasing power (**demand = wants that can be bought**).

B) <u>BY KNOWING WHAT VALUE MEANS FOR CUSTOMERS</u>

Benefits: client's judgment on company's capability to satisfy benefits. These can be functional, emotional, social.



Perceived costs: client's sacrifice to obtain value of use linked to product/service:

- information costs
- transport costs
- purchasing costs

C) <u>BY MANAGING THE MARKETING PROCESS</u>

Create value *for customers* and build customer relationships

Understand the marketplace and customer needs and wants → Design a customer-driven marketing strategy → Construct an integrated marketing program that delivers superior value → Build profitable relationships and create customer delight

- Understand the marketplace and customer needs and wants
  - Research customers and the marketplace
  - Manage marketing information and customer data
- Design a customer-driven marketing strategy
  - **Select customers to serve**: market segmentation and targeting
  - **Decide on a value proposition**: differentiation and positioning
- Construct an integrated marketing program that delivers superior value
  - **Product and service design**: build strong brands
  - **Pricing:** create real value
  - **Distribution**: manage demand and supply chains
- Build profitable relationships and create customer delight
  - **Customer relationship management**: build strong relationships with chosen customers
  - **Partner relationship management**: build strong relationships with marketing partners

Harness marketing technology | Manage global markets | Ensure ethical and social responsability

HOW IS VALUE SUSTAINED?

Customer Relationship Management: overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction

CUSTOMER RELATIONSHIP MANAGEMENT

Basic relationships:
- Infrequent purchases
- Weak loyalty
- Low-margin consumers

↔

Full partnerships:
- Frequent purchases
- Strong loyalty
- High Margin consumers

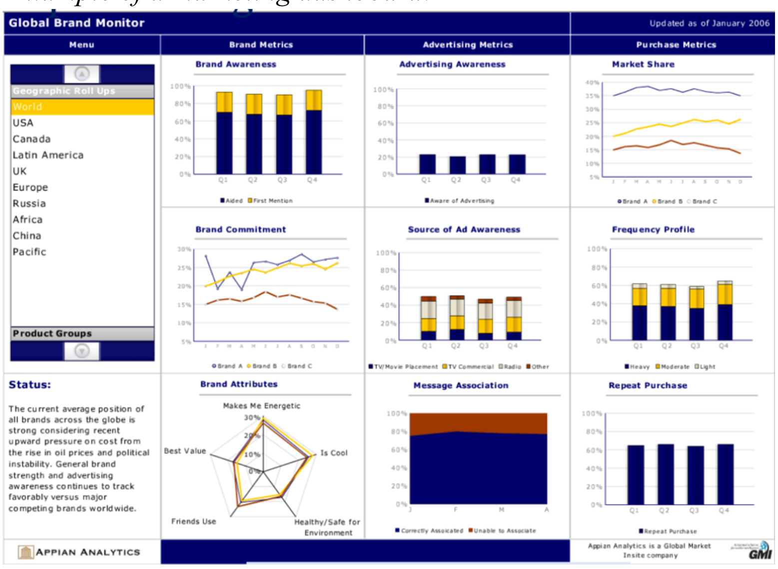
Marketing & CRM:
- Marketing Programs
- Customer Rewards
- Communication

Companies can build customer relationships at many levels, depending on the nature of the target market.

HOW DO COMPANIES VERIFY IF VALUE HAS BEEN CREATED?

Companies verify if value has been created by implementing measures (Marketing ROI)

Example of a marketing dashboard:

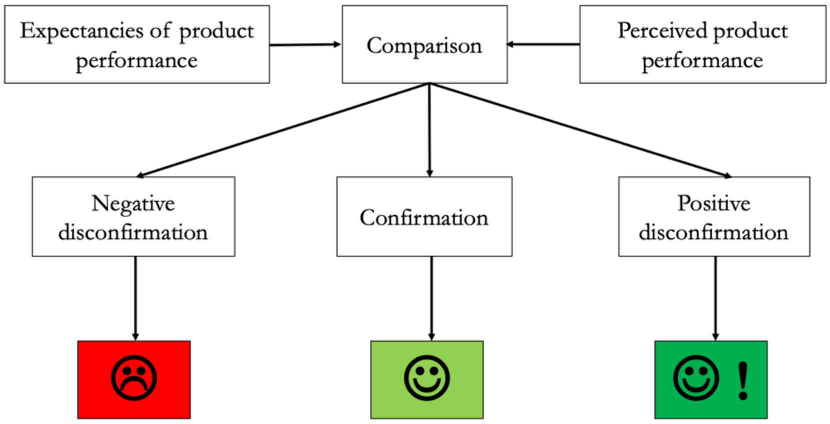


A company can assess marketing ROI in terms of:

- **Standard marketing performance measures** (look to past/present). Mainly: sales, market share, brand awareness

- **Customer-centered measures** (they capture present & future performance resulting from stronger customer relationships). E.g.: customer satisfaction, word-of-mouth, customer retention rate, customer life-time value, brand equity.

WHAT DRIVES SATISFACTION? EXPECTATION – CONFIRMATION MODEL



Example: Same average quality music album may disappoint if it comes from a good/loved band where I have high expectations versus a bad/disliked band where I have no expectations.

CUSTOMER SATISFACTION

Customer satisfaction is a leading indicator of company financial performance. Stocks of companies with high customer satisfaction scores tend to do better than those of companies with low scores.

Manufactured goods tend to score higher on customer satisfaction than services. For example, canned food and household appliances score much better than banks, airlines, and cable TV. Typically, the more service required, the lower the satisfaction.

Quality plays a **more important role** in customer satisfaction **than price** in almost all industries.

Mergers and acquisitions decrease customer satisfaction, particularly among service industries. Service companies engaged in frequent, large acquisitions typically experience significantly lower customer satisfaction scores.

CUSTOMER SATISFACTION TRAP

Only few DISSATISFIED clients shows DISSATISFACTION. The majority remains silent and looks for other offerings.
Each dissatisfied client talks to other 9-10 people. Each of these 9-10 people talk to other 3 people. Thus, each dissatisfied client can talk to +/- 30 people about his/her bad experience (word of mouth).

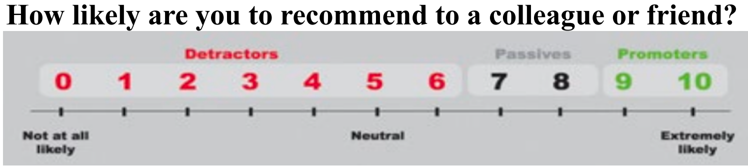
NET PROMOTER SCORE: FRED REICHHELD

NPS is based on the fundamental perspective that **every company's customers can be divided into three categories**: **Promoters**, **Passives** and **Detractors**.
By asking one simple question – *How likely is that you would recommends [Company X] to a friend or colleague?* – you can track these groups and get a clear measure of your company's performance through its customers' eyes. Customers respond on a 0-to-10 point rating scale and are categorized as follows:

- **Promoters** (score 9-10) are loyal enthusiasts who will keep buying and refer others, fuelling growth.
- **Passives** (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- **Detractors** (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of mouth.

To calculate your company's **Net Promoter Score (NPS)**, take the percentage of customers who are Promoters and subtract the percentage who are Detractors.

How likely are you to recommend to a colleague or friend?



NPS = % of promoters (9s and 10s) - % of detractors (0 through 6)

CUSTOMER RETENTION RATE

$$\textbf{CRR} = \frac{\text{Clients at period end – conquered clients (during period)}}{\text{Clients at the beginning of the period}} \times 100$$

150 Clients at period end
70 Conquered clients during period
100 Clients at beginning of period
20 Clients lost during beginning of period and period end

CRR = (150 – 70)/100 = 80/100 * 100 = 80%

CUSTOMER CHURN RATE

<u>Customer churn rate</u>: % of clients a company loses every year

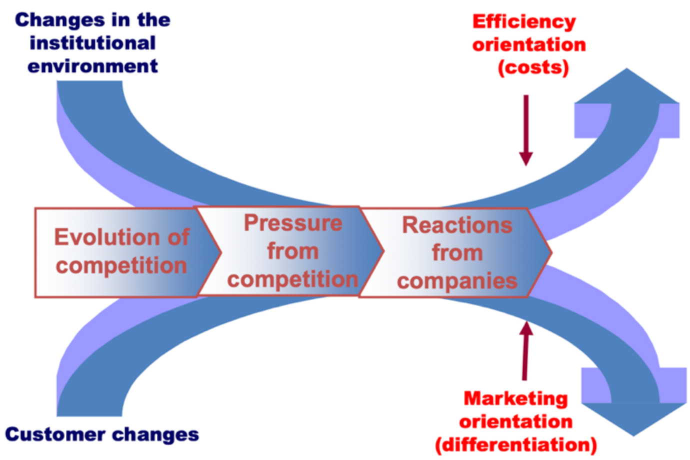
Churn rate is a **proxy for loyalty** because when it increases it means loyalty from customers is decreasing (and vice versa).

Churn Rate = 1 – CRR

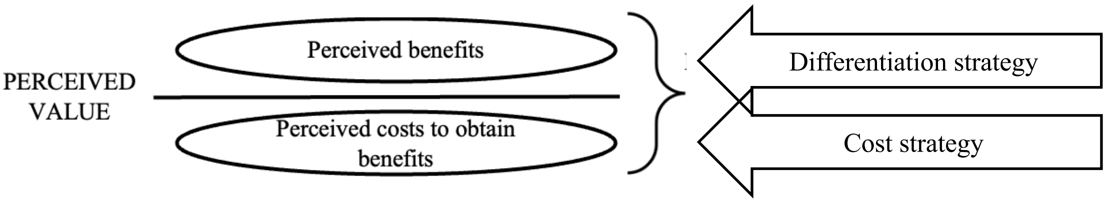
HUGE PRESSURE ON VALUE: CHALLENGES

- Business globalization
- Trends in markets' deregulation
- Inter-sector convergences

PRESSURE ON VALUE: COMPANIES' RESPONSE



VALUE FOR CLIENTS



3: MARKETING MANAGEMENT

COMPANY-WIDE STRATEGIC PLANNING

- Company mission
- Company objectives
- Company business portfolio
- Planning functional strategies

COMPANY MISSION

Google's mission: *"Committed to significantly improving the lives of as many people as possible."*
Nike's mission: *"Our mission is:* ***To bring inspiration and innovation to every athlete* in the world.*** **If you have a body, you are an athlete."*

SETTING OBJECTIVES (EXAMPLE)

Company objectives are subject to continuous changes and can also depend on a specific department.

Examples (the two are linked together):

Business objectives	Marketing Objectives

• Increase profits
  ○ Increase revenues
  ○ Decrease costs →
	• Improve products or develop new products
	• Increase loyalty
	• Create local partnerships
	• Increase promotion, retail inventory, decrease prices

DESIGNING THE BUSINESS PORTFOLIO

The **business portfolio** is the **collection of businesses and products** that make up the company.
Portfolio analysis is a major activity in strategic planning whereby **management evaluates the products and businesses** that make up the company.

Strategic business unit (SBU): a subgroup of a single business or collection of related businesses within the larger organization. SBUs can be a:

- Company division (geographical organization)
- Product line/segment within a division
- Single Product
- Brand

Different companies can do this segmentation differently.

BCG Matrix

Cash cow: safe and mature market that provides stable profits, with low growth rate but high market share. Minor part of investments are allocated in this sector.

Star: most profitable segment → market is growing, high market share. Lots of investment will be put in this segment.

Question mark: very new market, with many competitors → risky position, with uncertain market share, but high growth rate.

Dog: low market share and growth → market is not profitable anymore.

Example: ***Apple***
Cash cow: laptops (very mature product line)
Star: accessories (smartwatches, ...), iPhones
Question mark: VRs, Apple TV+
Dog: iPod (currently out of production)

MARKETING STRATEGY

Marketing Strategy: marketing logic by which the company hopes to **create customer value** and **achieve profitable customer relationships**

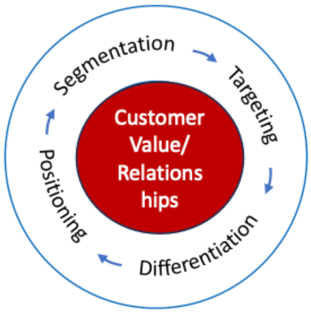
MARKETING STRATEGY: VALUE DELIVERY

Customer Value / Relationships are located within a framework that comprises suppliers, intermediaries, competitors and the public.
Value Delivery Network: a network comprised of the company suppliers, distributors, and customers who partner with each other to improve the performance of the entire system in delivering customer value.

MARKETING STRATEGY: "STPD"

Segmentation
"Identifying groups of **consumers who respond** in a **similar** way to a given set of marketing efforts."
Create segments, homogeneous within, heterogeneous between each other.

Positioning
"Arranging for a product to occupy a clear, distinctive, and desirable place **relative to competing products** in the minds of target consumers."



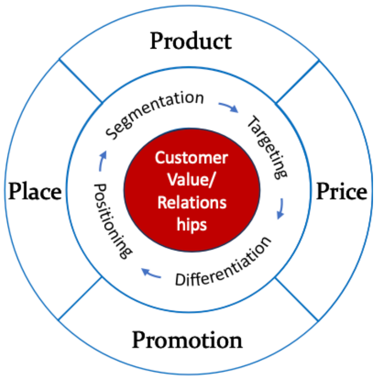
Targeting
"The process of evaluating each market segment's attractiveness and **selecting one or more segments** to enter."

Differentiation
"Actually **differentiating the market offering** to create superior customer value."

MARKETING STRATEGY: MARKETING MIX-4Ps

Product
- Functionality/quality
- Design
- Brand/image
- Variety/add-ons
- Packaging
- Warranty/services

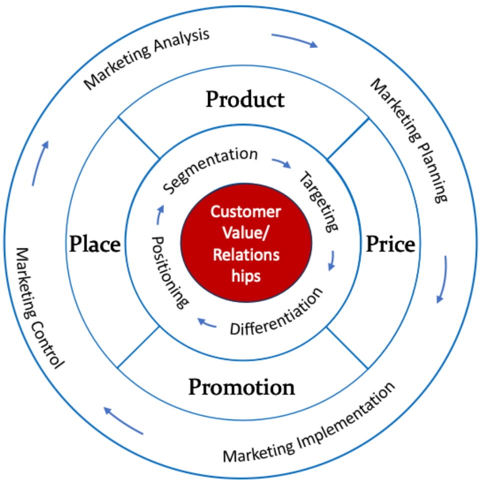
Place
- Retail channel
- Coverage/locations
- Supply chain/logistics
- Shipping/delivery
- Inventory



Price
- List price
- Discounts (not promotional)
- Allowances
- Payment period
- Credit terms

Promotion
- Advertising
- Personal selling
- Sales promotion/displays
- Public relations
- Trade shows

MARKETING STRATEGY: MARKETING MIX MANAGEMENT



THE MARKETING PLAN

A written document or blueprint containing the **outcome of the Marketing Process**.
- Provide direction and focus for your brand, product, or company.
- Describe how specific marketing strategies and actions will help achieve company's strategic objectives.
- Address **one or more of the four Ps.**

IMPORTANCE OF RESEARCH

Marketing plan should be supported by **market analysis and research**: assess the environment, competition, market segments, threats, and opportunities
Conduct market research to learn about **customers' needs, wants, expectations**, **perceptions**, and **levels of satisfaction.**
Could include **existing (secondary) or new (primary) data**

COMPONENTS OF A MARKETING PLAN

- **Executive Summary** (incl. marketing plan objective), usually put at the end

- **Current Market Situation**
- **Strategic Analysis**: gathering and analyze data. Different types of frameworks can be used:
  - SWOT, PESTLED, etc.
  - Business objectives, issues
  - Market Research
- **Marketing Strategy** (Action Plan: explain how to achieve the objectives set)
- **Additional Components** (budgets, risk assessment, controls)

EXECUTIVE SUMMARY

Brief overview of the whole document including:

- **Primary objective of marketing plan** (Novel segmentation/targeting strategy? New product launch? New branding? New market? etc.)
- Key recommendations
- Main conclusions

CURRENT MARKET SITUATION

- Market description
- Company's products
- Competition/competitors
- Distribution channels
- Other relevant items that may be company-specific

STRATEGIC ANALYSIS & ACTION PLAN

- PESTLED Analysis, SWOT Analysis, etc.
- **Market Research**
- Marketing plan objectives and issues that address the **main marketing problems**
  - should relate to four Ps
  - **SMART** (specific, measurable, achievable, realistic, time related)
- Marketing plan **objective**
- Recommendation on **marketing strategy** (at least one of the 4 Ps)
- **Action programs**: Lay out the steps and plan for specific marketing actions to implement recommended marketing strategy

ADDITIONAL COMPONENTS

- **Budget / financial analysis** <u>of marketing actions</u>
  - Estimated cost of marketing actions
  - Estimated potential increase in revenue
  - Analyses of worst / best case scenarios
- **Risk assessment**: What could go wrong / backfire?
- **Controls**: Describe how the company should monitor and measure the effectiveness of action programs as well as monitor risks

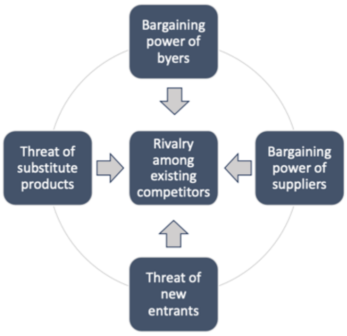
TYPES OF ANALYSIS

PESTLED ANALYSIS (Example)

P: Political
World political situation (e.g. elections in US, 2024)
Brexit
Protectionism
E: Economic
Inflation rates
Disposable income of population
Growth/decline of some industries
S: Social
Post COVID
Digitalization of population
Inclusion
T: Technological
5G
Growth of AI
Crypto/ Metaverse

L: Legal
Changes in legislation
Import/Export restrictions
E: Environmental
Climate change
Sustainability
D: Demographic
Ageing of population
Change of generations
Mobility of population

PORTER'S FIVE FORCES



Useful to analyze the **attractiveness** of industries, in order to determine their **profitability.**
Different industries are affected in a different way by the single forces.

SWOT ANALYSIS

Strengths Internal capabilities that may help the company reach its objective	**Weaknesses** Internal limitations that may interfere with the company's ability to reach its objective
Opportunities External factors that the company may be able to exploit its advantage	**Threats** External factors (current and emerging) that may challenge the company's performance

IDENTIFYING GROWTH OPPORTUNITIES: PRODUCT/MARKET GRID

	Existing products	New products
Existing markets	Market Penetration	Product Development
New markets	Market Development	Diversification

Market penetration: existing products in existing markets: new advertising campaign (<u>safest strategy)</u>

Market development: existing products in new markets: selling existing products to a new geographic area or a new demographic segment

Diversification: new products in new markets: create a new brand, acquire another company (<u>riskiest strategy)</u>

Product development: new products in existing markets

EXAMPLE: PORTER'S FIVE FORCES WITH APPLE

Apple: electronics consumer company

Bargaining power of buyers: low-medium
Consumers are very spoiled, and demand is very high
Creation of brand loyalty
Building the so-called Apple ecosystem

Bargaining power of suppliers: medium
Being a big company, Apple manages to reduce the power of suppliers

Threat of new entrants: low
Brand identity is extremely important, so brands already in the market have more power, being already known by customers
Threat of substitute products: medium
Rivalry among existing competitors: high

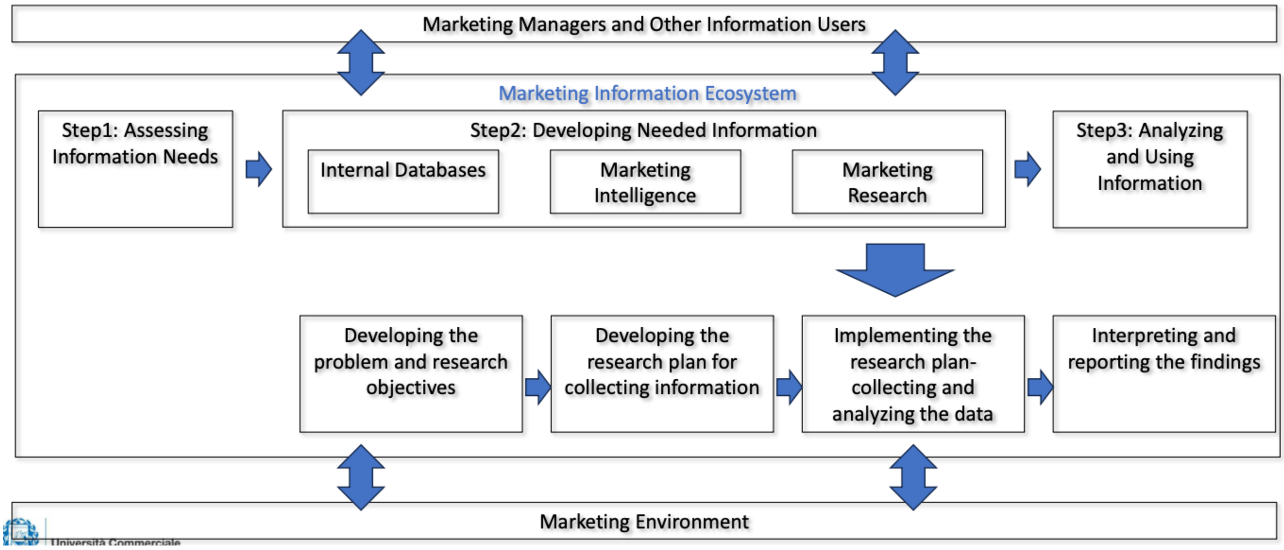
EXAMPLE: SWOT ANALYSIS WITH APPLE

Strengths: high market share, high switching costs for customers, high brand loyalty, premium positioning, strong global brand, integrated ecosystem
Weaknesses: legal issues, high prices of products, closed ecosystem, criticism over sustainability
Opportunities: expansion in emerging markets, growth in services, target to aging population
Threats: strong competition, legal obstacles, market saturation, supply chain risks

New political outcomes can be both a threat as an opportunity.

4: MARKETING RESEARCH I

MARKETING INFORMATION ECOSYSTEM



MARKETING INFORMATION COLLECTION STAGES

Step 1: Assessing Information Needs
Step 2: Developing Needed Information
Step 3: Analyzing and Using Information

STEP 1: ASSESSING INFORMATION NEEDS

What do we need to know?

Managerial Problem: Why are our sales decreasing?
Research Questions Examples:

- Is it my company problem or it is a market trend?
- Is there a change in consumers' attitudes towards our brand/store?
- Is there a change in consumers' attitudes towards our competitors?

Managerial Problem: Why is our market share low?
Research Questions Examples:

- Which competitors have a higher market share?
- How many consumers know about our brand/store?
- What are the attributes along which those competitors are (perceived to be) better?
- How important is each of these attributes?

Examples:
Sales relative to the market/our competitor
Consumer attitudes toward our product(s)/services
Which attributes are important to consumers and how we are ranked on those attributes?

STEP 2: DEVELOPING NEEDED INFORMATION

Three sources of marketing information:

1. **Internal databases**: consumer information and data obtained from sources within the company
2. **Marketing intelligence**: monitoring, collection, and analysis of publicly available information about the market
3. **Marketing research**: systematic design to collect, analyze, and report data relevant to a specific marketing problem

WHAT IS MARKETING RESEARCH?

MARKETING RESEARCH

Marketing research: The systematic design, collection, analysis, and reporting of data relevant to a **specific marketing situation** facing an organization.

Marketing Research		
By **research objective**: • Exploratory • Descriptive • Causal	By **data source**: • Secondary • Primary	By **data collection**: • Qualitative • Quantitative

RESEARCH OBJECTIVES

A combination of one or more of the following:

- **Exploratory research**: Provides preliminary (broad) information that will help assess and define the problem
- **Descriptive research**: Describes the marketing problem (e.g., attitude towards product, profile of potential customers, etc.)
- **Causal research**: Tests a research hypothesis, i.e., an experiment (**cause-and-effect relationship**)

DEVELOPING THE MARKET RESEARCH PLAN

Research objectives are translated into specific information needs. The **research plan** describes the:

- Information required: variables
- Data sources and research methods
- Estimated costs

DATA SOURCES

Secondary: data that are readily available; typically collected for other reasons at an earlier time. Can be both free and not free.

- Internal databases
- External databases (commercial online databases, public online databases, offline databases, etc.)

Primary: data that are not yet available, and have to be collected for the specific problem.

SECONDARY VERSUS PRIMARY DATA

Reasons why **secondary data may be preferable**:

- Time savings
- Cost savings

Reasons why **primary data is more often preferred**:

- Answer a specific problem
- Up-to-date/current
- Higher reliability (source is known and trusted)

DATA COLLECTION APPROACHES

Qualitative (exploratory) research approaches:

- Focus groups
- In-depth interviews
- Projective techniques
- Observation (can also be quantitative)

Quantitative research approaches:

- Surveys/cross-sectional studies (**descriptive research**)
- Experiments (**causal research**)

QUALITATIVE VERSUS QUANTITATIVE

Qualitative Research

- Provides internal insights into human behavior and experience
- Unstructured
- Observe and interpret
- Small samples

Quantitative Research

- Provides insights about human behaviour via data analysis and tools
- Structured
- Measure and test
- Large samples

QUALITATIVE MARKETING RESEARCH

FOCUS GROUPS

A **focus group** is a planned, focused discussion involving similar people designed to obtain qualitative data regarding the perceptions and feelings about products, services, and organizations.

- Typically 6-10 people
- Skilled moderator facilitating, listening, “focusing”
- Participants offered an incentive to participate
- Participants talk to each other

IN-DEPTH OR PERSONAL INTERVIEWS

One-to-one
Trained professional guides, explains difficult questions, and explores various issues that may arise.
While costly, they have **two major advantages**:

- Allows for intense probing of respondents or reaction to ideas without peer influence
- Permits the investigation of motivations, associations, and explanations behind product preference

TYPES OF INTERVIEW QUESTIONS

Open-ended ("What is your opinion on…")
Closed ("Are you married?")
Probes

- "What do you mean by… ?"
- "What if the service were …?"
- "How do you explain …?"
- "What do you like most about …?"
- "Tell me more about …?"
- "Could you please elaborate on …?"

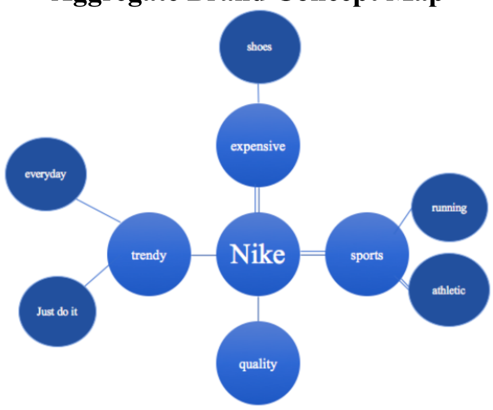
PROJECTIVE TECHNIQUES

Projective techniques have respondents think in metaphorical terms, allowing researchers to collect sensitive or hard-to-articulate information. Examples:

- **Incomplete stimuli**: sentence completion, word associations, story completion.
- **Creating stimuli**: collages, role playing, sketching (e.g., "draw a BMW as if it were a person").
- **Imaginative exercises and personification**: visitor from another planet, imaginary universe, guided fantasy (e.g., "which car would Colgate be?").

BRAND ASSOCIATIONS

Aggregate Brand Concept Map



OBSERVATION

Observation: collecting data by observing relevant people, events, and situations (without questioning)
Ethnographic research: observational technique where trained researchers watch and interact with consumers in their "natural environments."
Mystery shoppers: researchers posing as customers to gather observational data about a store and collect data about customer/employee interactions.

5: MARKETING RESEARCH II

TYPES OF RESEARCH DESIGNS

Research approach:

- *Qualitative research*
    - Exploratory research
- *Quantitative research*
    - Descriptive research
    - Causal research

DESCRIPTIVE RESEARCH (SURVEYS)

SURVEY DATA

Surveys are the most widely used method for **primary data collection**
People are asked questions about their knowledge, attitudes, preferences, and behavior
Survey data sources: email, online surveys, phone calls, postal

CROSS-SECTIONAL vs. LONGITUDINAL

Cross-sectional design: items measured only once; provides snapshot of variables of interest at a point in time
Longitudinal design: items measured repeatedly over time, using the same sample

TYPES OF QUESTIONS

Open-ended: encourages an answer phrased in the respondent's own words
Closed-ended: asks the respondent to make a selection from a limited list of responses
Scaled-response: a closed-ended question designed to measure the intensity of a respondent's answer
Rank-order: requires respondents to order items in terms of their appeal

OPEN-ENDED QUESTIONS

"How much money do you spend on average for lunch?"
Open-ended questions are not easy to analyze; however, they are more objective as responders are not influenced by any possible options offered.

MULTIPLE CHOICE QUESTIONS

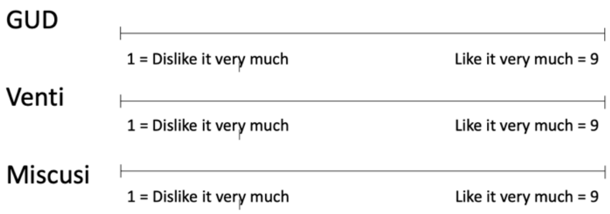
During a typical week, how many times do you eat out for lunch?

- *0-2 times*
- *2-4 times*
- *4-6 times*
- *6-8 times*

With multiple choice questions, responders can be influenced by the choices offered.

SCALED RESPONSE (LIKERT SCALES)

How much do you like the following restaurants?



RANK-ORDER

Please rank the following restaurants based on your preference (most liked on top and least liked on bottom).

- GUD
- Venti
- Miscusi

DEMOGRAPHIC QUESTIONS

What's your gender?

- Female
- Male
- Other

*What's your age?*_--- years old

SCALE MEASUREMENT

WHAT IS MEASUREMENT?

In marketing research, **measurement** is "the process of determining the amount (or intensity) of information about persons, events, ideas and/or objects of interest and their relationship to a business problem".

In other words, **measurement consist of rules for assigning numbers or labels to:**

- People's thoughts, feeling, behaviors, and characteristics
- The features or attributes of objects
- The aspects of ideas
- Any type of phenomenon or event

To collect high quality data, you need to have **well-constructed measurement procedures**. 2 steps to follow:

- **Construct Development**: precisely define and identify what you want to measure
- **Scale Measurement**: determine the scale that you will use to measure the constructs

TYPES OF SCALES

Nominal: the numbers are assigned to response categories. Have no meaning.
Ordinal: have magnitude. Responses can be ranked. The distances between response categories is not usually equal.
Interval: distance between numbers or units on the scale is equal over all levels of the scale.
Ratio: comparison of absolute magnitude of the responses is legitimate.

TYPES OF SCALES: EXAMPLES

Nominal: Have you visited GUD for lunch within last month?
__NO __YES
Ordinal: In typical month, about how many times you have lunch at GUD?
__None *__1 to 5 times* *__ 6 to 10 times* *__ more than 10 times*
Interval: How many months per year do you regularly visit GUD?
__0 to 3 months *__4 to 6 months* *__7 to 9 months* *__10 to 12 months*
Ratio: In the past month, how many times you had lunch at GUD? ___

ATTITUDE

Attitude is the most frequently measured variable/construct in marketing research
Attitude: **predisposition to respond or act toward that object in a *favorable* or *unfavorable* way**

- Thing (product/service)
- Action (purchase of product X, smoking)
- Concept or idea (brand, the death penalty)
- Person (your friend, a car-seller)

- Strong attitudes are difficult to change
- Many purchase decisions are based on attitudes existing at the time of purchase

THE ATTITUDE CONSTRUCT: 3 COMPONENTS

Cognitive		**Affective**		**Behavioural**
Our beliefs, perceptions, and knowledge that that create our version of reality	+	Our emotions and feelings toward an object	=	Our intended or actual behavioural responses

COGNITIVE: BELIEFS

What are your beliefs about Bocconi University?
…is a prestigious place to get a degree
…has excellent professors
…is a good value for money
…is a good party place

AFFECTIVE: FEELINGS

How do you feel about Bocconi University?
You love your university
You hate your classes
You like your professors
You love your classmates

BEHAVIORAL

How will you act given your beliefs and feelings?
You will finish the university
You will donate to alumni foundation
You will attend reunions
You will recommend Bocconi to others

TYPES OF SCALES: EXAMPLES

How much do you agree with the following statements?

	Strongly disagree	Disagree	Neither agree or disagree	Agree	Strongly agree
Bocconi is a prestigious place to get a degree	○	○	○	○	○
Bocconi is a good value for money	○	○	○	○	○

Please, check the space that best represent your feelings about Bocconi. How satisfied are you with Bocconi Library?

Very unsatisfied	Unsatisfied	Neutral	Satisfied	Very satisfied
○	○	○	○	○

How likely are you to recommend Bocconi to your friends?

Very unlikely	Unlikely	Neutral	Likely	Very likely
○	○	○	○	○

THINGS TO REMEMBER

Data collected using these scales should not be interpreted as facts. Data collected should be treated as **insights into what may be reality.**

The best predictor of future behavior is **past behavior**

Behavior can be explained **directly** (via behavior questions) and **indirectly** (by measuring both cognitive and affective elements of the attitude construct)

SAMPLING

SAMPLING

Population: the group about which you want information
Census: Enumeration of all members of population
Sample: A subset of a larger population
Probability vs **Nonprobability** Sample
Sample Frame: the "list" from which the sample will be drawn (only for probability sampling)

Who is participating in your research?

A **sample** is a **segment of the population selected for research to represent the population** as a whole:

- Whom is to be studied?
- How many people should be studied?
- How should the people be chosen?

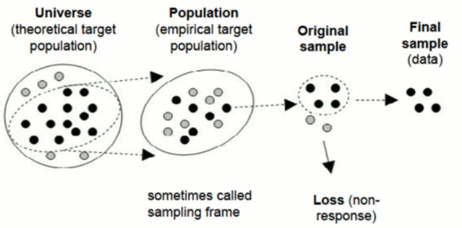
Sampling is like tasting a soup-a few spoons tell what the whole pot tastes like

SAMPLING CONSIDERATIONS

- What's the population?
- Budget
- Time
- What might the variance be in the population?

SAMPLING PROCESS

- Define the **target population**
- Determine the **sampling frame** ("empirical target population") and data collection method
- Select **sampling method**
- Determine the **sample size goal**
- Select the **sampling units**
- Execute sampling



WHOM TO STUDY

First, **define the population**. Example: What are consumers' attitudes toward GUD Bocconi?

SAMPLING TECHNIQUES

Probability sampling: The probability to select any individual from the population is fixed (equal chances)

- Relies on chance
- Each member of population has a **known**, non-zero chance of being included
- Allows to generalize results to the entire population with a pre-determined level of confidence

Non-probability sampling: Individuals are selected from the population based on judgment of the researcher

- Based on intuitive judgment or knowledge of researcher
- The odds of a population member being selected is **unknown**: cannot calculate sampling error
- Results are limited to just the people providing survey data

SAMPLING TYPES

Probability Sampling

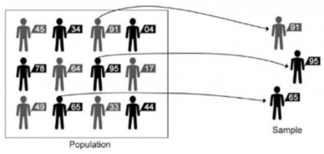
- Simple Random Sampling
- Systematic Random Sampling
- Stratified Random Sampling
- Cluster Sampling

Nonprobability Sampling

- Convenience sampling
- Judgmental sampling
- Quota sampling
- Snowball sampling

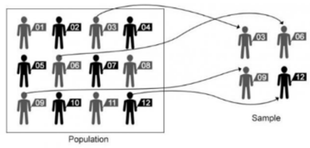
PROBABILITY SAMPLING

<u>Simple Random Sampling</u>



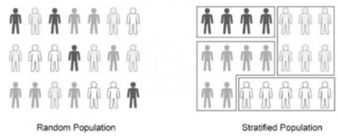
- Population members are selected directly from the sample frame and each member has a **known and equal chance of being selected**
- **Randomly draw**, like numbers in a lottery
- Still requires validation against population statistics

<u>Systematic Random Sampling</u>



- Like simple random sampling, but list is ordered in some way. Sampling units are selected using a **skip interval** based on the required sample size
- **Define the population**: Choose every n-th individual

<u>Stratified Random Sampling</u>



- Separation of population into different groups, called **strata**. Goal is to ensure that important subgroups is adequately sampled
- Describe population based on **influential characteristics**
- Use characteristics to assign each individual to one stratum (accounting for relative strata sizes)
- Randomly sample within strata

<u>Clustered Sampling</u>

- Similar to stratified random sampling, but each **cluster** is assumed to be **representative of a larger target population**
- One-step process-requires knowledge that clusters are identical. A census is conducted within all sampling units within a cluster
- **Two-step process**: selects clusters to be studied and then randomly selects units from each cluster

NON-PROBABILITY SAMPLING

<u>Convenience sampling</u>

- Sampling from "**nearby**"
- Relatively inexpensive, straightforward to execute

<u>Judgmental sampling</u>

- Choosing a sample more **like target population**
- Ideally shares similar knowledge or characteristics with target population

<u>Quota sampling</u>

- Choose based on **population quotas**
- Must know population characteristics

<u>Snowball sampling</u>

- Used to locate hard to find respondents, also called **referral sampling**
- The researcher contacts few qualified respondents and then asks them to provide names of others

HOW MANY TO STUDY

- Depends on research question and design
- More is better
- Costs (time and money) increase as sample size increases
- **Risk Tolerance**
  - Variability of the Target Population with respect to the characteristics being studied
  - Level of confidence desired in the estimates
  - Precision required
- There is also a point of diminishing returns above which additional accuracy is negligible and costs are no longer reasonable

VALIDITY AND RELIABILITY

If a study has a **validity**, it collects the appropriate data for the study

A study has **reliability** if the same questions, asked of a similar sample, produce the same findings

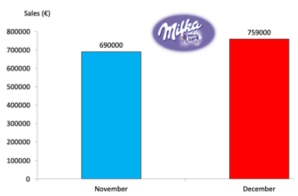
SURVEY EXAMPLE

Online survey tools: Qualtrics, SurveyMonkey, Google forms

How would you design your survey if you are GUD and want to study:
1. Adding new product (new sandwich) out of 4 sandwiches in mind
2. Difference in satisfaction level with competitors
3. Difference on attribute importance for females and males in your restaurant

CAUSAL RESEARCH

WHY CAUSAL RESEARCH



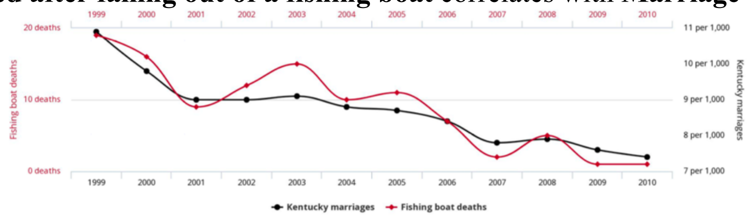
Example: Milka, December 2012
Offers €0.20 coupons (i.e., price reductions) to Dutch consumers ages 15-31
Goal: 10% increase in sales due to promotion
Did the promotion achieve its goal?

PITFALLS OF DESCRIPTIVE RESEARCH

Directionality problem: Does A cause B or does B cause A?
Omitted variables/confounds: Does A cause B or can the relationship be explained by C, D, E, or F?
Spurious correlation: Is there any meaningful relationship between A and B or is it merely statistical?

SPURIOUS CORRELATION

People who drowned after falling out of a fishing boat correlates with **Marriage rate in Kentucky**



DESCRIPTIVE vs CAUSAL CORRELATION

Descriptive research
- Identify relationships/correlations between variables
- Observe what happens in the "real" world
- Rely on natural variation in the sample

Causal research
- Identify cause-and-effect relationships
- Collecting data in a controlled setting
- Manipulate some aspect of the environment to create variation in the sample
- Test for effect on some variable(s) of interest

CAUSALITY

CAUSALITY

Causality: A change in one variable (*X*) will produce a change in another variable (***O***)

CAUSALITY: NECESSARY CONDITIONS

Covariation: The cause must be related to the effect (i.e., a change in X needs to result in change in O)
Time-Order: The cause must precede the effect
No Confounds: No plausible alternative explanations must exist for the effect other than the cause

PRINCIPLE OF CAUSAL RESEARCH

Independent variable ("IV") (X)
- Manipulated by experimenter
- Different treatment "levels"
- *Examples*: different advertisements, different prices, different store layouts

Dependent variable ("DV") (O)
- Observed or measured outcome variable
- *Examples*: product attitudes, purchase, willingness to pay, satisfaction

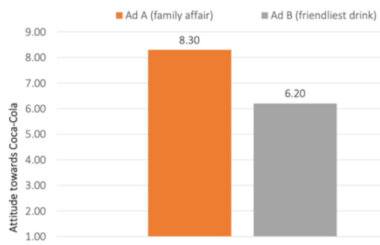
Assess whether differences in treatment levels of IV (X) account for differences in DV (O): “Does the IV affect the DV?”
Compare two (or more) controlled situations: one in which the cause is present and one in which the cause is absent (or low vs. high, etc.)
Manipulate one (or more) variable(s) (known as independent variable(s)) in order to measure effect on a dependent variable (DV), while controlling for exogenous variables (in order to test a hypothesis)
Eliminate influence of all possible (extraneous) variables that could otherwise affect DV
Rule out all possible **alternative explanations** for the observed cause-and-effect relationship
Confounds can be due to

- Factors related to design of the experiment
- Factors related to participants
- Factors related to experimenter

Example: What is the effect of our two advertising campaigns on consumers’ attitudes towards Coca-Cola?

- Potential participants approached randomly at shopping mall
- Participants asked to choose their preferred advertisement and evaluate Coca-Cola

IV: 2 different treatment levels of the IV (X): Advertisement A vs. Advertisement B
DV: How much do you like Coca-Cola? (1 = “Dislike very much”… 9 = “Like very much”)



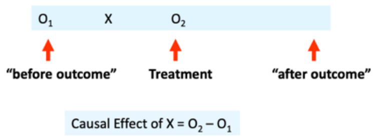
EXPERIMENTAL DESIGN

TYPES OF EXPERIMENTAL DESIGN

- One-group before-after design
- After-only design
- Two-group before-after design

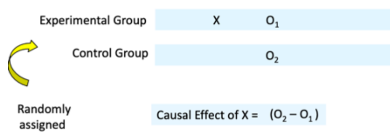
ONE-GROUP BEFORE-AFTER

Uses **fewer participants**
What if there are design flaws?
Participants may remember responses



AFTER-ONLY

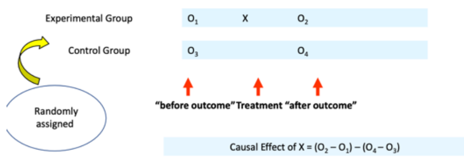
Cuts down on measurement / experimenter demand effects
Lose the baseline measure
Difficult to know whether control / treatment same



TWO-GROUP BEFORE-AFTER

Also known as “**randomized controlled trial**”
Important to have **truly random assignment**

- Individuals
- Entities



EXAMPLE

Imagine that you are asked, “How excited are you about Marketing class?” (1 = not at all, 7 = very)
Before-After:
Everyone first asked: “How excited are you about Marketing class?” (1 = not at all, 7 = very)
At the end of class, you are asked again: “How excited are you about Marketing class?” (1 = not at all, 7 = very)
After-Only:
At the beginning of class, all class members are randomly assigned into 2 groups:

1. Attending
2. Non-attending

At the end of class, everyone is asked: “How excited are you about Marketing class?” (1 = not at all, 7 = very)
2 groups Before-After:
Everyone in the beginning of class is asked: “How excited are you about Marketing class?” (1 = not at all, 7 = very)
In week 3, all class members are randomly assigned into 2 groups:

1. Groups that have and work on group project

2. Groups that do not have group project and only attend classes

At the end of class, everyone is asked again are asked again: “How excited are you about Marketing class?” (1 = not at all, 7 = very)

VALIDITY

INTERNAL VALIDITY

Internal validity represents the **extent to which a causal conclusion is warranted** (and thus, says something about the quality of the experiment)

If the observed effect on the DV is caused *only by* the variation in the IV, then internal validity has been achieved

CHALLENGES TO INTERNAL VALIDITY

History: Any variables or events, other than the one(s) manipulated by the experimenter, that affect the dependent variable

Instrumentation: Changes in the measuring instrument that might account for differences in the measurement

Main Testing (or pre-measurement) effect: Measurement itself has a direct effect on performance in a subsequent measurement

Experimental mortality: Respondents drop out of the experiment while the research is still in progress

Selection bias: Groups formed for the purposes of the experiment are systematically different in some relevant way from each other (and the population)

Demand artifacts / effects: Respondents act upon what is believed to be the expected or desired behavior

Maturation: Participants act as a function of time passing, not the condition to which they were assigned

EXTERNAL VALIDITY

External validity represents the **extent to which experimental results can be generalized** across:

- People
- Settings
- Treatment variations
- Outcomes
- Time

6: B2B MARKETING

B2B CUSTOMERS

Who are Organizational (Business) Customers?

- Producers: products used in the production of other goods
- Producers of services: law, medical, construction companies
- Retailers and wholesalers

How does B2B Marketing differ from B2C? Long-term relationships with organizational customers

INSTITUTIONAL AND GOVERNMENT MARKETS

Institutional Units: schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care

- Usually require to submit bids
- Many of them are characterized by **low budgets**
- Usually follow the strict guidelines: very formal way

Governmental units (federal, state, and local): units that purchase or rent goods and services for carrying out the main functions of government

- require to submit bids
- buy on a negotiated contract basis
- tend to favor domestic suppliers
- strongly impacted by outside publics
- require considerable documentation from suppliers

B2B MARKETING: ORGANIZATIONAL CUSTOMERS

Differences between organizational and final customers:

- More decision participants
- More professional purchasing effort
- More complex buying decisions
- Purchase criteria and specifications
- Multiple buying influence
- Buyer and seller are dependent on each other
- Buyer-seller relationships

Types of Organizational Customers:

- Producers
- Producers of services
- Retailers and wholesalers
- Institutional/Government units

INFLUENCES IN BUSINESS BUYING BEHAVIOR

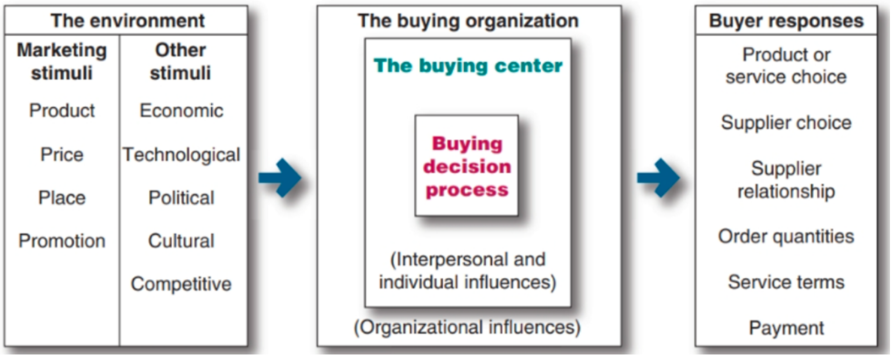
B2B MARKETING: BUSINESS BUYING BEHAVIOR

Business buyer behavior: the buying behavior of organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others

Business buying process: the decision process by which business buyers determine which products and services their organizations need to purchase and then find, evaluate, and choose among alternative suppliers and brands

Derived demand: Business demand that ultimately comes from (derives from) the demand for consumer goods

A MODEL OF BUSINESS BUYER BEHAVIOR



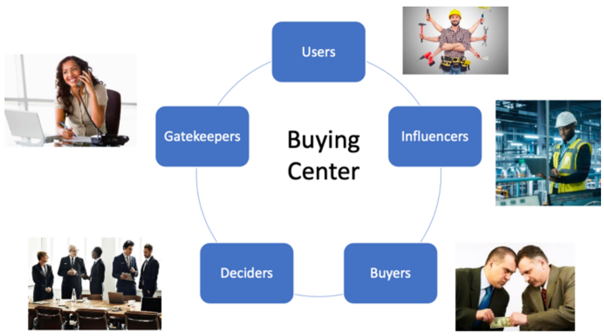
MAJOR INFLUENCES IN BUSINESS BUYER BEHAVIOR

Environmental	Organizational	Interpersonal	Individual	
The economy Supply conditions Technology Politics/regulation Competition Culture and customs Unplanned disruption	Objectives Strategies Structure Systems Procedures	Influence Expertise Authority Dynamics	Age/education Job position Motives Personality Preferences Buying style	**Buyers**

PARTICIPANTS IN BUYING CENTER

Users: members of the organization who will use the product or service
Influencers: help define specifications and provide information for evaluating alternatives
Buyers: have formal authority to select the supplier and arrange terms of purchase
Deciders: have formal or informal power to select or approve the final suppliers
Gatekeepers: control the flow of information to others

PARTICIPANTS IN BUYING PROCESS



BUSINESS BUYING BEHAVIOR

TYPES OF BUSINESS BUYER BEHAVIOR

New task: a business buying situation in which the buyer purchases a product or service for the first time
Modified rebuy: a business buying situation in which the buyer wants to modify product specifications, prices, terms, or suppliers
Straight rebuy: a business buying situation in which the buyer routinely reorders something without modifications

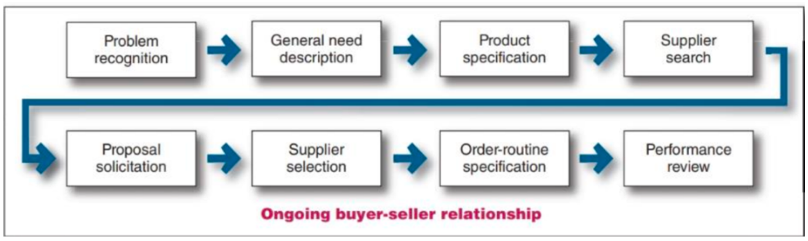
Characteristics	New Task	Modified Rebuy	Straight Rebuy
Time required	Much	Medium	Little
Multiple influences	Much	Some	Little
Review of Suppliers	Much	Some	None
Information Needed	Much	Some	Little

BUSINESS BUYER BEHAVIOR

Systems selling (solutions selling): buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation

- More customer oriented, focuses on customer needs
- Induces long term relationship
- Can decrease the customer costs (time, transaction costs) and increase efficiency
- Increases the dependency of seller and customer on each other

STAGES OF THE BUSINESS BUYER DECISION PROCESS



BUYER-SELLER RELATIONSHIPS

Close relationship may produce mutual benefits		Sometimes relationship may not make sense
• Reliable source of supply • Cost reductions • Price stability or concessions • Reduced uncertainty • Joint problem solving • Improved quality	BUT	• Reduced flexibility • Switching costs • Some purchases are too small or infrequent • Higher risk from greater purchase concentration

Powerful customers may control the relationship
Buyers may still use several suppliers

FORMS OF B2B MARKETING COMMUNICATION

- Direct Marketing
- Email Marketing
- Content Marketing (blog posts, white papers, e-books, infographics, videos)
- Search Engine Marketing (ex. Google Ads) and Search Engine
- Optimization
- Social Media Marketing
- Industry Publications/Websites/Platforms
- Conferences/Fairs/Events

7: CONSUMER BEHAVIOR I

FACTORS INFLUENCING CONSUMER BEHAVIOR

Cultural	Social	Personal	Psychological	Buyer
Culture Subculture	Groups, social networks, influencers Family Roles and status	Age and life stage Occupation Economic situation Lifestyle Personality and self-concept	Motivation Perception Learning Beliefs and Attitudes	

Cultural: brands often supplement their already diverse general-market offerings with programs tailored to important subcultural segments, such as Hispanic, Americans, Black Americans and Asian Americans.

Personal: people's buying decisions reflect and contribute to their lifestyles – their whole pattern of acting and interacting in the world. For example, retailer Title Nine sells much more than just women's apparel. It sells and entire sports participation and activities lifestyle to "ordinary women capable of extraordinary things."

Buyer: our buying decisions are affected by an incredibly complex combination of external and internal influences.

CULTURAL FACTORS

CULTURE vs SUBCULTURE

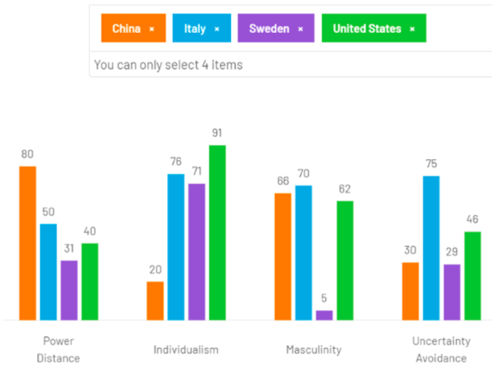
Culture: The set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.
Subculture: A group of people with shared value systems based on common life experiences and situation

CULTURE'S CONSEQUENCES

<u>**Hofstede's Studies (1970s)**</u>

- **Individualism vs Collectivism**:
  - *Collectivism*: how important is for people to be part of a group
  - *Individualism*: feel powerful in our own decision
- **Power Distance:** an individual feels he's able to make an impact
- **Masculinity vs Femininity:**
  - *Femininity*: social and personal values, working balance
  - *Masculinity*: task and goal orientation
- **Uncertainty Avoidance**: how comfortable an individual feels when facing uncertainty

We can measure the perception of these contrast in different countries:



Usually, Western Countries focus more on individualism, while Asian countries focus more on collectivism
All Nordic countries (Sweden) are very feminine, as they support working balance, social values, not just tasks to be completed
Italy is the highest country in terms of masculinity

All these factors might be very different now due to globalization, even though differences between cultures still exist, both in marketing and working contexts

SUBCULTURAL GROUPS

Example of **Subcultural Categories**

- *Religion*: Catholic, Hindu, Muslim…
- *Geographic Region*: Milanese, Sicilian…
- *Race*: Hispanic, African American, Asian

- *Occupation*: Student, Bus driver, Pilot
- *Social Class*: Lower, middle, upper…

SOCIAL FACTORS

Within cultures and subcultures there are societies, each with its behavior and

SOCIAL GROUPS

Reference group: A group that serves as a point of comparison or reference in shaping a person's attitudes or behavior
A person belongs to many groups: family, clubs, organizations, online communities.

The person's position in each group can be defined in terms of both **role** and **status**.
- A **role** consists of the activities people are expected to perform according to the people around them
- Each role carries a **status** reflecting the general esteem given to it by society

People usually choose products or services **appropriate** to their roles and status

Direct reference groups: groups with whom a person has direct contacts
Indirect reference group: individuals or groups with whom a person identifies but does not have direct face-to face contact, such as movie stars, sport heroes, political leaders, or TV personalities.
- ex. Ariana Grande's fans

Brand Communities:
- ex. Harley Davidson created a physical community in the US with its customers as a successful marketing strategy to create loyalty and emotional connection with the brand, and also to sold merchandise

WHAT DOES THIS SCALE MEASURE?

Questions to measure conformity, i.e., how much people are influenced by others' influences as they want to be accepted by the group**:**
- I rarely purchase the lates fashion styles until I am sure my friends approve of them
- It is important that others like the products and brands I buy
- When buying product, I generally purchase those brands that I think others will approve of
- I frequently gather information from friends or family about a product before I buy

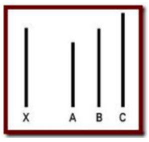
PEER PRESSURE

Consumer has a **desire to conform**, stemming from the power groups have to reward or punish people who do or do not follow rules (i.e., social norms)
Consumer wants to be within the bounds of acceptability and can be influenced by:
- Parents and family members
- Friends and peers
- Work organizations

ASCH 1950s EXPERIMENTS

"Which of the following lines is equal to X?"

Asch wanted to understand how people were influenced by believes or others, and conducted this experiment with 8 people, of which 7 were actors.



The last person to respond was subject to peer pressure, and for this reason 30% of answers were wrong, depending on how people had previously answered → **example of conformity and social pressure**

CONFORMITY

"I was afraid they would think I am strange", "I felt bad about disagreeing so often", "I didn't want to stand out from the group"
Conformity: The need to adhere to social norms and positive expectations or beliefs of others
Influence depends on:
- Number of observers (size of social group)
- Authority of social group
- Ambiguity of the situation

FOLLOW-UP ON ASCH EXPERIMENT

Tendency to conform depends on number of confederates
- If only one confederate, participants laugh at wrong answer given by confederate
- The greater the number of confederates who provide the correct answer, the lower the likelihood of conformity

PERCEIVED AUTHORITY

Authority is usually seen as an **undisputed information source**
Authority can be **content-based**

- Objective knowledge
- Tangible power over an individual

Authority can be **conveyed by presentation**

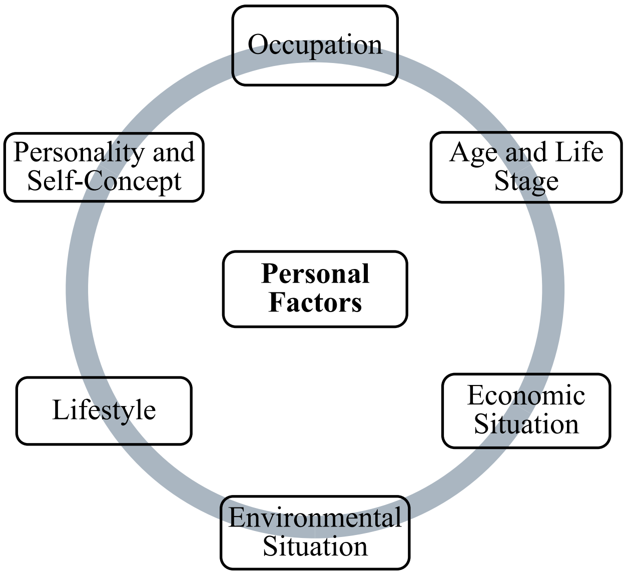
- Clothing (e.g., hospital white, army green, police blue)
- Looks (grey hair, height)
- Profession (e.g. police officer, doctor, professor)

MILGRAM EXPERIMENTS

The **Milgram experiments** were a series of psychological experiments conducted by **Stanley Milgram** in the early 1960s to study **obedience to authority**. These experiments aimed to understand how far people would go in obeying an authority figure, even if it meant harming another person.

PERSONAL FACTORS

MAIN PERSONAL FACTORS



PERSONALITY AND SELF-IMAGE

Personality: the psychological characteristics that distinguish a person that are expressed in traits such as self-confidence, dominance, sociability, and adaptability.

Consumers have a variety of enduring images of themselves which create a person's self-concept (also called **self-image**)

- One vs multiple selves
- Actual self-image vs Extended self-image vs Ideal self-image

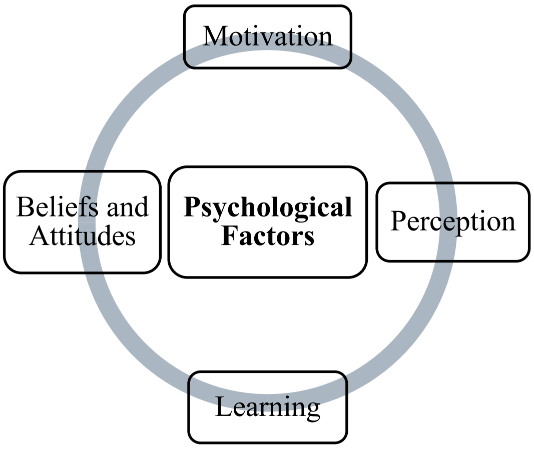
People's possessions contribute to and reflect their identities to the outside world, that is, "we are what we consume."

CONSPICUOUS CONSUMPTION

Consumers buy products that **signal status** to **convey identity** (associate with desirable groups)

Products signal status when they are scarce (or expensive) and/or recognizable by others → **Luxury brands** are a common target

PSYCHOLOGICAL FACTORS
MOTIVATION: NEEDS, MOTIVES, GOALS



Needs: States of felt deprivation (*ex.* Is a body spray an innate or acquired need?)
- **Innate Needs**: needs that are considered primary needs and motives
- **Acquired Needs**: learned in response of our culture or environment. They are generally psychological and considered secondary needs

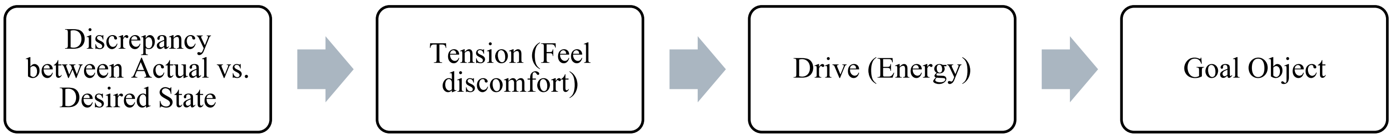
Motive (drive): A need that is sufficiently pressing to direct the person to seek satisfaction of the need
Goals: The sought-after results of motivated behavior

MOTIVATION: THEORIES OF HUMAN MOTIVATION

Sigmund Freud Theory
- people are largely unconscious about the real psychological forces shaping their behavior
- a person's buying decisions are affected by subconscious motives that even the buyer may not fully understand

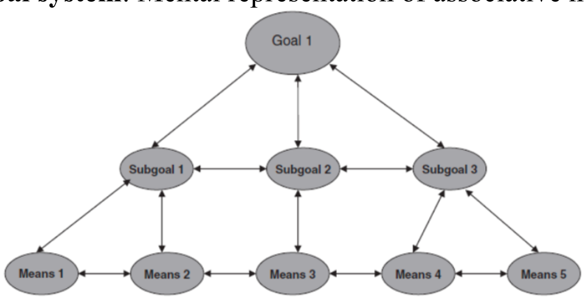
Abraham Maslow Theory
- human needs are arranged in a hierarchy
- A person tries to satisfy the most important need first. When that need is satisfied, it will stop being a motivator, and the person will then try to satisfy the next most important need

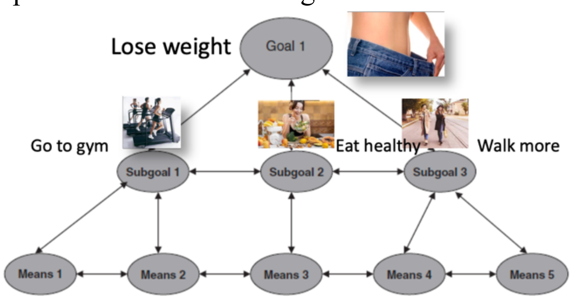
MOTIVATION: MODEL OF CONSUMER MOTIVATION



MOTIVATION: GOAL SYSTEMS

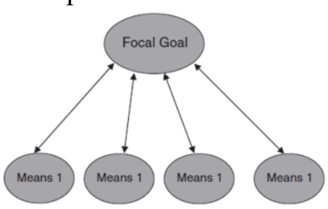
Goal system: Mental representation of associative networks composed of interconnected goals and means





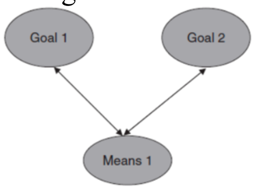
MOTIVATION: GOAL SYSTEM PROPERTY-EQUIFINALITY

Equifinality: A single goal is associated with multiple means → different means toward one goal



MOTIVATION: GOAL SYSTEM PROPERTY-MULTIFINALITY

Multifinality: Multiple goals are associated with a single means



MOTIVATION: THE SELECTION OF GOALS

The **goals selected by an individual** depend on individual's:

- Personal experiences
- Physical capacity
- Prevailing cultural norms and values
- Goal's accessibility in the physical and social environment

PERCEPTION

<u>Perception</u>: the process by which people select, organize, and interpret information to form a meaningful picture of the world

People can form different perceptions of the same stimulus because of three perceptual processes:

- **Selective attention**: the tendency for people to screen out most of the information to which they are exposed
- **Selective distortion**: the tendency of people to interpret information in a way that supports what they already believe
- **Selective retention**: consumers are likely to remember good points made about a brand they favor and forget good points made about competing brands

PERCEPTION: INFORMATION SELECTION

Consumers avoid by being bombarded by different messages
Consumers subconsciously are **selective at to what they perceive** and seek messages which:

- Pleasant
- Reassure them of good purchases
- Highlighted awareness when stimuli meet their needs
- Screening out of stimuli which are threatening

PERCEPTION: INFORMATION ORGANIZATION

Our brain works in a way to put all the pieces together to obtain a general framework with all pieces of information that fit into the puzzle.

People group stimuli to form a **unified impression or concept**. Grouping helps memory and recall.
People have a **need for closure and organize perceptions** to form a complete picture. Will often fill in missing pieces

PERCEPTION: INFORMATION ORGANIZATION

Physical appearance: positive attributes of people they know to those who resemble them
Stereotypes influence how stimuli are perceived
First impressions are lasting
Jumping to conclusions: People tend not to listen to all the information before making conclusion (importance to put persuasive arguments first in advertising)
Halo effect: consumers perceive and evaluate multiple objects based on just <u>one dimension</u>, also lasting

These are shortcuts on how human brain makes decision, which are not necessarily wrong as can be helpful sometimes but work in a negative way as well.

LEARNING

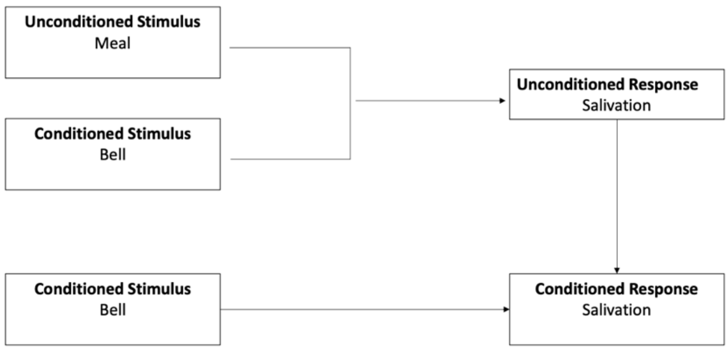
<u>Learning</u>: changes in an individual's behavior arising from experience. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement
Learning theories:

- Behavioral
  - Classical conditioning
  - Operant conditioning
  - Observational learning
- Cognitive

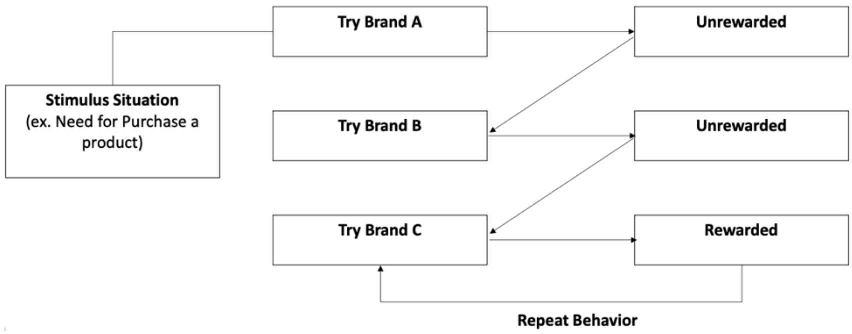
LEARNING: CONDITIONING

<u>Classical (Pavlov):</u> Associate a **X** with an **involuntary response** (learning by **repeated pairing**)
<u>Operant (Skinner):</u> Associate a **voluntary behavior** and a **consequence** (learning by **repeated doing / trial and error**)

LEARNING: CLASSICAL CONDITIONING



LEARNING: OPERANT CONDITIONING



LEARNING: OBSERVATIONAL LEARNING

Learning by **observing the actions of others** (“models”), and the reward/punishment they receive.
Ex. How children learn by imitating what their mother, or brother, or sister do.
Effectiveness depends on:

- Attractiveness/prestige/competence of model
- Similarity to self
- Ability to reproduce observed behavior

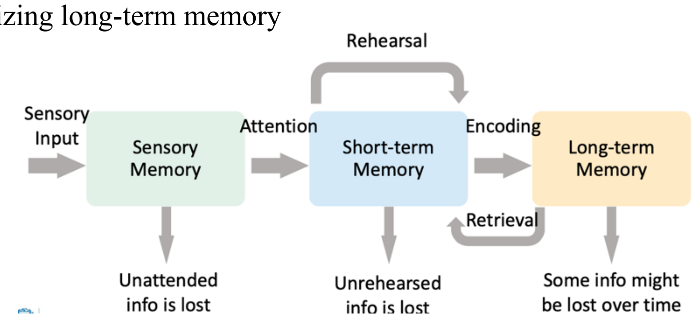
LEARNING: COGNITIVE LEARNING

Holds that the kind of learning most characteristic of human beings is **problem solving**, which enables individuals to gain some control of their environment.

- **Repetition**: when something is repeated, memory strength is increased
- **Elaboration**: could include consideration, clarification, analogies, generation of examples
- **Mnemonics**: associations to aid in memorization

LEARNING: THE BASIC MEMORY SYSTEM

Attention: <u>selective</u> focus on informational content (put attention on memorizing something)
Encoding: converting information into through processing
Rehearsal: repeating information with goal to keep it in memory
Retrieval: recalling/recognizing long-term memory



Sensory Memory: super short-term memory (*ex.* smell something)
Short-term Memory: to memorize new pieces of information
Long-term Memory: not needed information are lost, prevent brain to keep too much not needed info

LEARNING: SHORT-TERM vs LONG-TERM

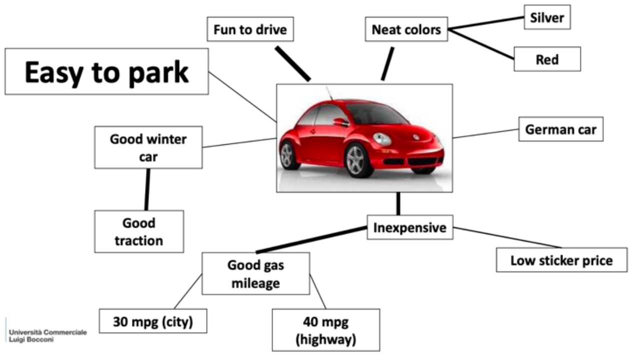
Short-Term Memory

- Limited duration
- Limited capacity
- Chunked organization

Long-term memory

- Unlimited duration
- Unlimited capacity
- Efficient organization

LEARNING: LONG-TERM MEMORY ASSOCIATIONS



LEARNING: DRIVERS OF KNOWLEDGE ACCESSIBILITY

Frequency: How often?
Recency: How recent?
Association strength: How strong?
Number of associations: How many?

BELIEFS AND ATTITUDES

Belief: a descriptive though that a person holds about something
Attitude: predisposition to respond or act toward that object in a *favorable* or *unfavorable* way

- Strong attitudes are difficult to change
- Many purchase decisions are based on attitudes existing at the time of purchase

BELIEFS AND ATTITUDES: THE THREE COMPONENT ATTITUDE MODEL

Cognitive		Affective		Behavioural (conative)
Our beliefs, perceptions, and knowledge that that create our version of reality	+	Our emotions and feelings toward an object	=	The likelihood/intention of actual behavioural

8: CONSUMER BEHAVIOR II

CONSUMER DECISION INVOLVEMENT

LEVELS OF CONSUMER DECISION MAKING

Extensive Problem Solving

- A lot of information is needed
- Must establish a set of criteria for evaluation

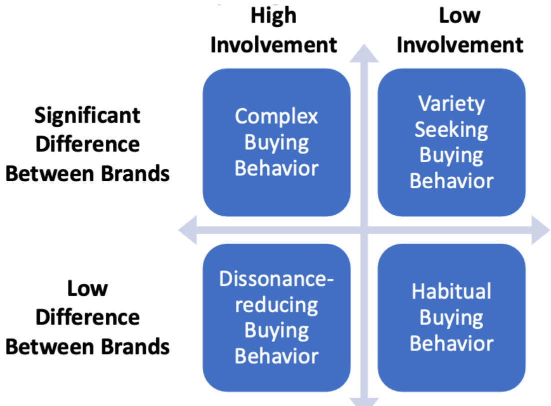
Limited Problem Solving

- **Criteria** for evaluation is established
- Fine tuning with additional information

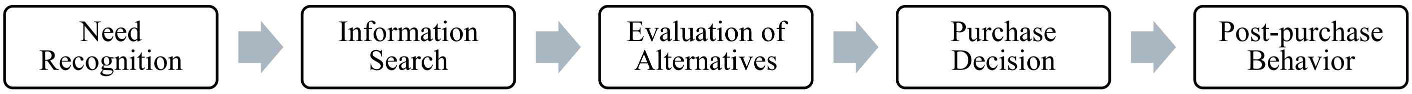
Routinized Response Behavior

- Usually **review** what they already know

CONSUMER BUYING BEHAVIOR

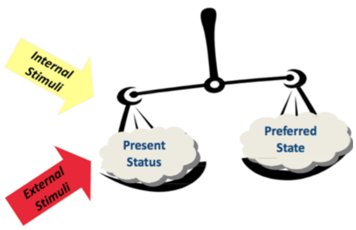


BUYER DECISION PROCESS

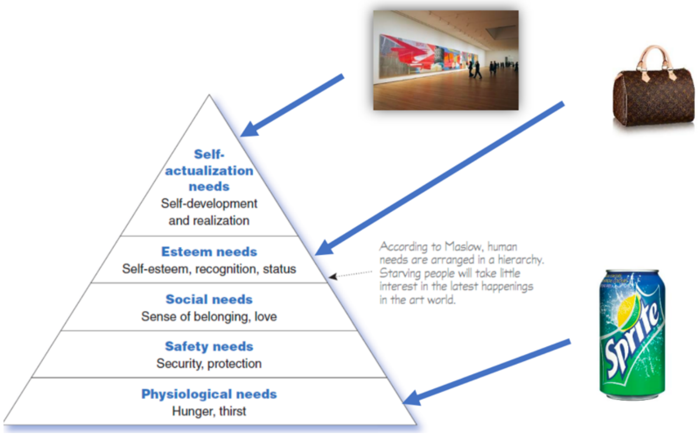


CONSUMER DECISION PROCESS

STEP 1: NEED RECOGNITION



BUYING AS GOAL ATTAINMENT



According to Maslow, human needs are arranged in a hierarchy. Starving people will take little interest in the latest happenings in the art world.

TYPES OF CONSUMER NEEDS

Utilitarian (Functional): What can I do with the product/service? *e.g. cook, charge my device*
Hedonic (Emotional): How do I feel when I use the product? *e.g. happy, affluent, beautiful*
Social: How do others see me when I use the product? *e.g. powerful, upper-class*

Some products can satisfy different needs at the same time
Example: Audi
Utilitarian: technical features of the car
Hedonic: driving this car makes feel joy
Social: social status given by the possession of this car

STEP 2: INFORMATION SEARCH

Internal:
- Memory

External (if internal is not sufficient):
- Personal (family, friends, neighbors)
- Commercial (ads, salespeople, dealer and manufacturer websites, packaging, displays)
- Public (mass media, consumer ratings organizations, social media, online searches, forums, peer reviews)
- Experiential (direct examinations and use/trial of product directly in stores)

INFORMATIONAL INFLUENCE

Information transmission influences consumers
- Product information is scant or ambiguous
- Acceptable types of behavior are unclear

Informational influence has numerous sources
- Product enthusiasts: frequent users of a specific product
- Professional advisors (*ex. Wine taster, financial advisor)*
- Opinion/thought leaders:
- Word-of-mouth

THOUGHT AND OPINION LEADERS

Thought / opinion leaders: People who are **knowledgeable** about and have **expertise** with products, and whose advice others take seriously and trust.
- Have high product involvement
- Are recognized as leaders (by enough people)
- Have many social ties, followers, and access to numerous consumers
- Hold leadership positions in organizations
- Are media savvy

WORD-OF-MOUTH

Word-of-mouth: Informal, interpersonal communication about a brand, product, organization or service, between a recipient and a sender who is seen as non-commercial

CONSUMER ⟷ CONSUMER

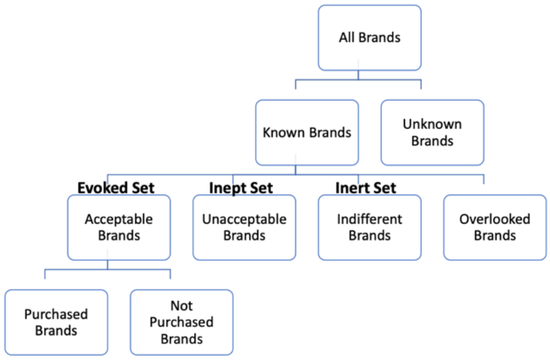
DRIVERS OF WORD-OF-MOUTH

Social currency: People more likely to share things that make them look good
Triggers: People more likely to share things that are top of mind (i.e., accessible)
Emotion: High arousal drives sharing
Practical value: People more likely to share useful information to help others
Reliability: no known conflict of interest

Social media are the main driver of word-of-mouth, albeit people must be very careful to fake news and false information

STEP 3: EVALUATION OF ALTERNATIVES

THE EVOKED SET



COMMON DECISION RULES

<u>**Compensatory**</u>: consumer evaluates each brand in terms of each relevant attribute and then selects the brand with **highest score**.
<u>**Non-compensatory**</u>: type of decision rule when **positive evaluation** of the brand attribute does not compensate for a negative evaluation of the same brand on another attribute.
<u>**Affect Referral**</u>: a simplified decision rule by which consumers make a product choice on the basis of their **previously established overall rating** of the brands considered, rather than on specific attributes.

COPING WITH MISSING INFORMATION

Delay decision until missing information is obtained
Ignore missing information and use available information
Change the decision strategy to one that better accommodates for the missing information
Infer the missing information

HEURISTICS

<u>**Heuristics**</u>: a mental shortcut commonly used to **simplify problems** and avoid **cognitive overload** when making decision; it is not a logical way of thinking, but is based on memorizing and recalling information that are in one's mind
Some Types:

- Availability
- Familiarity
- Representativeness (*ex. Stereotyping)*
- Affect: perceive products in a more positive or negative way based on the person mood
- Anchoring (*ex. Discounts can be anchored in a more positive or negative way)*
- Scarcity

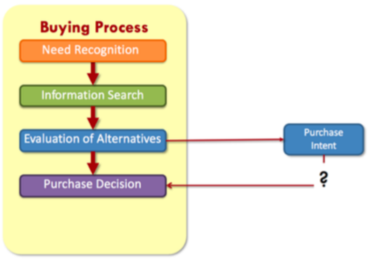
Heuristics is used when:

- Missing information
- Time constraints (need to make a decision very fast)
- Information overload (too much information to process

STEP 4: PURCHASE DECISION

ATTITUDES AND BEHAVIOR

Intent to purchase does not always translate into a purchase



ATTITUDES vs BEHAVIOR

Psychological

- Attitude confidence / strength
- Involvement, knowledge, and/or experience
- Accessibility of attitude (e.g., from memory)
- Constraints or influence from others

Market

- Price
- Availability
- Budget

fMRI STUDY

Experiment. Two conditions:
1. anonymous delivery of Coke & Pepsi
2. brand -cued delivery

Taste test:
When anon, 50% pref. Pepsi
When brand-cued, 75% pref. Coke
Did event-related fMRI to probe neural response?
- When anon, reward areas (food, alcohol) were activated by both Coke and Pepsi
- When brand -cued, Coke also activated additional brain regions (higher level)

STEP 5: POST-PURCHASE BEHAVIOR

ASPECTS OF POST-PURCHASE BEHAVIOR

(Di)satisfaction: Feeling based on the experience of purchasing, consuming, or using a product
- Satisfaction
- Dissatisfaction

Disposal: Parting with a product
- When to dispose
- Why to dispose
- Replacement

EXPECTANCY CONFIRMATION MODEL

Two dimensions of product performance
- **Expectation** of product performance
- **Perceived performance** of product

Expectation linked to satisfaction
- Expectation = Perception → **Confirmation**
- Expectation < Perception → **Positive disconfirmation**
- Expectation > Perception → **Negative disconfirmation**

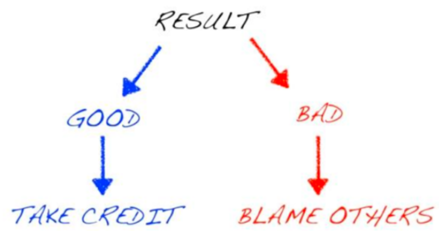
EXPERIENCING DISSATISFACTION

Cognitive dissonance: Discomfort whereby individual simultaneously holds two or more contradictory values, beliefs, or ideas (e.g., "I made the right purchase" and "I am unhappy with the purchase"

Reducing cognitive dissonance:
- Revoke the original decision by returning the product
- Seek information that reinforces positivity of choice
- Seek information that reinforces negativity of alternative
- Avoid information that contradicts purchase decision

ATTRIBUTIONS OF DISSATISFACTION

Internal locus of control ("blame yourself"):Attribution to internal, dispositional factors (e.g., personal expectations)
External locus of control ("blame other factors"): Attribution to external, situational factors (e.g., product performance)
Self-serving bias: Success is attributed to internal factors; failure is attributed to external factors



Fundamental attribution error: Attribute behavior to individual/personality and underemphasize the situational factors for others

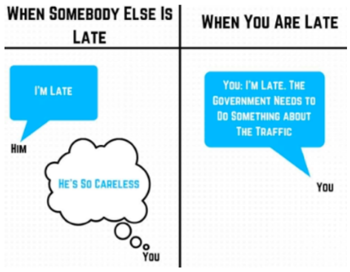
DISSATISFACTION AND INACTION

Consumers may exit

- Stop buying
- Not return

Consumers may take actions

- Complain formally



- Leave bad reviews
- Complain to others

Actions can hurt, especially when company response is poor or nonexistent

Action is relatively rare, so companies often do not learn

Suppose 100 customers purchase a product

- 2/3 are satisfied and 1/3 are dissatisfied (67 vs. 33)
- Among the dissatisfied, only 1/3 complain (11)
- Among those who complain, company response results in satisfaction among half (5)

What information does the company see?

- Out of 100 customers, 6 are dissatisfied (and 94 are?)
- Company appears to be "good" at improving dissatisfied customer experience (from 11 complaints to only 6 dissatisfied)

DETERMINANTS OF COMPLAINING

Motivation

- Dissatisfaction salience/strength
- Attribution of dissatisfaction
- Personality traits

Ability

Opportunity

REACTIONS TO COMPLAINTS

- Respond, and do so quickly
- Gratitude for feedback
- Recommend better alternatives (even when external)
- Route complaint within company (to the right person)
- Provide refunds, coupons, apologies

IMPORTANCE OF SATISFACTION

Satisfaction

- Repeat customers
- Loyalty
- Positive word-of-mouth

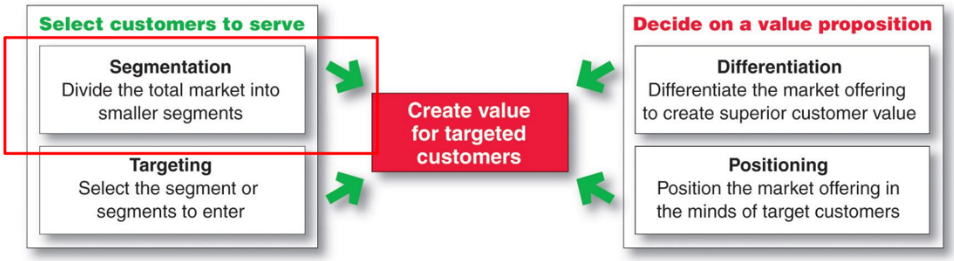
Dissatisfaction

- Lost sales
- Loss of valuable feedback
- Negative word-of-mouth

9: IDENTIFYING SEGMENTS

IDENTIFYING SEGMENTS

THE STRATEGIC APPROACH



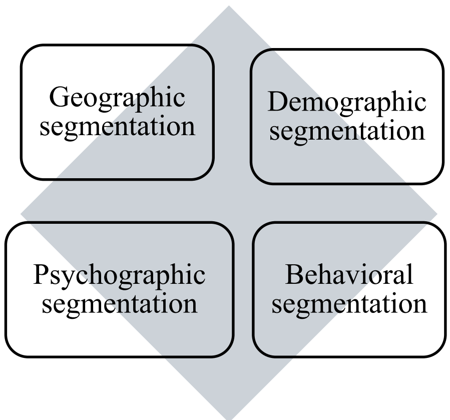
Segmentation: first step in strategic marketing approach
Market segmentation results in market segments, which becomes the managerial activity in term of segmentation

<u>Market segmentation</u>: process through which marketing managers **divide the company's market** into well-defined slices (i.e. **segments**).
<u>Market segments</u>: groups of customers each of them **sharing a similar set of needs and wants** within their group (intra-segment homogeneity) and different needs and wants across groups (inter-segment heterogeneity).
<u>Segmentation aim</u>: identify the appropriate number and nature of market segments and decide which one(s) to **target** so as to allow more effective targeting strategies and develop specific offers for each of the objective segments.

Being a process, it can stop any time the company needs to reassess the market; the company wants to keep under control what it's happening, compare itself with the market through benchmarks.

SEGMENTING CONSUMER MARKETS (B2C)

CLASSIFICATION OF SEGMENTATION CRITERIA



As we move on with criteria, the interest in term of results is higher.
Companies decide which are the first criteria to use, but usually all criteria are used together in order to describe under all points of view and have a multifaced understanding of segments.

GEOGRAPHIC SEGMENTATION

- **Region** of the country or world, or **cities** → big groups of consumers coherent in term of consumption in a specific city or region
- **Market density** (number of people within a unit of land, concentration or resources allocated in a specific sector)
- **Climate**

The same company can cut its own slices and identify differences within the different segments.
Example: McDonald's distinguishes its offer according to the downtown versus peripheral location of its stores /customers Basic products and approach to serve are similar both in Europe and US, but other features of the format can be adjusted based on different geographic location. (McDrive in US towns *vs* McDonald's restaurant in the centre of Milan).

DEMOGRAPHIC SEGMENTATION

Demographic segmentation divides the market into groups based on variables such as **age, gender, income, family size, family life cycle, occupation, education, religion, race, generation, and nationality**
Demographic segmentation: a popular approach because consumer needs, wants, and usage rates often vary closely with demographic variables. In addition, demographic variables are easier to measure.
Popular and very used because it's easy and cheap to buy and apply

Example: The cosmetic industry heavily relies upon demographic criteria. In this way, the company is able to talk with similar products to different segments of the market (L'Oréal → Casting Crème Gloss: Teens *vs* Excellence Crème: Senior)

DEMOGRAPHIC: AGE SEGMENTATION

Marketers can segment markets using cohorts, e.g.:

- Generation Z
- Generation Y (millennials)
- Generation X

The first step is age, but then are necessary other criteria to get additional information

DEMOGRAPHIC: GENDER SEGMENTATION

Women make 85 percent of consumers goods purchases annually in USA market
Many marketers of male-dominated arenas are targeting women (e.g.: automotive)
Increasing numbers of marketers in female dominated categories are targeting men (e.g.: skin care-Nivea)
Men has become a fundamental segment for sectors involving healthcare, nutrition, skincare, haircare..., has it revealed to be very profitable (men are les price sensitive than women)
The goal is to absorb different segments that were previously ignored.

DEMOGRAPHIC: INCOME SEGMENTATION

Income segmentation divides the market into affluent, middle- income or low-income consumers

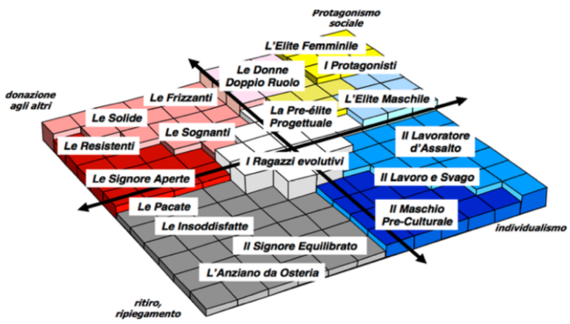
PSYCHOGRAPHIC SEGMENTATION

Psychographic criteria (indirect-a priori-descriptive): Psychographic segmentation is the science of **using psychology and demographics** to better understand consumers.
In psychographic segmentation, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle.
People within the same demographic group can exhibit very different psychographic profiles.
In the USA, the most popular commercially available classification systems based on psychographic measurements is **Strategic Business Insight's (SBI) VALS framework**.

Example: The VALS framework used for the US market:

1. **Innovators**: Successful, sophisticated, active, "take-charge" people with high self- esteem.
2. **Thinkers**: Mature, satisfied, and reflective people motivated by ideals and who value order, knowledge, and responsibility.
3. **Achievers**: Successful, goal-oriented people who focus on career and family. They favor premium products that demonstrate success to their peers.
4. **Experiencers**: Young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment, and socializing.
5. **Believers**: Conservative, conventional, and traditional people with concrete beliefs. They prefer familiar, U.S.-made products and are loyal to established brands.
6. **Strivers**: Trendy and fun-loving people who are resource-constrained. They favor stylish products that emulate the purchases of those with greater material wealth.
7. **Makers**: Practical, down-to-earth, self-sufficient people who like to work with their hands. They seek U.S.-made products with a practical or functional purpose.
8. **Survivors**: Elderly, passive people concerned about change and loyal to their favorite brands

Psychographic segmentation divides buyers into different groups based on **social class, lifestyle, or personality traits like adventurous, go-your-own-way personality**



BEHAVIORAL SEGMENTATION

Behavioral segmentation deploys **consumers' attitudes, intentions, and real-behavior towards the product**.

Typical **behavioral criteria** include:

- Occasions of use
- Usage rate

- Benefits sought
- Loyalty status

Usage-Rate segmentation

Usage-Rate Segmentation: Dividing a market by the amount of product bought or consumed, based on the type of client.
80/20 Principle: A principle holding that 20 percent of all customers generate 80 percent of the demand.

Segmentation criteria: Benefit sought

Example: Constellation Wines (not producers, but invested on volume and value) identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).

1. **Enthusiast** (12% of the market). Skewing female, their average income is about $76,000 a year. About 3 percent are "luxury enthusiasts" who skew more male with a higher income.
2. **Image Seekers** (20%). The only segment that skews male, with an average age of 35. They use wine basically as a badge to say who they are, and they're willing to pay more to make sure they're getting the right bottle.
3. **Savvy Shoppers** (15%). They love to shop and believe they don't have to spend a lot to get a good bottle of wine. Happy to use the bargain bin.
4. **Traditionalist** (16%). With very traditional values, they like to buy brands they've heard of and from wineries that have been around a long time. Their average age is 50 and they are 68 percent female.
5. **Satisfied Sippers** (14%). Not knowing much about wine, they tend to buy the same brands. About half of what they drink is white zinfandel.
6. **Overwhelmed** (23%). A potentially attractive target market, they find purchasing wine confusing.

MARKET SEGMENTATION

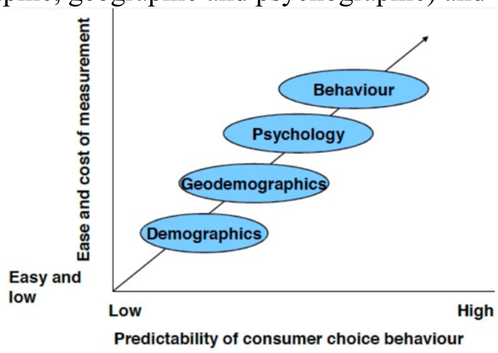
Using Multiple Segmentation Bases

Multiple segmentation is used to identify smaller, better-defined target groups

Companies are usually supported by research companies which sell data.
Several business information services - such as Nielsen, GFK, and Experian - provide multivariable segmentation systems that merge geographic, demographic, lifestyle, and behavioral data to help companies segment their markets down to zip codes, neighborhoods, and even households.

Classification of segmentation criteria

Tradeoff between descriptive (demographic, geographic and psychographic) and behavioral criteria.



It is necessary to run research on a regular basis as segments continuously evolve over time. This is the reason why research companies exist.
Most sophisticated companies, with a costumer-centered approach, invest a lot on behaviour research. In Italy, all big companies perform behavior.
These companies adjust their budget based on the presence of customers in a certain geographic location and with a specific behavior.

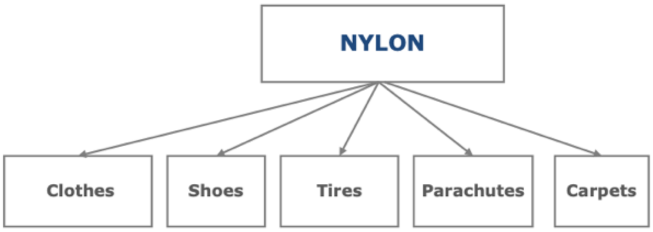
SEGMENTING BUSINESS MARKETS (B2B)

B2B CRITERIA

Sector of use, company dimension, company location, DMU's characteristics (*e.g.*: decision style or tolerance for risk)
Example: Gore-Tex: Ski and snowboard, Motorcycling, Mountain bike

Production districts can become a way to segment companies due to lower costs for logistics, higher salesforce and number of clients → higher effectiveness(e.g., Silicon Valley)

EXAMPLE OF B2B: SEGMENTATION OF NYLON MARKET BY SECTOR OF USE



These types of companies have different needs and behavior, and so different kinds of production for the same product.

MARKET SEGMENTATION

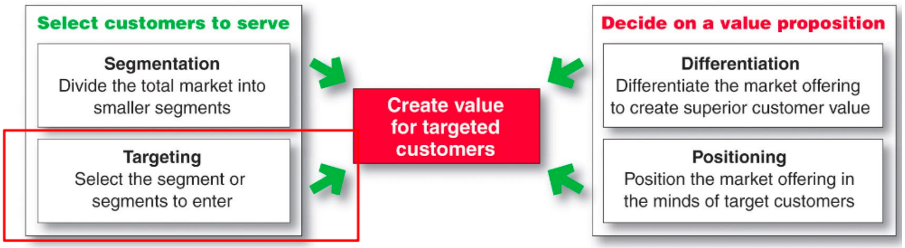
To be useful, market segments must be:

- **Measurable**: size, purchasing power, and profiles of the segments can be measured
- **Accessible**: The market segments can be effectively reached and served.
- **Substantial**: Large or profitable enough
- **Differentiable**: Conceptually distinguishable
- **Actionable**: Effective programs can be designed

A segment, to be effective, must be **internally homogenous** and **externally heterogeneous**: a group of customers must show internal commonalities, but in order to detect them, they should be different to other segments.

10: TARGETING-DIFFERENTIATION-POSITIONING

THE STRATEGIC APPROACH



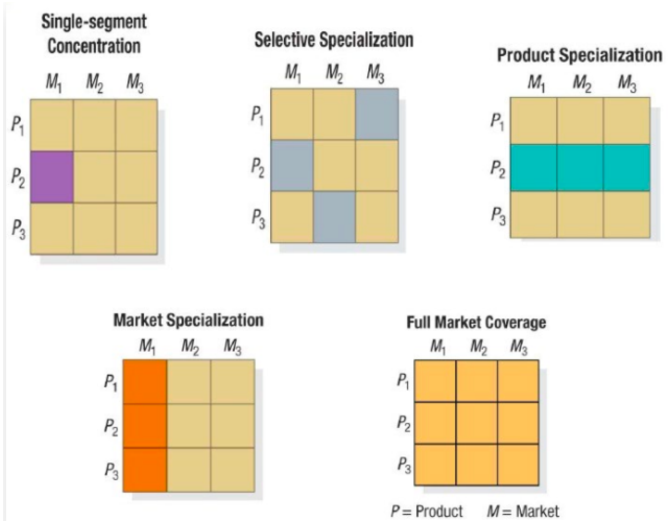
TARGETING

Targeting: process through which marketing managers identify one or more segments to serve.
Target groups: those market segments a company aims at serving.

A visual metaphor: Picking up the segments to serve.

TYPES OF TARGETING STRATEGIES

The number of targets a company serves and the way it serves it/them identify the specific marketing strategy of the company.



Ladurée: An example of company pursuing a niche targeting strategy: **<u>single-segment concentration</u>.**
This company is focused on one business and for high-end pastry consumers. Well-known world-wide for its macarons.

Coca Cola Company: example of company pursuing a product specialization targeting strategy: **<u>product specialization.</u>**
The Coca Cola Company is a specialist in the beverage market but serves different types of consumers.

Fiat: An example of company pursuing a selective specialization targeting strategy: **<u>selective specialization</u>**
FCA produces different types (but not all types) of cars for different types (but not all types) of customers (from end-consumers to industrial buyers).

Bulgari: An example of company pursuing a market specialization targeting strategy: **<u>market specialization</u>**
Bulgari targets high-spenders in the luxury industry but diversifies its businesses in jewels, fragrances, hotels, etc.

Alibaba, Amazon: examples of companies pursuing a full market targeting strategy: **<u>full market coverage</u>**
These companies sell virtually an endless list of different products to an endless list of different customers.

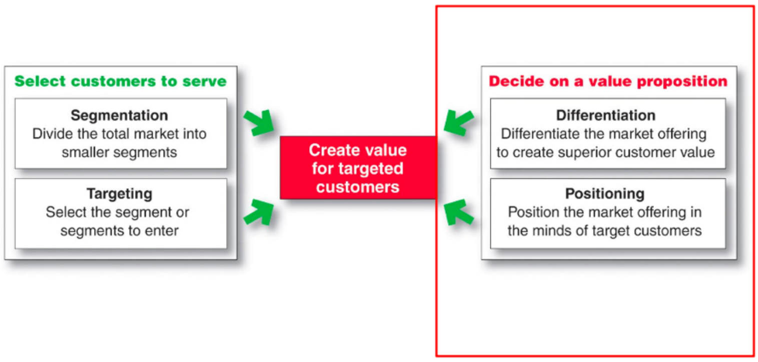
HOW TO SELECT TARGET GROUPS

The **selection of target groups** is also a function of the company's potential ability to compete successfully in these segments.

Current and potential company strengths in serving the market	Market segment attractiveness →	Unattractive	Average	Attractive
	Weak	Strongly avoid	Avoid	Possibilities
	Average	Avoid	Possibilities	Secondary targets
	Strong	Possibilities	Secondary targets	Prime targets

Example: In the early 2000's, McDonald's was interested in extending its market to a new, economically interesting target, that of young adults. Yet, McDonald's competitive assets did not match effectively the critical competitive drivers of this segment. It is then that McDonald's developed a new situation of consumption… McCafé.

THE STRATEGIC APPROACH



DIFFERENTIATION

Choosing a Differentiation Strategy: Identifying a set of **possible competitive advantages** (superior differences) to build a position by providing **superior value** from:

- Product differentiation
- Service differentiation
- Channel differentiation
- People differentiation (e.g., customer-contact people)
- Brand image differentiation

Examples of commodities → differentiated products:

salt was a commodity, while nowadays it has become a differentiated product (*Italkali*, including several brands producing salt)

Water was also a commodity, but now there are several companies bottling water, that could be specific for children, special diets...

Decision making processes are influenced by economic, health risks perceived by customers.

If customers do not recognize differences, companies do not reach their goal and are not able to position themselves in the market.

Analysis of perceptions in the market: what is perceived by customers, objective or not, does not always correspond to reality → customers' perceptions count more than companies' perceptions as consumers are the ones who buy products

***Example:* Coca-Cola**

The product has become differentiated both in the product (Coke Light, Coke Zero...) and in bottling (glass bottle, cans, PET)

Cannibalization effect: the release of Zero Coke killed the market of Light Coke. Originally, Zero was designed for men, and Light for women (more sophisticated design). Sales of Zero Coke are going up, while sales of Light Coke are going down. → **importance of effective differentiation**

DIFFERENTIATION: CHOOSING THE RIGHT COMPETITIVE ADVANTAGE

A difference to promote must be: **important, distinctive, superior, communicable, preemptive, affordable, profitable.**

Affordable does not mean cheap or expensive, but within the purchasing power of customers.

Having the right people working within a company, that are able to address customers' needs, can really differentiate a company

POSITIONING

Positioning: the act of designing a company's offering and image to occupy a **distinctive place in consumers' minds** relatively to competing offerings.

We want to make sure that, in a specific segment of the market, these individuals understand and appreciate differences and recall this comprehension when they buy products. These differences must occupy consumers' minds.

Positioning is always perceived in the minds of consumers, in users in production line within a company, and this makes the difference.

Companies' goal: what is perceived has to corresponds to what the company wants to be.

Repositioning: closing the gap between what is perceived by customers and what the company really wants to be in consumers' minds.

Examples:

Lush cosmetics prompt an upfront, distinctive positioning:
1. Fresh: products have expiration date; some products need to be put in the fridge
2. Handmade
3. Natural
4. Fun: smell, bubbles, having fun while buying product
5. British craziness: additional element that supports further the positioning

→ target: young customers

Kiehl's cosmetics prompt a distinctive positioning:
1. Pharmaceutical: more rational area, not fun
2. Natural
3. NYC (red bricks)
4. Close to the biker community
5. New Yorker coolness

The brand is stronger in the US than in Europe
Rational, scientific, pharmaceutical drivers chosen by Kiehl's, neither fun nor emotional

HOW TO POSITION

1. <u>Identify the company's competitive context/group.</u>

First, managers have to understand what their **key competitors** are. This may be done via:

a. the **category membership** (competitors are then companies belonging to the same industry/strategic group) and/or
b. the **market served** (competitors are then companies that satisfy the same customer need)

Example: What are the key competitors for Ritz's crackers?
Category membership: Baking products (bread, crackers…)
Market served: Snacks at large (in supermarkets, they are placed near snacks, not bread → company's specific choice)

2. <u>Identify the company's PoPs and PoDs.</u>

Second, managers have to grant that:

- their offering meets the ***category's*** **points-of-parity** (attributes or benefits that consumers view as ***essential*** to a legitimate and credible offering within a certain product or service category; it is something that should be associated and intrinsic to the product)
- their offering has specific **points-of-difference** (attributes and benefits on which company's offering builds its ***uniqueness***, to differentiate)

Example: What are the key PoPs and PoDs Nutella faces?
PoPs: Rich in chocolate and nuts, Creamy, Tasty
PoDs: The category builder (heritage). Mom's lovely pampering. Communication is based on these points of difference.

OBJECTIVE OF POSITIONING STRATEGY:

Use main relevant and **differentiating characteristics** of products/services and make them **memorable** in **consumers' mind.**
Being positioned means being perceived as something unique and memorable, and have a specific place in consumers' minds.

PoDs AS BASES FOR POSITIONING

Some examples:

- **Product attributes:** *Natuzzi* differentiates for the use of genuine leather in the production of its sofas
- **Benefits for the customer**
- **Comparison with a product:** *L'Oréal, 7up* builds differentiation comparing itself with Coca-Cola, using the strengths of the leader, being a weaker brand
- **Comparison with competitors:** *Liseberg* (Swedish amusement park)*, Costa Coffee* compares itself (ironically) with Starbucks
- **Values:** *Patagonia* ("Don't buy this jacket" campaign) differentiates for its environmentalism and unique communication
- **Categories of users:** *Multicentrum*

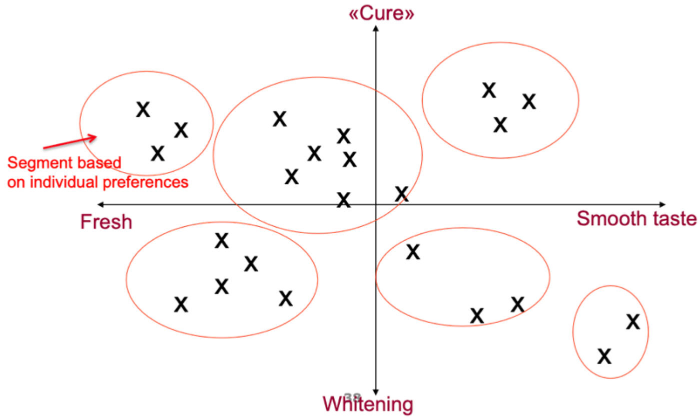
EXECUTING THE POSITIONING

Marketers typically focus on brand benefits when choosing the points-of-parity and points-of- difference that make up their brand positioning.
For choosing specific benefits as PoPs and PoDs to position a brand, perceptual maps may be useful.

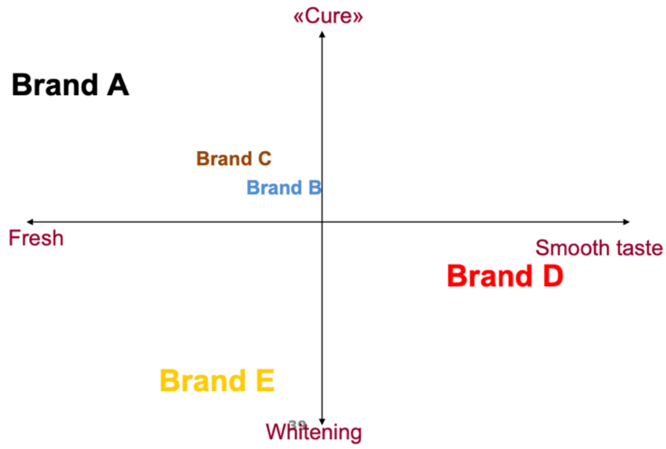
<u>Perceptual mapping</u> is a way of displaying or graphing, in two or more dimensions, the **location** of products, brands, or groups of products **in customers' minds.**

- **Map of preferences:** around the main dimension of the market, we have to know and understand what is the position of the ideal preference or product that customers are looking for.
- **Map of perceptions**

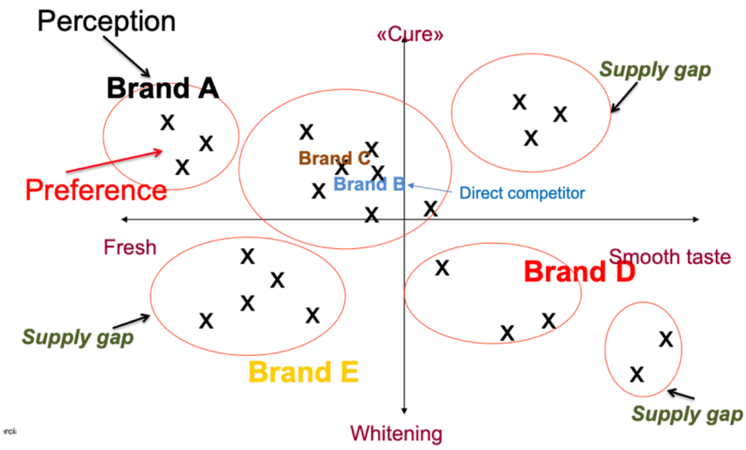
MAP OF PREFERENCES. TOOTHPASTE
(position of ideal, desired products/brands-all clients)



MAP OF PERCEPTIONS



USING BOTH MAPS



Brand D: too much in smooth taste, and customers are not really interested in it. Decide to consider to go toward whitening sector.
Should I do something to match the preferences that are not completely satisfied by my products?

REPOSITIONING

<u>Repositioning:</u> Changing consumers' perceptions of a brand in relation to competing brands.
Usually, products/brands/services are repositioned to **sustain growth in slow markets** or to **correct positioning mistakes**

11: BRANDING

MARKETING STRATEGY: MARKETING MANAGEMENT

PRODUCT

PRODUCT

<u>Product</u>: anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need

<u>Service</u>: a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in a customer's the ownership of anything

Products are a **key element** in the overall market offering

The **market offer** may consist of:

- A pure tangible product
- A pure service
- Both

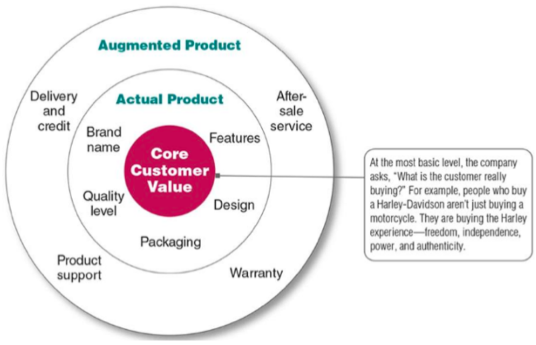
<u>Customer experiences</u>: market offerings with a strong sensory or emotional component that play out over time

LEVELS OF PRODUCTS AND SERVICES

Core customer value: addresses the question: What is the buyer really buying? The core, problem-solving benefits, services, or experiences that consumers seek.

Actual Product: product and service features, a design, a quality level, a brand name, and packaging

Augmented Product: additional consumer services and benefits



PRODUCTS AND SERVICES CLASSIFICATION

- Consumer Products
- Industrial Products
- Other:
  - Organizations
  - Persons
  - Places
  - Ideas

CONSUMER PRODUCTS

<u>Consumer products:</u> Products and services bought by final consumers for personal consumption

- Convenience
- Shopping
- Specialty
- Unsought

TYPES OF CONSUMER PRODUCTS

Marketing considerations	Convenience	Shopping	Specialty	Unsought

Customer buying behavior	Frequent Purchase; little planning, little comparison or shopping effort; low customers involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or. If aware, little or even negative interest)
Price	Low price	Higher price	Highest price	Varies
Distribution	Widespread distribution convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producers and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex Watches or fine crystal	Life insurance and Red Cross blood donations

INDUSTRIAL PRODUCTS

Industrial products: Products purchased for further processing or for use in conducting a business

- Materials & Parts
- Supplies & Services
- Capital Items

OTHER PRODUCTS

Organizations: *Greenpeace*
Persons: *Lebron*
Places: *YESMilano*
Ideas: *Black Lives Matter*

PRODUCT AND SERVICE DECISIONS

- Individual Product and Service Decisions
- Product Line Decisions
- Product Mix Decisions

INDIVIDUAL PRODUCT AND SERVICE DECISIONS

Product attributes →	Branding →	Packaging →	Labeling and logos →	Product support services
• Quality • Features • Style • Design	• Identify • Differentiate • Add value • Attach meanings • Develop relationships	• Hold and protect • Attract • Communicate • Create recognition • Help close sale	• Identify • Describe • Promote	• Keep customers happy after the sale

BRANDING

Brand: a name, term, sign, symbol, or design or a combination of these that identifies the maker or seller of a product or service

Brands are **powerful assets** that must be carefully developed and managed
Brands represent **consumers' perceptions and feelings about a product and its performance** - everything that the product or the service means to consumers

BRANDING BENEFITS

Consumer benefits	**Company benefits**
• Additional value	• Differentiation/segmentation

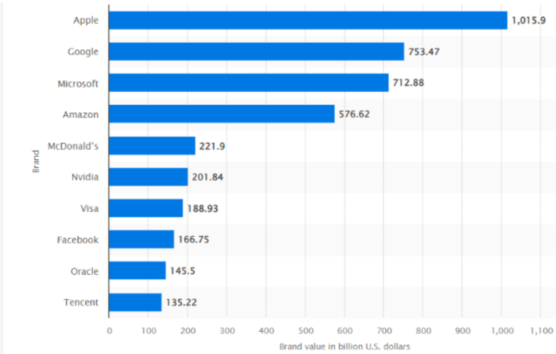
• Help to identify/differentiate products • Provide information/reduce risks • Market of quality and consistency • Symbolic consumption/social recognition • Creates familiarity and relationship with company	• Price can be high enough • Economies of scale/market development • Favorable shelf display • Increase bargaining power • Legal protection for unique features • Makes an asset difficult to imitate • Help increasing loyalty

MEASUREMENT OF BRAND STRENGHT

Brand equity: the differential effect that knowing the brand name has on a customer's emotions, attitudes, and behaviors related to the product and its marketing
Brand value: the total financial value of a brand
Customer equity: the value of customer relationships that the brand creates

MOST VALUABLE BRANDS

Leading brands worldwide in 2024, by brand value (in billion U.S. dollars)



MAJOR BRAND STRATEGY DECISIONS

Brand positioning	→	**Brand name selection**	→	**Brand sponsorship**	→	**Brand development**
Attibutes Benefits Beliefs and values		Selection Protection		Manufacturer's brand Private brand Licensing Co-branding		Brand extensions Multibrands New brands

Brands are **powerful assets** that must be carefully developed and managed. Building strong brands involves many challenging decisions.

BRAND NAME SELECTION

- Suggest something about the product's benefits and qualities (ex. *Airbnb*)
- Easy to pronounce, recognize, and remember (ex. *Zoom*, *Tide*)
- Be **distinctive** (ex. *Zappos, Beats by Dre*)
- But also be **extendable** (ex. *Amazon.com*)
- Should **translate** easily into foreign languages (ex. *Mercedes-Benz* entered the Chinese market under the brand name "*Bensi*," which means "rush to die")
- Should be capable of registration and legal protection

In some cases: **Brand name = category name** (e.g. *Aspirina, Band-Aid*)

BRAND SPONSORSHIP: BATTLE OF THE BRANDS

Manufacturers Brands	Private Brands
• Also called national brands • Created/owned by producers • Develop demand across many markets	• Also called private labels or store brands • Created/owned by middlemen/retailer • Create higher margin for retailers

BRAND SPONSORSHIP: LICENSING

Licensing: Using (licensing) names or symbols previously created by other manufacturers, names of well-known celebrities, or characters from popular movies and books

Benefits:

- Additional stream of income for licensor
- Instant and proven brand name for licensee

BRAND SPONSORSHIP: CO-BRANDING

Co-branding occurs when two established brand names of different companies are used on the same product

Benefits:

- can take advantage of the complementary strengths of two brands
- allows a company to expand its existing brand into a category it might otherwise have difficulty entering alone

BRAND ARCHITECTURE

Brand Architecture: collection of brands that fall under a larger, overarching 'brand umbrella' set by a company or conglomerate (master brand)

Could be structured by level:

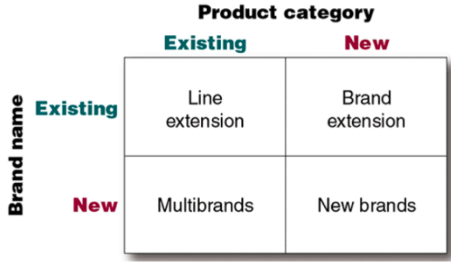
- Company
- Brand
- Product
- Category of product

TYPES OF BRAND ARCHITECTURE

- House of Brands: *P&G* → *Swiffer, Puffs / Vicks / Duracell, Braun / Boss, Lacoste*
- Endorsed Brands: *Kellogg's* → *Rice Krispies, Frosted Flakes, Coco Pops, Crunchy Nut*
- Sub Brands: *Virgin* → *Virgin wines, Virgin Atlantic, Virgin Mobile, Virgin Money*
- Branded House: *Samsung* → *Samsung Life Insurance, Samsung Heavy industries, Samsung Electronics...*
- Hybrid Brand: *Marriott Bonvoy* → *The Ritz – Carlton, Sheraton...*

BCG MATRIX

BRAND DEVELOPMENT



12: PRICING

After having identified the target, positioning, and segment where to place the product in the market, we think about the 4Ps

PRICE DEFINITION

PRICE

The narrow definition: Price: amount of money charged for a product or a service.
The broad definition: Price: sum of all the values that customers give up to gain the benefits of having or using a product or service.

Pricing is one of the most important elements that **determine a firm's market share and profitability** and one of the most flexible marketing mix elements.
Actually, today price is not the most important factor for customers when purchasing, as these also care about quality, branding of products.
Lately, setting up prices has become always more difficult for producers/retailers with the spread of Internet, due to higher transparency of prices and to the possibility compare prices from different websites.

MAJOR PRICING STRATEGIES

- **Customer Value-based**
- **Cost-based**
- **Competitor-based**

Product cost: how much it costs to produce a product
Competition and other external factors: Social and political threads, companies' strategies, not profitable but strategic product (do not generate revenues)
Consumer perceptions of value: it depends on many factors (e.g. Zara T-shirt vs Louis Vuitton T-Shirt)

CONSUMER VALUE-BASED PRICING

Uses buyers' perceptions of value as the key to pricing (how much customers are willing to pay for a product)
The company first assesses **customer needs and value perceptions** and then sets its **target price** based on customer perceptions of value

Focuses both on **creating market offerings that deliver appreciable value to customers** and on **pricing that captures that value in return in order to drive profits**

But hard to measure the value customers attach to their products (functional, emotional, social values: functional value can be easily measured, but not the other two)

Good value pricing: offering the right combination of **quality** and **good service** at a **fair price**

- introducing less-expensive versions of established brand name products or new lower-price line

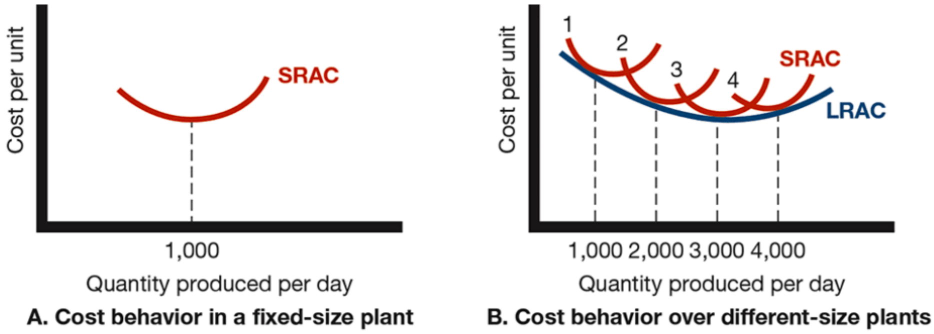
- redesigning existing brands to offer more quality for a given price or the same quality for less (e.g. *Armani* vs *Armani Exchange*)

Value added pricing: rather than cutting prices to match competitors, they add quality, services, and value-added features to **differentiate** their offers and thus **support their higher prices** (e.g. being more sustainable)

TYPES OF COSTS

Fixed costs: costs that do not vary with production or sales level (ex. rent, heat, interest on loans, and executive salaries)
Variable costs: vary directly with the level of production(ex. Materials, inputs)
Total costs: the sum of the fixed and variable costs for any given level of production

COSTS DIFFER WITH DIFFERENT PRODUCTION LEVELS

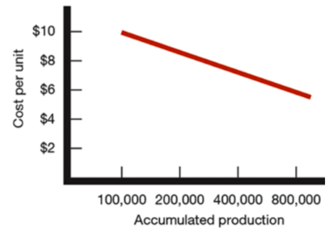


SRAC (Short-run Average Cost) LRAC (Long-run Average Cost)

EXPERIENCE CURVE

With higher volume, company becomes more efficient and gains **economies of scale**. As a result, the average cost tends to decrease with accumulated production experience.

Experience curve (or the learning curve or economies of scale): drop in the average cost with accumulated production experience.



COST-BASED PRICING

Cost-plus (markup) pricing: adding a standard markup to the cost of the product

- Beneficial to sellers who are more certain about costs than about demand
- When all firms in the industry use this pricing method, prices tend to be similar, so price competition is minimized
- Many people feel that is fairer to both buyers and sellers (has place especially in B2B transactions)
- Ignores demand and competitor prices
- When a company uses cost-plus pricing, it is implicitly acknowledging it is seeking only a "sufficient" level of profits. Instead, the company should be aiming to maximize profits by delivering great value to customers

EXERCISE

Company Fixed Costs = $300,000
Variable cost per unit = $10
Desired Markup price = 20% markup on sales

$$\boldsymbol{Markup\ price = \frac{unit\ cost}{(1 - desired\ return\ on\ sale)}}$$

Scenario 1: Production = 10,000 units
Total cost: $300,000 + ($10*10,000) = **$400,000**
Average Cost per unit: $10 + ($300,000/10,000) = **$40**
Markup price: $40/(1 – 0.2) = **$50**

Scenario 1: Production = 15,000 units
Total cost: $300,000 + ($10*15,000) = **$450,000**
Average Cost per unit: $10 + ($300,000/15,000) = **$30**
Markup price: $30/(1 – 0.2) = **$37.5**

COST-BASED PRICING: BREAK-EVEN PRICING

Break-even ("target return") pricing: a price at which the firm will break even or make the target return on the costs of making and marketing a product

Break-even: total costs = total revenue

$$\boldsymbol{Break-even\ volume = \frac{fixed\ costs}{(price - variable\ costs)}}$$

The manufacturer should consider different prices and estimate break-even volumes, probable demand, and profits for each.

EXERCISE

Company Fixed Costs = $300,000
Variable cost per unit = $10

$$Break-even\ volume = \frac{fixed\ costs}{(price - variable\ costs)}$$

<u>**Scenario 1**: Price = $20</u>
Break-even volume: $300,000/($20-$10) = **$30,000**

<u>**Scenario 1**: Price = $20</u>
Investment costs = $200,000
Break-even volume: ($300,000+$200,000)/($20-$10) = **$50,000**

COMPETITION-BASED PRICING

<u>Competition-based pricing</u>: setting prices based on competitors' strategies, costs, prices, and market offerings

In judging the value delivered by a company's product-price combination, consumers will often be influenced by the prices that competitors charge for similar products.
The goal is not to match competitors' prices (competitors' price is simply a benchmark) but to **set prices according to relative value.**

OTHER CONSIDERATIONS AFFECTING PRICE DECISIONS

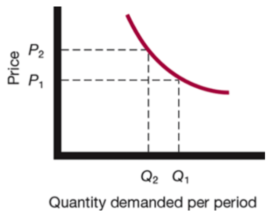
- Overall Marketing Strategy, Objectives, and Mix
- Organizational Considerations (listed companies usually want to impress shareholders)
- The Market and Demand
- The Economy
- Other External Factors

THE MARKET AND DEMAND

The seller's pricing freedom varies with <u>different types of markets</u>

- **pure competition**: the market consists of many buyers and sellers trading in a uniform commodity. <u>Undifferentiated</u> market, where products are perceived more or less as the same, thus customers put priority on price
- **monopolistic competition**: the market consists of many buyers and sellers trading over a range of prices rather than a single market price. <u>Differentiated</u> market, with sellers providing different types of products
- **oligopolistic competition**: the market consists of only a few large sellers. It depends on the industry (e.g. due to high entry barriers: telecommunication, energy).
- **pure monopoly**: the market is dominated by one seller. Governments usually play a great influence on these industries and consequently on prices.

<u>Demand curve</u> - shows the number of units the market will buy in a given period at different prices



<u>Price elasticity</u>: how responsive demand will be to a change in price

- **Inelastic demand**: Demand hardly changes with price change
- **Elastic demand**: Demand greatly changes with price change

NEW PRODUCT PRICING STRATEGIES

New Product Pricing Strategies:

- Market-Skimming (e.g. *Apple*)
- Market Penetration (e.g. *Prime Video*)

MARKET-SKIMMING PRICING STRATEGY

Setting high initial prices to skim revenues layer by layer from the market.

Begin by charging high prices for customers who are willing to pay. Then, over time, lower prices to attract customers who are willing to pay less.

<u>Considerations:</u>

- **product's quality and image must support its higher price**, and enough buyers must want the product at that price
- the **product** should be well **differentiated**

- the **brand** must be sufficiently **strong** that more price-conscious customers will wait for acceptable lower prices rather than buying competing products
- the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more

MARKET-PENETRATION PRICING STRATEGY

Setting a low initial price to penetrate the market quickly and deeply, to rapidly win a large market share.
Use penetration pricing to win customers initially and then turn them into loyal and profitable long-term customers.

Considerations:

- the **market** must be **highly price sensitive** so that a low price produces more market growth
- production and distribution costs must decrease as sales volume increases (**economies of scale**)
- the low price must help keep out the competition, and the penetration price must maintain its **low-price position**
- the market share gained through penetration pricing must support more profitable revenue streams in the long run. Otherwise, the penetration pricing can quickly run out of steam.

PRODUCT MIX PRICING STRATEGIES

The firm looks for a set of prices that maximizes its profits on the total product mix – **Product Mix Pricing Strategies:**

- Product line pricing (e.g. *laptops*)
- Optional-product pricing (e.g. *cars and their accessories*)
- Captive-product pricing (e.g. *ink for printers*)
- By-product pricing (e.g. *chicken feet* – animal waste)
- Product-bundle pricing (e.g. *cameras*)

PRODUCT LINE PRICING

Setting the price steps to between the various products in a product line

- The price steps should take into account cost differences between products in the line
- The price steps should account for differences in customer perceptions of the value of different features.

OPTIONAL-PRODUCT PRICING

The pricing of optional or accessory products along with a main product
Companies must decide which items to include in the base price and which to offer as options.

CAPTIVE-PRODUCT PRICING

Setting a price for products that must be used along with a main product
Producers of the main products (e-readers, printers, single-cup coffee brewing systems, and video-game consoles) often price them low and set high markups on supplies and supplemental products.

BY-PRODUCT PRICING

Setting a **price for by-products** to help offset the costs of disposing of them and help make the price of the main product more competitive.

PRODUCT-BUNDLE PRICING

Combining several products and offering the bundle at a reduced price

- Price bundling can promote the sales of products consumers might not otherwise buy, but <u>the combined price must be low enough to get them to buy the bundle</u>
- There should be few or no additional costs associated with bundling
- Allowing customers the flexibility to purchase the component products either separately or in the bundle (called mixed bundling) almost always leads to higher profits than offering products only separately or only in a bundle

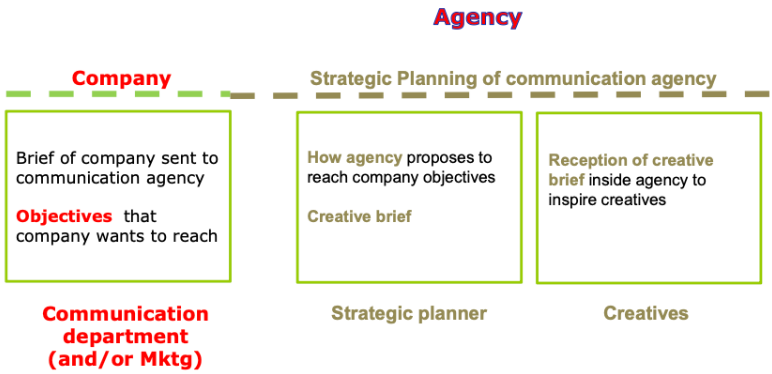
PRICE ADJUSTMENT STRATEGIES

Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as volume purchases, paying early, or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effects (it happens when people have little knowledge about a product, e.g. wines, or in case of anchoring)
Promotional pricing	Temporarily reducing prices to spur short-run sales (e.g., Black Friday)
Geographical pricing	Adjusting prices to account for geographic location of customers (delivery costs)
Dynamic and personalized pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situation (according on previous purchases of customers)
International pricing	Adjusting prices for international markets (depending on salaries, costs...)

14: MARKETING COMMUNICATION

WHAT IS MARKETING COMMUNICATION?

Communication **above** the line: **one-to-many:** advertising (visible to as many consumers as possible)
Communication **below** the line: **one-to-one:** events, telemarketing
In the past, communication agencies invested mainly in advertising, considered the principal tool for marketing communication
Nowadays, communication below the line is preferred by companies, due to less costs, more capabilities to measure and develop one to one conversations.



Company very often refer to agencies not only for the strategic part of marketing, but especially for the creative one. Brief is sent to one or more communication agencies, typically to strategists, who are able to translate company objectives to a creative brief.
Not an easy relationship.

<u>3 steps to build a relationship between the agency and the company:</u>

1. **Strategic Department**. Focus on strategic thinking. Competitive scenario analysis. Data analysis and research of insight.
   - *Professionals*: Brand Planners, Social Media Strategists, Data Analysts, Data Scientists.
2. All **creatives** focus on the campaign idea (advertising campaigns, physical experiences, digital, new services, new products...)
   - *Professionals*: Art Directors, Copywriters, Graphic Designers, Content Creators, Social Media Managers, creative directors, creative technologists and producers.
3. **Client Service Department:** Management of relationship with clients and agency. Relationship of P&L (together with financial department)
   - *Professionals*: Accounts, client service directors and project managers.

COMMUNICATION IS...

An inevitable activity: not communicating still communicates. **Everything communicates**: physical structure, people, formalized and non-formalized messages. (A company can decide not to communicate, and the absence of communication is a company strategy)
It is a valuable activity when it is

- **Coherent** in communicating the position of the company; otherwise, customers do not understand the company
- **Finalized**
- **Managed**

It is an **opportunity**, not an obligation

<u>4 areas of Communication:</u>

- **Institutional**: values, no products or results
- **Internal**: HR
- **Marketing**
- **Economic-financial**: to stakeholders

<u>Institutional Communication</u>: aimed at **promoting** (or protecting) **the image of the company**, and in particular at legitimizing its work. It allows for the consolidation of relationships with a number of stakeholders and for the **achievement of corporate objectives**: economic, institutional and political subjects, media, local communities, etc.

<u>Economic and financial Communication</u>: aims at **finding financial resources** and making clear the allocation of company resources. Therefore, it speaks to shareholders, investors (investor relations), the labour market, the credit market etc.

<u>Internal Communication</u>: the sharing of information and ideas between the **management** of an organization and **employees** and vice versa. Its main objective is to make sure that employees understand the company's mission and business goals and that everyone is aligned with the company's values.

<u>Marketing Communication</u>: aims at promoting the **company's offering system** and at creating and maintaining **its positioning and positive image** in the medium-long term, with the ultimate aim of facilitating the development of loyalty relationships to the brand or to the 'teaches. Marketing communication can be addressed to both the final and intermediate demand.

MARKETING COMMUNICATION

<u>Communication mix:</u>

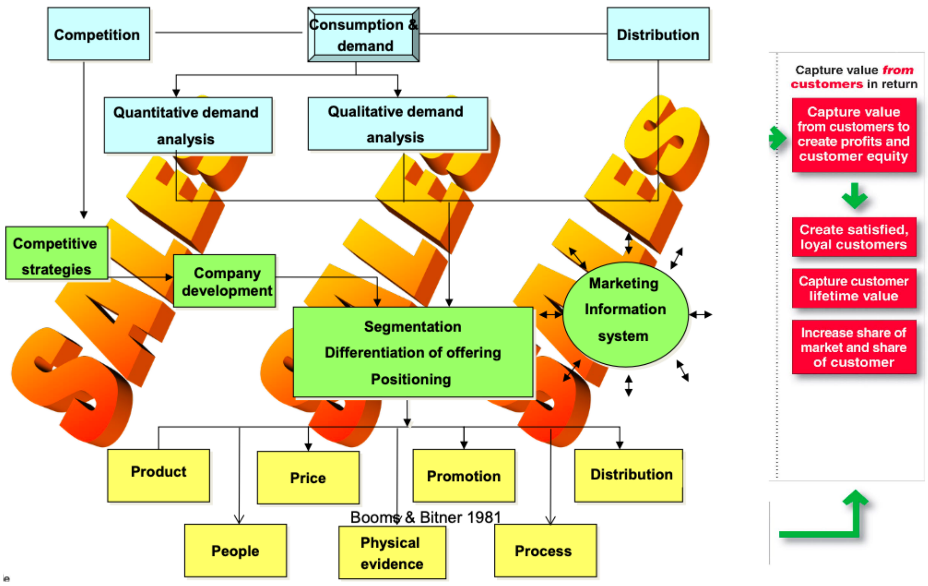
- ADV
- Events/ exhibitions
- Direct Marketing
- PR
- Sponsorships
- Merchandising
- Visual Merchandising
- Sales promotions
- Internet

→

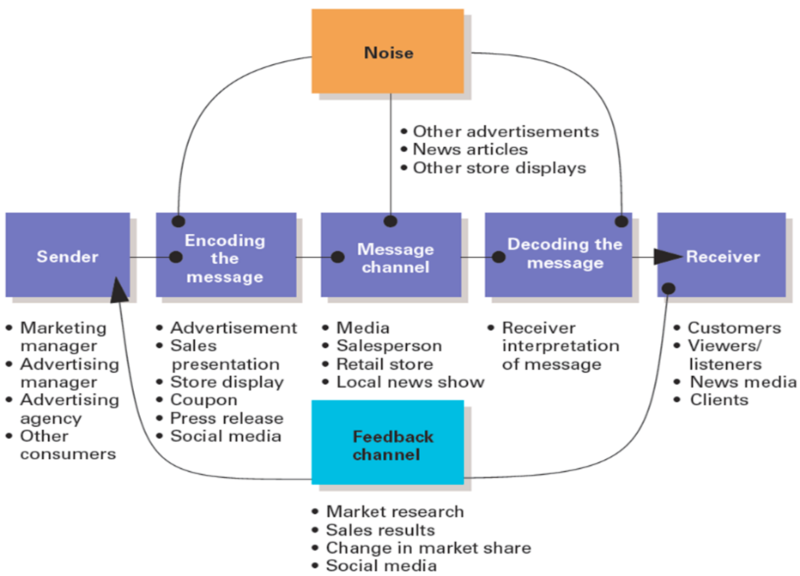
<u>Marketing Mix:</u>

Product
Price
Place
Promotion

THE STARTING POINT: MARKETING

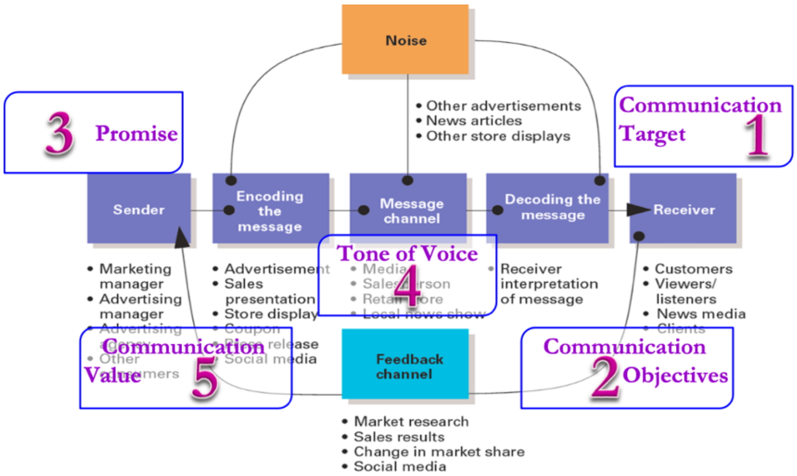


MARKETING COMMUNICATION PROCESS



Nowadays, communication pushes from the final market, and then, based on this information, the company puts together the right messages for customers.

The sender encodes the messages and selects some specific channels, and through this media the receiver will understand what the company (sender) is trying to say. However, it always happens that customers will not exactly understand the message.



COMMUNICATION PROCESS

1. COMMUNICATION TARGET

Who are we speaking with?

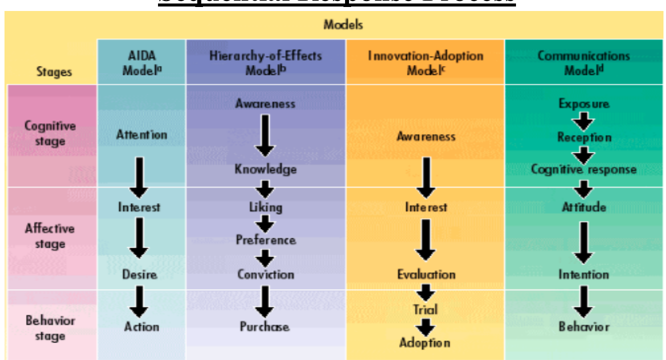
- Actual customers
- Potential customers
- Consumers vs shoppers
- Influencer

2. COMMUNICATION OBJECTIVES

Why are we speaking with them?

Defining the **objectives** of communication

Sequential Response Process



Consumers go through a sequential response, through phases. Communication is needed to understand which is the target.

COMMUNICATION OBJECTIVES

Info and facts: knowledge of attributes and benefits of products/service.

- **Awareness**
- **Knowledge**

Communication influences **perceptions and attitudes:** development of preferences (comparison with competition)

- **Liking**
- **Preference**

Communication stimulates **purchasing**

- **Conviction:** intention to buy
- **Purchase:** purchase

3. PROMISE

What are we saying? What is the most important thing we want consumers (target) to understand?

What does make the brand different or unique?

- (rational/emotional USP- unique selling proposition)
- The promise should be a single idea expressed in one sentence only (single-minded proposition)

What is the reason why or supporting evidence of the brand promise?
- Promise can be based on key product attributes/benefits, on a product category attribute, on a consumer insight, against competitors.
- *Example*: *Dove:* **Association to a product class**: a cosmetic not a body detergent. Their body detergent had to be considered as an hydrating product, skin softening, i.e., a cosmetic.

4. TONE OF VOICE

How should a company speak to its target?
- Reassuring, aggressive, suave, maternal, authoritative, seductive, youthful, ironic, auto ironic, provocative, euphoric, intriguing, involving, bossy, straightforward, …
- Both brand personality and attitude can help in defining the tone of voice
- Typically, each company has its specific tone of voice, anchored with its products

How should we speak to them? What about the level of creativity?

Message
- <u>What to say:</u> **content**: rational or emotional (more words vs. pure images, strong colors vs. serious colors)
- <u>How to say:</u> **execution style**: the way a communication is presented

Execution style: How to say (examples)
- Technical expertise / Scientific evidence: *Audi (e.g. provide safety), Nutrogena (e.g. recommended by dermatologists)*
- Comparison: (product performance)
- Testimonial evidence: *Richard Branson: testimonial for Virgin Radio*
- Imagery/Fantasy: *Coca cola*
- Musical: *Gap*
- Slice of life: *Barilla (2020), Barilla (1986), Tiffany (shows specific and unique moments of life in its advertisings)*

5. VALUE

Communication adds value by enriching a brand/product of a <u>meaning.</u> → Need of an **idea.**

<u>Communication needs to have an idea:</u>
- **Relevant for the client:** Meaningful, motivating
- **Pertinent:** Coherent with brand nature and linked to its mission
- **Different:** Capable of breaking convictions, offering a new perspective, a unique vision

<u>Building a relationship:</u> extremely important mantra in communication

INTEGRATED MARKETING COMMUNICATION

STEP 1: a good brief
- Definition of project
- Analysis of target and "Consumer insight"
- Copy strategy
- Analysis of competition (competitors)
- Description of product/brand
- Budget and constraints

STEP 2: know a communication mix

Some examples of communication tools:
- ADV
- Events/ exhibitions
- Direct Marketing
- PR
- Sponsorships
- Merchandising
- Visual Merchandising
- Sales promotions
- Internet

STEP 3: integrated marketing communication concept

Integrated marketing communications is about carefully **integrating** and **coordinating** the company's many communications tools (**contact points**) to deliver a **clear**, **consistent**, and compelling **message about the organization** and its brands.

E.g. activate at the same time advertising, events, social media..., all supporting a single objective: launching a new product

15: MARKETING COMMUNICATION II

THE COMMUNICATION MIX

BTL & ATL

Above-the-line: identifies all marketing communication activities that are **advertising**
Below-the-line: identifies all marketing communication activities **different from advertising**

ATL: ADVERTISING

Paid and nonpersonal communication
Most commonly distributed by traditional media, though increasingly through non-traditional media, such as Web sites, e-mail, blogs, and interactive video kiosks in malls and supermarkets.
It is a **one-to-many** type of communication, with less customized relationships with customers. (good for awareness campaigns)
It is the most expensive communication tool: big budgets are required to develop creativity and buy time slots on TV.

ADVERTISING MEDIA

Traditional Advertising Media
- Television
- Radio
- Newspapers
- Magazines
- Books
- Direct mail
- Billboards
- Transit cards

New Advertising Media
- Internet
- Banner ads
- Viral marketing
- Email
- Interactive videos

ADVERTISING MEDIA SELECTION

Determining Reach, Frequency, Impact, and Engagement
Reach: measure of the percentage of people in the target market who are exposed to the ad campaign during a given period of time
Frequency: measure of how many times the average person in the target market is exposed to the message
Impact: qualitative value of a message exposure through a given medium
Engagement: measure of things such as ratings, readership, listenership, and click-through rates.

ADVERTISING

Advantages:
- Reach large number of people
- Low cost per contact
- Can be micro-targeted

Disadvantages:
- Total cost is high
- National reach is expensive for small companies

Often advertising helps differentiating the product without stressing its characteristics
It uses **storytelling** to communicate the idea of being close to the client

BTL

Below-the-line: identifies all marketing communication activities different from advertising (above-the-line)
It is a **one-to-one**, customized relationship with customers

Some below-the-line **tools**:
- promotions
- events
- PR
- sponsorship

IMPORTANCE OF BTL

- Communication budgets are shrinking
- Communication is too “crowded”
- Trade has more power
- Technology gave birth to new media
- New marketing approaches (experiential, guerrilla)

PUBLIC RELATIONS

Evaluates public attitudes, identifies areas within the organization that public may be interested in, and executes a program to earn public understanding.

<u>3 areas of application for PR:</u>
1. product placement
2. celebrity relation
3. publicity

1. PRODUCT PLACEMENT
1. Introduction of a product within a film
2. Generally, a paid activity

How to choose product placement?
- Coherence with film
- Coherence with the scene the product will appear in
- Coherence of testimonial with product values

2. CELEBRITY RELATION
Activities with **celebrities** in order to let them use specific products
These activities include **celebrity seeding** (for free) or **contracts** (paid)
Best for products whose consumption is easy to observe

Risks:
- Testimonial can overshadow product
- Testimonial reputation can change: Celebrities in consumers' mind become the identity, an association to the brand. It can thus affect the brand both in a positive and negative way.
- Instant celebrity effect (only in the short run): celebrities that will disappear, and with that also the brand identity

3. PUBLICITY
Any **non-payed** communication activity in the form of **a piece of news** about the company or its products
Critical aspect: **building the news** –interesting for journalists and for readers

Advantages of publicity:
- Credibility
- Value of news
- Word-of-mouth opportunity
- Cost advantages

Disadvantages of publicity:
- Hard to build news
- Hard to keep under control on communications' contents and timing
- Hard to keep under control a high frequency of the message (impossible to repeat news for a long period)

SALES PROMOTION
<u>Sales promotion:</u> short-term incentives to encourage purchases or sales of a product or service now.

Rapid growth of Sales Promotions:
- Product managers are under pressure to increase current sales
- Companies face more competition
- Competing brands offer less differentiation
- Advertising efficiency has declined due to rising costs and legal constraints
- Consumers have become more deal-oriented.

Main types of sales promotions:
- Consumer promotions
- Trade promotions
- Sales force promotions

CONSUMER PROMOTIONS
Objectives:
- Stimulate penetration within actual consumers or invite new consumers to trial

Techniques:
- Free samples, coupons and special packages
- Games, lotteries, points collections
- Trade shows, contests

TRADE PROMOTIONS
Objectives:
- Stimulate wholesalers or retailers to sell products or promote them more aggressively

Techniques:

- Price discounts, product discount
- End-of-year discounts on sold quantities
- Cooperative advertising
- Incentives

SALES FORCE PROMOTIONS

Objectives:

- Getting more sales force support for new or current products
- Getting salespeople to sign up new accounts.

17: NEW PRODUCT DEVELOPMENT

WHY DO NEW PRODUCTS FAIL?

NEW PRODUCT DEVELOPMENT STRATEGY

A firm can obtain new products in 2 ways:

- **Acquisition**: by buying a whole company, a patent, or a license to produce someone else's product
- **New product development**

New products: development of original products, product improvements, product modifications, new brands that the firm develops through its own product development efforts.

WHY DO NEW PRODUCTS FAIL?

New products have a **high failure rate**
The failure reasons:

- Overestimated market demand
- The wrong time
- Incorrect positioning
- Poor design
- Too high price
- Poorly advertisement
- Pushing a favorite idea despite marketing research findings
- Too high costs of product development

Examples:
New coke (Coca Cola):
In 1980s, Coca Cola launched a new product (new Coke) to renew the brand. It was positioned as a modern coke, with new types of sirup. According to market researches the product was perceived very well. However, several protests had place in US of people demanding for the classic Coca Cola.
Very strong loyalty of customers can drawback innovation of products.
Colgate: frozen food (beef lasagna)
Guinness: light beer

INNOVATION DEFINITION AND TYPES

PRODUCT INNOVATION AND FIRM COMPETENCES

Product innovation functions as a **tool for organizational learning** and thus **contributes to firm renewal**:

- **Exploitation**: learning activities-involving the use of resources the company already has (current resources)
- **Exploration**: learning activities that lead to the addition of new resources

Product innovation requires the firm to have **competences**: ability to accomplish something by using a set of material and immaterial resources.
First order competences:

- Technology related
- Consumer related competences

New products: results of various combinations of customer and technological competences of the firms

Technological Competence: ⇄ **New Product** ⇄ **Customer Competence:**

Technological Competence:
- Manufacturing plant and equipment
- Manufacturing know-how
- Engineering know-how
- Quality assurance tools

Customer Competence:
- Knowledge of customer needs and processes
- Distributions and sales channel
- Communication channel
- Company/Brand reputation

WHAT IS INNOVATION?

Incremental innovation: introduces relatively minor changes to the existing product, exploits the potential of the established design, and often reinforces the dominance of established firms. Nevertheless, it often calls for considerable skill and ingenuity and, over time, has very significant economic consequences.

Radical innovation: based on a different set of engineering and scientific principles and often opens up whole new markets and potential applications. Radical innovation often creates great difficulties for established firms and can be the basis for the successful entry of new firms or even the redefinition of an industry.

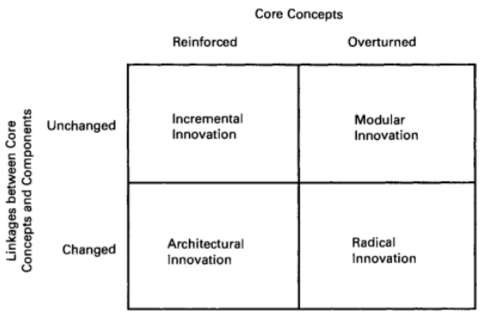
A FRAMEWORK FOR DEFINING INNOVATION

Incremental innovation: minor changes

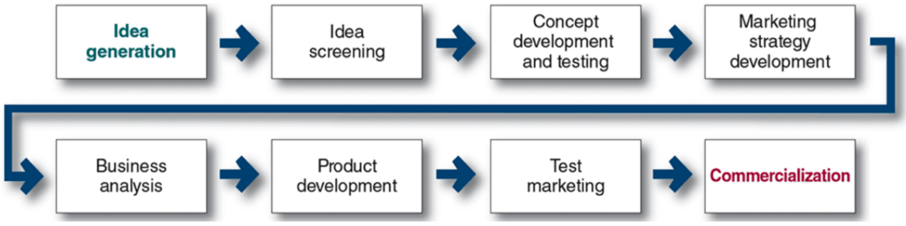
Architectural innovation: the reconfiguration of an established system to link together existing components in a new way.

Modular innovation: changes in a core design concept without changing the product's architecture. One of the concepts changes drastically.

Radical innovation: a new dominant design and a new set of core design concepts embodied in components that are linked together in a new architecture



MAIN STAGES IN PRODUCT DEVELOPMENT



STEP 1: IDEA GENERATION

<u>**Idea Generation**</u>: the systematic search for new product ideas

<u>**Sources for generating Ideas:**</u>

- **Internal** (R&D, other company departments)
- **External** sources (customers, competitors, distributors, suppliers, and others)
    - Companies must be aware of the external environment, understand customers' needs, which change constantly
- **Crowdsourcing**: inviting broad communities of people (customers, employees, independent scientists, the public) into new product innovation process

STEP 2: IDEA SCREENING

<u>**Idea Screening**</u>: spotting good ideas and dropping poor ones

Assessing feasibility and measuring costs and benefits of each idea

R-W-W ("real, win, worth doing") framework: new product screening framework that asks three questions:

- Is it **real**? Is there a real need and desire for the product, and will customers buy it? Is there a clear product concept?
- Can we **win**? Does the product offer a sustainable competitive advantage? Does the company have the resources to make such a product a success?
- Is it **worth** doing?

STEP 3: CONCEPT DEVELOPMENT AND TESTING

In step 3, an attractive idea needs to be developed into a product concept and go through the concept testing:

- **Product idea**: an idea for a possible product that the company can see itself offering to the market
- **Product concept**: a detailed version of the idea stated in terms that are meaningful to the consumer.
- **Product image**: the way consumers perceive an actual or potential product

Concept testing: testing new product concepts with target consumers

STEP 4: MARKETING STRATEGY DEVELOPMENT

The **marketing strategy statement** consists of three parts:

1. Describes the target market, the planned value proposition, the sales, market-share, and profit goals for the first few years
2. Outlines the product's planned price, distribution, and marketing budget for the first year
3. Describes the planned long-run sales, profit goals, and marketing mix strategy

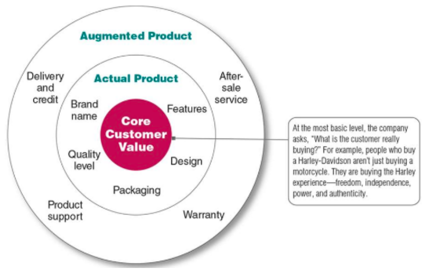
STEP 5: BUSINESS ANALYSIS

Business analysis involves a **review of the sales, costs, and profit projections for a new product** to find out whether they satisfy the company's objectives. If they do, the product can move to the product development stage.

STEP 6: PRODUCT DEVELOPMENT

R&D or engineering develops the product concept into a physical product or a detailed service blueprint

What is **actual product**? What is **augmented product**?



STEP 7: TEST MARKETING

Test Marketing: stage at which the product and its proposed marketing program are tested in realistic market settings. Helps refine and finalize the product and the marketing program before investing in a full launch.

STEP 5: BUSINESS ANALYSIS

Commercialization: introducing the new product into the market

Decisions to be made:

- **Timing**
- **Scope/place**

<u>**New life for failed products?**</u>

MANAGING PRODUCT LIFECYCLE

MANAGING NEW PRODUCT DEVELOPMENT

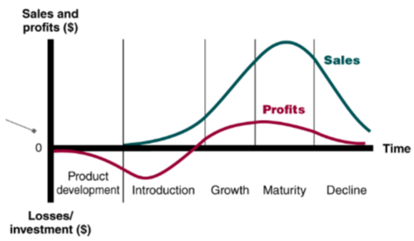
Customer-centered new product development focuses on finding new ways to solve customer problems and create more customer-satisfying experiences.

Team-based new product development: approach, where multiple company departments work closely together in cross-functional teams, overlapping the steps in the product development process to save time and increase effectiveness.

New product development process: should be holistic and systematic (a company can install an innovation management system to manage new product ideas).

PRODUCT LIFE CYCLE

Some products die quickly; others stay in the mature stage for a long, long time. For example, Crayola Crayons have been around for more than 115. However, to keep the brand young, the company has added a continuous stream of contemporary new products, such as Color Alive, which lets kids color cartoons, scan them, and then watch as an app animates them.



MANAGING PRODUCT LIFE CYCLE

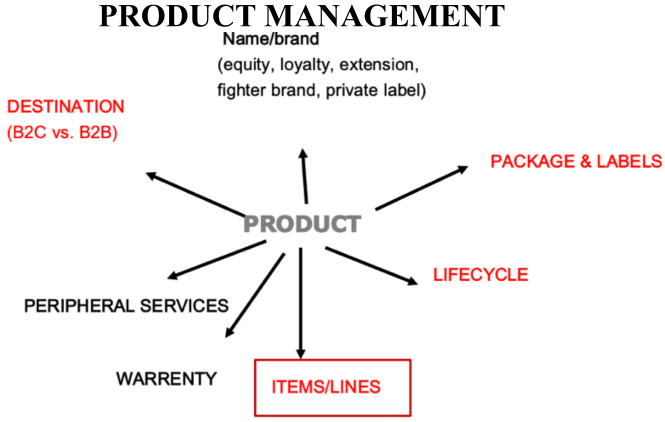
	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per consumer	Average cost per consumer	Low cost per consumer	Low cost per consumer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Mainstream adopters	Lagging adopters
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product engagement and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

STEP 8: MANAGING PRODUCT LIFE CYCLE

	Introduction	Growth	Maturity	Decline
Product	Offer a basic product	Offer product extensions, service, and warranty	Diversify brand and models	Phase out weak items
Price	Price based on value delivered	Price high enough to drive profits but low enough to penetrate market	Price to match or beat competitors; increase price based on innovation	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build interest in the mass market; focus on communicating delivered value	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

18: PRODUCT MANAGEMENT

PRODUCT MANAGEMENT



MANAGING PRODUCT LIFECYCLE

PRODUCT ITEMS, LINES, AND MIXES

<u>Product Item (or reference):</u> A **specific version** of a product that can be designated as a distinct offering.

<u>Product Line</u>: A **group of closely-related** product items.
They function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges

<u>Product Mix</u>: **All products (lines and items)** that an organization sells.

EXAMPLE: CAMPBELL'S PRODUCT LINES AND PRODUCT MIX

1. **Width of the product mix**: number of different product lines the company carries
2. **Length** (of line): number of references (items) for each product line
3. **Depth**: the number of versions offered of each item in the line
   (*example*: different versions of minestrone: light, with tomato...)

Keeping the three elements in balance is not an easy task, as each new item, or new version of it, implies costs in term of production, communication, advertising.
Generalist companies: large width, short length and depth
Specialist companies: small width, long length and depth
Companies invest a lot in understanding the mental association within a product, in order to determine the categories.
Example: Dove launched a body detergent, but identifiable in the product line of hydrating body lotions. Their objective was to create a line of creams that could be used under the shower.

PACKAGING

LABELING: FUNCTIONS OF LABEL

Labeling: Intersection of communication and product management
Labels, depending on different sectors, can have a different function:

- Companies in specific sectors must use labels that contain information mandatory by laws (allergies, contaminations)
- Labels can become a pure platform to communicate for not forced companies (e.g. wine producers)

NAME + LOGO + SLOGAN

- Easy to memorize and remember
- Meaningful
- Easy to transfer

- Adaptable
- Protectable

<u>Two main objectives:</u>

- **Persuasive**: Focuses on promotional theme, consumer info is secondary
- **Informational**: Helps make proper selections, lowers cognitive dissonance

PACKAGING

<u>Packaging</u> is sometimes called the 5th P and comprises **all the activities of designing and producing the container for a product.**

Packs can be strategic to support the positioning and help identify a company's offer at a glance → Brand Positioning

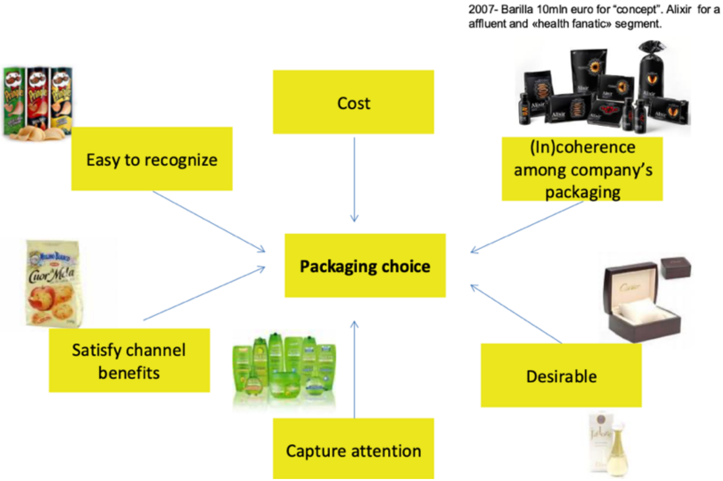
To some extent, the **servicescape** (the physical and sensorial environment in which services are also delivered) can be seen as a form of packaging for a service.

In the **service domain**, Google home page is an emblematic example of iconic 'packaging' for its services. Google was the first service company to change the landing page constantly in order to attract users.

FUNCTIONS OF PACKAGING

Contain and protect
Facilitate recycling (new trend)
Facilitate storage, use: how consumers can use the package at home
Promote: driver of communication

PACKAGING



PACKAGING PERFORMANCE AND COMMUNICATION

1. Packaging performance with reference to: <u>functionality and communicability</u>
2. Packaging communication:

- <u>Consistency</u> between functionality and communicability of packaging and brand/product communication elements
- Similarity/dissimilarity compared to same products in the industry (look at – possible - product line, competitors…)

3. Coherence of packaging with product/brand positioning

PACKAGING PERFORMANCE

functionality	**Protection**	Content integrity
	Preservation	Ability to preserve the content for a long time
	Display	Presentation ease and storage in the store
	Cheapness	Ability to reduce logistic and distribution costs (ease of transportation)
	Ease of use	Use comfort for consumers
communicability	**Visibility**	Ability to attract consumers' attention
	Recognition	Ability of the product to be noticed and recognized by the consumer
	Identification	Ability to recall association with product category/brand
	Informative	Ability to convey info on the product
	Positioning	Ability to influence positioning perception
	Emotional appeal	Ability to seduce the consumer

PACKAGING COMMUNICATION

Consistency of packaging components with communication elements

Elements: shape, dimension, materials, colors, fonts, illustrations/images, tactile sensation

20: CHANNEL DECISIONS

WHAT IS A CHANNEL?

GO-TO-MARKET STRATEGY: WHY AND WHEN THE DECISION OCCUR?

Serving a market means being able to reach it, having a product that goes from the company to the market → **distribution channels**.

In B2B activities, channels are not very relevant, as typically a company has the salesforce that supports its sales and is able to reach the market through other companies.

B2C companies, which are production companies that need to reach final consumers, have a more difficult task in selecting how many and the kind of distribution channels, that is, in deciding the **go-to-market strategy.**
The go-to-market strategy can be modified, reviewed, or redesigned after significant changes in the market. Sometimes the problem can be related only to a single product, thus there is no need to change completely the overall approach to the whole market but only support the specific product.

Why is the distribution strategy so important nowadays?
In the past, it was not so critical because power of intermediaries (those supporting companies in reaching the market) was not very significant, but these had more a logistic role.
Nowadays, retailers play an important role for companies, and, in addition, sometimes have also private brands.

ARE CHANNEL DECISIONS FINANCIALLY IMPORTANT FOR THE FIRM?

<u>**Example 1: USB firm**</u>

Specialty store price: USB key	10.00 €
Retailer gross margin	<u>5.00 €</u>
Price to retailer	5.00 €
Wholesaler gross margin (+/- 25%)	<u>1.25 €</u>
Selling price to wholesaler (revenue to manufacturer)	3.74 €

Consumers pay 62.5% for distribution costs.

<u>**Example 2: meat**</u>

Supermarket price: meat	4.70 €
Retailer gross margin (25%)	<u>0.935 €</u>
Price to retailer	3.74 €
Food broker commission (3% - **5%**)	
Revenue to manufacturer	3.56 €

More efficient, lower price, but **consumers pay 62.5% for distribution costs.**

<u>**Example 3: sunglasses**</u>

Sunglasses price at the store	120 €
Price to retailer	40 €
Cost of production	5/10 €
→ Revenue to manufacturer:	35/30 €
→ Revenue to retailer:	80 €

Consumers pay +/- 70% for distribution costs. All luxury products have a similar mechanism.
Is the distribution/channel adding value? Quantitative, not only qualitative, analysis

MARKETING CHANNEL

<u>**Channel**</u>: a set of interdependent organizations that eases the **transfer of ownership** as products move from producer to business user or consumer.
Without transfer of ownership within a channel there would be no profitable activity, no margin.
A channel is made of organizations that ensure that the product reaches the final consumers, and in particular that it is well proposed to the customers.

CHANNEL MEMBERS

<u>**Channel members:**</u> Members **negotiate** with one another (strategy, price), **buy and sell** products, and **facilitate the change of ownership** between buyer and seller in the course of moving the product **from the manufacturer into the hands of the final consumer.**

Members ensure that products are sold to final customers in the most efficient and effective way in terms of price and strategy.

MARKETING CHANNELS: WHY DO THEY EXIST?

Information: gathering and distributing marketing information about the marketing environment (customers & intelligence –loyalty cards, big data)
Promotion: developing and/or spreading communications
Contact: finding and communicating with potential buyers
Negotiation: Reaching an agreement (e.g. price agreement
Physical distribution: Transporting and storing goods
Financing: acquiring and using funds to cover the costs of the channel network (e.g. payment delay)
Risk taking: Assuming the risks of carrying out the channel work

MARKETING CHANNELS: WHY DO MANUFACTURES TRY TO AVOID THEM?

Some producers try to sell directly to final customers. Why?

- **Control**: when industrial companies sell products to another organization who gains ownership, the former lose control (e.g. price is set by retailers, not by producers).
- **Visibility:** capability to talk to the final market. If the production company is able to control the physical or online store, it can easily communicate to final costumers.
- **Profits:** the organization would absorb the profitability (e.g. distribution costs) → downward integration → direct approach to the final market through private labels
- **Branding:** defending the brand in terms of intangible assets, image, environment in the store.

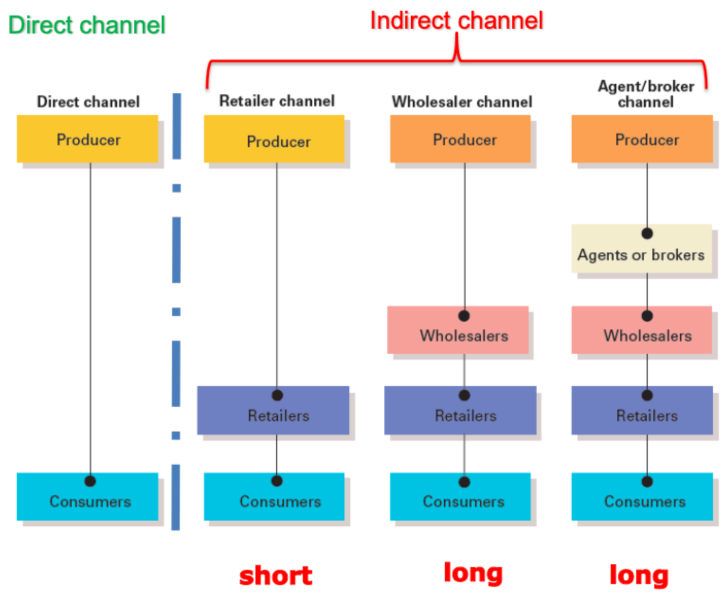
HOW TO DECIDE A CHANNEL STRUCTURE

CHANNEL STRUCTURES

Defining the go-to-market strategy:

- **vertical dimension:** N° of steps, N° of channels
- **horizontal dimension:** distribution intensity, distribution formats

VERTICAL DIMENSION: NUMBER OF STEPS



Every transfer of ownership corresponds in an additional step in the channel.

Wholesaler channel:
Sell-in: sale in from producers to wholesalers
Sell-out: sale out from wholesalers to retailers and from retailers to consumers (from producers' point of view)
Producers have an interest in ensuring that both sell-in and sell-out within the channel are smooth, in high volumes. Importance of cooperation between wholesalers and retailers.

Agent/broker channel:
Agents and brokers do not represent a step within the channel as they do not sell the product. but support the process of the product throughout the channel.
Each step represents margin.

DIRECT CHANNEL

Egea belongs to Bocconi, so it is a direct channel of Bocconi to sell books
Gucci operates its own stores → direct channel.
Gucci also operates through multi-brand stores, especially in smaller cities → indirect channel

INDIRECT-SHORT CHANNEL

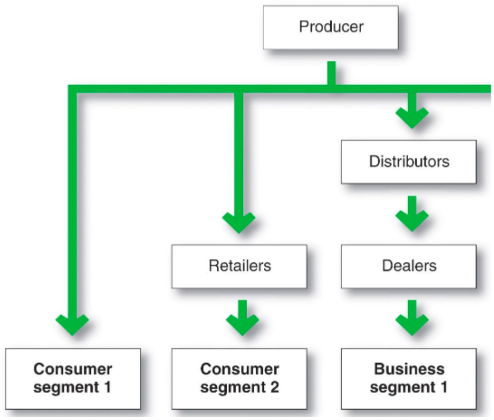
Barilla produces pasta and sells it to retailers like Coop, Esselunga who get the ownership and sell products to final customers.

INDIRECT-LONG CHANNEL

Sanofi Aventis → Unico → pharmacies → final consumers

VERTICAL DIMENSION: NUMBER OF CHANNELS

<u>Multiple channels</u>: Use of 2 or more channels to distribute the <u>same product</u>



Apple sells through direct channels: its website, retail stores / and indirect channels: premium resellers, and electronics stores (e.g. Mediaworld)

MANAGING MULTIPLE CHANNELS' ACTIVITIES

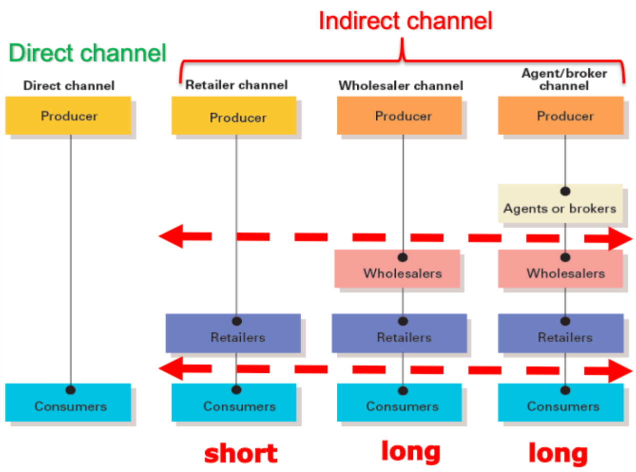
Having multiple channels can increase possibilities to sell more, but it fundamental to keep all of them under control, to reduce conflicts among them.
Managing multiple channels and multiple formats can determine phenomena of **free riding**.

CHANNEL CONFLICT

Channel conflict refers to disagreement among channel members over goals, roles, and rewards.

- **Vertical conflict**: conflict between different levels of the same channel
- **Horizontal conflict**: firms at the same level of the channel.

CHANNEL STRUCTURE: HORIZONTAL DIMENSION



Horizontal Dimension:

- Variety and type of **intermediaries** at the different levels
- Number, selection criteria and nature of the single intermediary

Channel members (though independent businesses) **are**, from the customers' perspective, **an extension of the supplier's organization.**

If the retailer does not make sure that the product or service is sold in the right way the producer is willing to, any mistake or disorganization is related to the distributor, not the retailer, from consumers' point of view.

HORIZONTAL DIMENSION: TYPES OF INTERMEDIARIES

Intermediaries = wholesalers - retailers

WHOLESALING

A wholesaler is "a business unit which buys and resells the merchandise to the retailers and the merchants or to the industrial, institutional and commercial users but **does not sell insignificant amounts to the ultimate consumers**."
"The wholesaler is one who **buys goods on a large scale** with the objective of selling them at a profit in smaller quantities. He buys from the producers that is the extractor or manufacturer and sells to the retailers, and is, therefore, the connecting link between these two".

American Marketing Association

All activities involved in **selling goods and services to those buying for resale or business use**.
They are able to understand the market by studying how the retail business is developing, in order to select what kind of goods they should look for, at what price, in which part of the world... they are becoming very sophisticated in positioning the company in the market.

They **add value** by performing one or more of the following channel functions:

- Buying and assortment building
- Break down 'bulk'
- Provide storage facilities
- Take some of the marketing responsibility (e.g. sales force, promotions)

DISTRIBUTION FORMAT

Retail: All the activities directly related to the sale of goods and services to the ultimate consumer for personal, non-business use.
Retailers are businesses whose sales come primarily from retailing

Retailers are the most important organization within a channel, being the closest organization to final customers.
They gather information about customers and thus know consumers' behavior → real power of retailers.
Understanding retailers' business is essential for industrial companies. Fundamental to develop partnership, privileged relationship with retailers.

Example: strategy: store loyalty vs brand loyalty.

21: RETAILING

WHAT IS RETAILING?

RETAIL

Retail: All the activities directly related to the sale of goods and services to the ultimate consumer for personal, non-business use.
Retailers are businesses whose sales come primarily from retailing.

Retailers can have different formats.
A format is a reference «model» encoding all the elements of customization (of a retailer, of a point of sale), is a specific type of a specific model of retail.
Some characteristics are more intrinsic to the business.
Sometimes innovation does change the format. Formats are not static but do evolve throughout time.

Example: Victoria's Secret
It sells through only **1 direct channel**, but within it there are **3 distribution (retail) formats**: web, catalog, store (owned).
The three of them have completely different formats to sell their products (e.g. different target customers).

Example: Apple
2 direct channels: website, Apple store (owned)
3 indirect channels: Premium Resellers (independent multi-brands), Media World, Amazon

HOW TO CLASSIFY RETAILERS

RETAIL FORMATS

Retailers can be classified in terms of several characteristics, including the
1. **amount of service** they offer,
2. the **width, length of their product lines**,
3. the relative **prices they charge**.

1. AMOUNT OF SERVICE

Self-service
Limited service: customers can ask support to people working in stores, presence of visible merchandising (e.g. pharmacies, electronics stores)
Full service (e.g. Rolex)

2. PRODUCT LINE

Specialty stores: Narrow product line with deep assortment
Department stores: Wide variety of product lines
Convenience stores: Small stores that carry a limited line of high-turnover goods
Superstores: Much larger than regular supermarkets and offer a large assortment of routinely purchased food products, nonfood items, and services (e.g.: Target)
Category killers: Superstores that are actually giant specialty stores. Deep in category with sales staff (e.g.: Home Depot)

3. RETAILERS CLASSIIFED BASED ON: PRICE CHARGED

High-End Stores: charge higher prices and typically feature upper-scale goods (e.g.: bio-food, high end brands)
Regular Stores: charge ordinary prices (e.g.: a normal supermarket – such as Carrefour)
Low price Stores: charge lower prices (e.g.: ALDI, LIDL, Target, Metro)

E.g.: relative low prices

Walmart, Target, Lidl:
They buy at regular wholesale prices and accept lower margins to keep prices down.

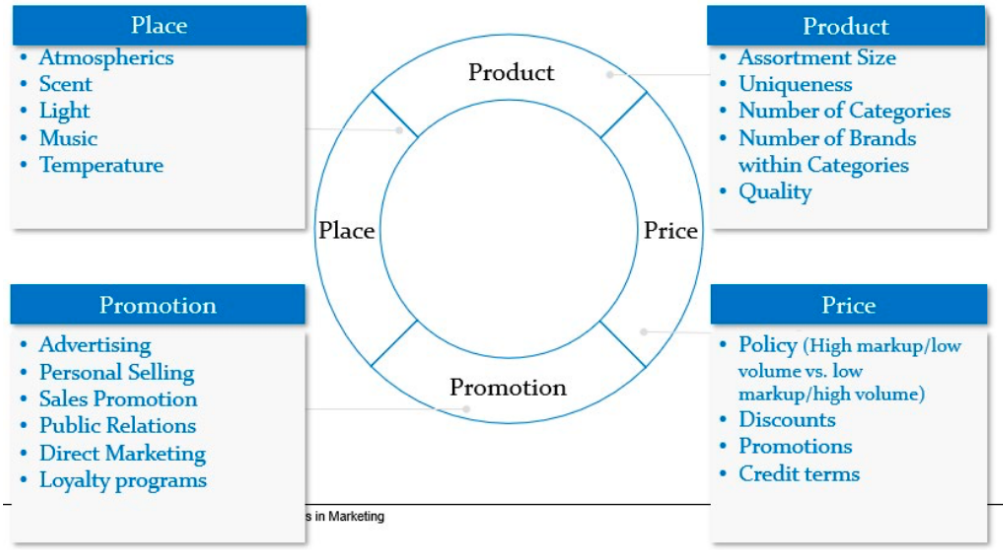
They are producer-operated stores

Independent:
They buy at less-than-regular wholesale prices and charge consumers less than retail.

Warehouse clubs:
Metro, Sam's club, Costco. Usually selling a wide variety of products, customers required to buy large, wholesale quantities. Very low prices because of no-frills formats of the stores. The concept is similar to the consumers' cooperative supermarkets found in Europe (Coop in Italy), though using bigger stores.

Depending on the type of customers in different geographic locations, the same retail store can be different.
e.g.: Lidl is different in Italy compared to Germany, as in Italy also branded products are sold (e.g. Barilla pasta), while this does not happen in Germany.

THE RETAILING MIX



ROLE OF CATEGORY MANAGER

Category manager: she/he is responsible for the selection of all products belonging to a specific category

PRICING DEL PV

EDPL (everyday low price): Walmart
HiLo (high low)
Loss leaders: products that are sold below the cost as a way of enticing more shoppers into the store (Risk of *cherry picking*: consumers change p.o.s. to get the best price)

COMMUNICATION OF POS

From industrial companies: all communication activities linked to **industrial products** sold by retailers

From retailer: communication of corporate brand or p.o.s.
Digital Innovation of pos – pre-sale: digital signage, interactive kiosk
Digital innovation of pos – during sale: totem touch screen
Digital innovation of pos – payments: self-loading system, contactless payments
Digital innovation of pos – post sale: E-loyalty initiatives, mobile couponing

HORIZONTAL DIMENSION: DISTRIBUTION INTENSITY

Intensive
A form of distribution aimed at having a product available in **every pos.**
Producers of convenience products and common raw materials typically seek it. Kraft, Coca-Cola (consumer-goods companies). Products must be available **where and when consumers want** them.

Selective
A form of distribution achieved by **screening dealers** to eliminate all but a few in any single area.
Most television, furniture, and home appliance brands (GE, Whirlpool). It gives producers **good market coverage** with **more control and less cost** than does intensive distribution.

Exclusive
A form of distribution that established **one or a few dealers** within a given area.
Often found in the distribution of luxury brands. It gives stronger **dealer selling support**, enhances **brand's image** and allows for **higher markups** resulting from greater value-added dealer service.
E.g.: STIHL, outdoor power equipment maker

NEW TRENDS IN RETAILING

RETAIL INNOVATION

Emerging and less developed markets

- Mature markets retailers "conquer" emerging and less developed markets
- Absence of a well-developed and functioning retailing distribution network, transportation and storage infrastructure

- Difficult task to simultaneously serve consumers at the bottom, in the middle and at the top of the income pyramid
- Competition from local players supported by local governments (legal & regulatory)

Mature markets

- **Replace goods, services and experiences with new goods, services and experiences** as a path for growth
- **Contamination** (from other business sectors)
- Not only "cascade down" innovation from headquarters to all markets but a bi-directional dispersion of innovation
- The competitive differentiation advantage in offering customization, entertainment and above all experience while allowing co-creation.

RETAIL INNOVATION: TRENDS-STRATEGIC INNOVATION

Changing demographics: implications for retailers

Mind-style focus:

Lush appeals to customers who value:

- Ethical sourcing, animal rights (cruelty-free), environmental activism, handmade, natural products
- Anti-corporate and anti-mainstream messaging

Instead of marketing solely to a "beauty" lifestyle (e.g. young women interested in skincare), Lush taps into a *mindstyle: customers who view personal care as a political and ethical choice.*

ASTRA
BOCCONI