

Overview of Marketing and Competitive Analysis

We start with an overview of marketing. The overview focuses on three things:

- The marketing **decision/planning** components,
- The central marketing **success** factor,
- A brief discussion and overview of the factors that need to be analyzed and possible researched to help determine the relationship between the success factor and the marketing decision/planning components.

I. Description of decision/planning components

A. Overview

- 1) The components identified and discussed below should have considerable impact on **comparative customer satisfaction**. Thus, these decisions should be based on extensive **CUSTOMER** and **COMPETITIVE** analysis and research, and marketing people usually are best qualified to do this analysis and research.
- 2) Because most of the focus through the semester will be on these planning components, each component is only briefly discussed and described at this point in the lecture notes.
- 3) The planning/decision components will be divided into two categories – a) **STRATEGIC** planning areas and b) **TACTICAL** planning areas. **Strategic** planning areas involve more basic decisions and also tend to be **longer-term** ones while **tactical** decisions tend to be **shorter-term** ones that follow from the strategic decisions.

B. **Strategic** components of marketing planning and decision-making

Three strategic components are discussed below. To summarize, these components are 1) selection of a **market target**, 2) selection of a **market target strategy**, and 3) selection of a **positioning strategy**. A brief discussion of the need to do **market segmentation analysis** follows the discussion of these three strategic components.

1) Selection of a **market target**

Market target selection or market targeting is discussed in your text but it will be discussed in a lot more detail, along with positioning and market segmentation, in the next two sets of lecture notes. Because it is discussed in great detail in the next two sets of notes, it will not be discussed in this set of notes.

2) Selection of a **market target strategy**

(a) Overview of market target strategy options

Two basic issues exist in determining a market target.

i One issue is the **size** of the market target.

This is a difficult decision because larger targets offer more sales potential but also are more costly. In addition, as the target gets larger, the people or institutions within it tend to get more diverse, and it is harder to satisfy a larger and more diverse target than a smaller, and less diverse, target market.

Largely because it is more difficult to satisfy a larger and more diverse target, a second decision issue exists when using a larger target, and this second issue is below.

ii A second issue in determining a market target is the **number of brand versions** offered to the target.

Three different basic and general **market target strategies** exist in combining the two above issues, and these three strategies are discussed below.

(b) Identification and description of three basic market target strategy options

i A **CONCENTRATED** market target strategy

This strategy involves having a **smaller** market target with **no more than a few brand versions** marketed to this target.

Southwest Airlines' **INITIAL** market target strategy basically used a concentrated approach. Their initial target was smaller and quite focused in terms of both **geography** (with initial routes only being in the southwestern United States) and also was smaller in terms of both the **flying situation** (with all their flights initially being **shorter distance** ones), and the **benefits sought** (primary importance placed on **low price**)

ii An **UNDIFFERENTIATED** market target strategy

This strategy involves having a **larger** market target with **no more than a few brand versions** marketed to this target. It is called an "**undifferentiated**" strategy because it does not differentiate the different diverse market segments that realistically exist with a larger market target.

Southwest Airlines CURRENT market target strategy could be said to be an example of an undifferentiated market target strategy. Their current target is larger geographically than their initial target as they have expanded their route structure and they even have some longer distance coast-to-coast domestic routes now. They also now are attracting different benefit segments that place importance on reliable and/or friendly service, as well as on low price. However, they basically offer only one flying experience with no amenities. For example, they do not even have a first class or business class seating option, nor do they allow even the option of reserved seats. They also do not offer the option of meals.

iii A **DIFFERENTIATED** market target strategy

This strategy involves having a **larger** market target with **more than a few brand versions** marketed to this target.

Toyota is a good example of using a differentiated market target strategy. They offer a wide range of sedan-like cars over a wide range of prices, with the higher priced ones under the Lexus name. They also offer trucks and SUVs and offer hybrid vehicles to segments looking for fuel efficiency.

3) Selecting a **positioning strategy**

(a) My description of a positioning strategy

Product positioning is how a company wants a brand to be **perceived** by the market target relative to competing brands on **determinant benefits important** to the target.

(b) Is it always necessary to differentiate a brand from competition to be successful, as suggested in the description directly above?

This question is raised here because the above definition suggests that it is necessary to try to differentiate a brand from competition.

To directly answer this question, it is almost always necessary to differentiate a product/service from competition to be successful, **except** for the reason and situation discussed below.

If you are the “first mover” or first entrant into a product category, you do not necessarily need to have any perceived competitive advantages. If you can establish a customer base before competitors enter the market, you may be able to retain your customers unless competitors have an advantage.

(c) Some ways to achieve perceived competitive advantage through positioning:
The general thing to note about the below is that each component of the marketing mix (product, price, channels, and marketing communications) can provide the basis for successful positioning. It often is necessary to use two or more of the below in **combination** particularly when a **better price** is used.

- i Better quality of product or service
- ii Better price
- iii Better sales support/order processing/customer service
- iv Create an image (often done primarily through advertising)
- v Gain popularity
- vi More convenient to purchase

4) Need to conduct **market segmentation** analysis and possibly research in selecting a market target, a market target strategy, and a positioning strategy

(a) General discussion of how market segmentation is used in market targeting, positioning, and market target strategy selection

After dividing a market into multiple subgroups (or segments), each segment is then evaluated on the basis of sales potential, strength of current and future competition, expected sales penetration, costs, and other factors to determine which segment or segments should be selected for market targeting and positioning, realizing that multiple segments often can be combined into a market target.

When multiple segments are combined into a market target, then the degree of **diversity** between the segments must be analyzed to determine whether a **differentiated or undifferentiated** market target strategy should be used.

(b) Key market segmentation issues

- What **variables** should be used to define market segments?

Different variables are identified in the chapter on segmentation in your text. In the next two sets of notes, where the emphasis is on using market segmentation to select a positioning or repositioning strategy, along with a market target, **benefit** segmentation is used. I usually refer to benefit segmentation in the notes as segmenting by customer **ideal points** and the **importance** of determinant benefits used by different customers. These concepts will be thoroughly discussed in the next set of notes.

- How **specifically and narrowly** do we define each segment with the **variables** used?

(For example, if age is one of multiple variables used to help segment a market, do we define one age segment as 21-26 year olds with a separate segment being 27-35 year olds or do we use a broader definition of an age segment as consisting of 21-35 year olds. In the latter case we put 21-35 year olds into one segment while in the former we put them into two different segments.

C. **Tactical** components of marketing planning/decision-making

These components usually fall under the concept of a “**marketing mix**” and also are called the “4 Ps.”

Anyway, the four components of the marketing mix are listed below. Because each component is discussed in detail in later chapters and also will be the focus of later lecture notes, the components are only listed at this point in the lecture notes

- 1) **Product** planning and management
- 2) **Pricing** planning and management
- 3) “**Place**” or Marketing **channels** planning and management
- 4) “**Promotion**” or Marketing **communications** planning and management

II. Discussion of central **marketing success factor**

A. Identification of central marketing success factor

This factor is the degree of **PERCEIVED customer satisfaction** with a specific brand compared to the degree of customer satisfaction with specific **competitive** brands. This factor will be termed **comparative** customer satisfaction in these notes (Although the word “**perceived**” will not always be used with this term, realize that we always mean comparative customer satisfaction as **perceived** by current and potential customers.).

B. Explanation of why comparative customer satisfaction is a necessary condition for profits

Profits cannot exist without a sufficient amount of sales revenue which comes from customer purchasing of a product or service. Customers are unlikely to purchase a specific product/service unless they perceive that the product in question will provide them with at least as much satisfaction as competitive offerings.

C. Will an increase in comparative customer satisfaction **NECESSARILY** result in an increase in **profits**?

1) General answer to this question

Not necessarily. For reasons discussed below, an increase in comparative customer satisfaction sometimes will result in a **decrease in profits**.

2) General Explanation of why an increase in comparative customer satisfaction may result in a decrease in profits

A **cost/sales tradeoff** often exists, meaning that increasing comparative customer satisfaction often results in a **cost increase**. If the cost increase is greater than the sales increase resulting from increase in comparative customer satisfaction, then profits will decrease as comparative customer satisfaction increases.

3) Explanation of when, why and how an attempt to increase comparative customer satisfaction will increase costs, which means the attempt may result in a profit decrease.

This explanation will identify different marketing decisions that can increase customer satisfaction but, at the same time, will tend to increase costs.

- (a) The use of a differentiated marketing strategy (discussed previously in these notes) usually will result in a higher degree of comparative customer satisfaction than the use of an undifferentiated marketing strategy (also discussed previously in these notes). At the same time, using a differentiated marketing strategy will be more costly than an undifferentiated marketing strategy.

The reasoning for the above cost/sales tradeoff is discussed below in two parts. The first part explains why sales tend to be higher with a differentiated strategy than with an undifferentiated one. The second part explains why costs also will tend to be higher with a differentiated strategy than with an undifferentiated one.

- i Reasoning why sales tend to be higher with differentiated strategy than with undifferentiated strategy

Both of these strategies have a larger market target and a larger market target tends to have different types of people or institutions in it with different determinant benefits. Different versions of the brand will better satisfy more people in the target when different segments within the target have different determinant benefits and a differentiated strategy uses different versions of a brand while an undifferentiated strategy does not use different versions. An example is given below to demonstrate this reasoning with the automotive market.

In the automotive market, some customers prefer high status, larger, and flashy cars, other customers prefer “muscle” cars, others prefer value

oriented basic performance cars, still others prefer fuel-efficient cars, some prefer SUVs, etc. To satisfy this large market with these different determinant benefits, a company, such as Toyota Motor Company, needs to offer a lot of different versions of cars and trucks. If it offered only one or a few versions, such as the Toyota Camry, which is what is done with an undifferentiated strategy, it would not provide much comparative satisfaction to many people within the target who want a fuel efficient car, a muscle car, a SUV, or a high status and flashy car with a lot of comfort and convenience features.

- ii Reasoning why costs also tend to be higher with differentiated strategy than with undifferentiated strategy.

Promotion/advertising costs tend to be higher with a differentiated than with an undifferentiated strategy because each version of the brand needs to be separately promoted and advertised.

Production costs tend to be higher with a differentiated than with an undifferentiated strategy as separate production facilities, equipment, labor, and even materials (which means lower quantity discounts) are needed for each different version of the brand.

Inventory costs tend to be higher with a differentiated than with an undifferentiated strategy because more uncertainty exists about what demand will be for each version of the brand. This uncertainty means that a bigger inventory cushion will be needed to make sure that sufficient inventory exists with each version.

- (b) Reducing price will increase comparative customer satisfaction (at least if competitors do not quickly respond with a similar price reduction). At the same time, a price reduction lowers the revenue per unit sold, which essentially amounts to a cost increase.
- (c) Providing more convenient service usually will increase comparative customer satisfaction. For example, most of us would prefer to be able to quickly talk with a customer service representative rather than having to go through a number of recorded messages prior to getting access to a real person. Of course, a large number of customer service representatives are needed for this to occur, which increases costs.
- (d) Increasing the amount of advertising often will result in a higher level of perceived comparative customer satisfaction (by generating sufficient awareness and knowledge with a larger number of the target) but spending more on advertising also increases the costs of advertising.

- (e) Offering longer and less restrictive warranties or less restrictive product return policies usually will increase comparative customer satisfaction but such policies are also more costly.
- 4) Will an attempt to increase customer satisfaction always, or even usually, result in a cost/sales tradeoff?

The answer to this question is a definite no for the reasons discussed below.

- (a) First, a marketing option can both increase sales and reduce costs (This combination obviously is a very positive thing.).

This combination can occur with a new product or with new production **technology**. Such technological improvements can improve product quality, which will tend to increase customer satisfaction. These improvements **may**, at the same time, reduce the costs of production. This has happened with chip or microprocessor technology.

- (b) Second, it is possible for a marketing option to a) reduce costs without changing sales, which is a positive thing or to b) increase costs without changing sales, which is a negative thing).

The negative thing (increasing costs without changing sales) often occurs with advertising. Advertisers often use more repetition than needed because too much emphasis may be placed on increasing top of mind awareness and/or because it often is thought that potential customers will eventually pay attention to advertising if they are exposed to it often enough.

Based on the reasoning in the previous paragraph, you might think of how the positive thing (reducing costs without reducing sales) could also occur with advertising. More specifically, advertising costs often can be lessened without any reduction in sales.

This negative thing (increasing costs without increasing sales) also often occurs with price, particularly where costs can increase without increasing sales. More specifically, prices often are reduced or cut in hope of picking up more sales. Such a price reduction essentially involves an increase in costs. However, the hoped increase in sales often does not occur because competitors quickly reduce their price in response.

Yet, this positive thing (decrease in costs with no decrease in sales) also could happen with price. Prices sometimes can be increased, which basically amounts to a cost decrease without losing any customers. This can happen if current customers are loyal and/or if they place little importance on price.

- (c) Third, it is possible to increase sales without changing costs, which is a positive thing (or to decrease sales without decreasing costs, which is a negative thing).

The negative side of this often happens when an organization makes little attempt to improve its product or service until **after** a competitor does so, thinking that this is a way of keeping costs constant. Yet, this attempt often will result in a sales decrease that may be difficult to reverse.

The positive side of this can occur when more creative advertising is used. Such advertising may attract more attention and often does not cost any more than less creative advertising.

D. Will the attempt to increase comparative customer satisfaction necessarily result in an increase in sales?

1) General answer to this question

As you might expect, the answer to this question is **NO**,

2) Explanation of why the attempt to increase comparative customer satisfaction may not result in an increase in sales

Two general reasons exist, with the most common reason identified first below

(a) Attempts to increase comparative customer satisfaction often are unsuccessful due to aggressive and quick competitive responses.

This obviously happens very frequently because competitors monitor what each other does and will often react aggressively to avoid losing their customers.

For example, if one organization reduces the price of its product, competitors might see this as a threat to them and might then reduce their price. In such a situation, comparative customer satisfaction would not increase but costs still would increase.

(b) Attempts to increase comparative customer satisfaction may be perceived by at least some customers either as a negative development or as an unimportant positive development. If the first of these two things happens comparative customer satisfaction could actually decrease when an attempt is made to increase it.

To demonstrate this idea, four of the five situations identified previously on pages 7 and 8 will be discussed in a way to indicate how each of the ways of attempting to increase comparative customer satisfaction could actually result in a decrease in this satisfaction with **some** customers.

- With a price decrease, some customers may perceive that the quality has been reduced or that it is not as high as they thought the quality was before the price decrease.

- With an increase in access to people with customer service issues – Although this usually will result in an increase in customer satisfaction, it is harder to control the consistency of quality of customer service when customers are interacting with real people than when customers are interacting with recorded messages and websites. Some customers may have a bad personal interaction with some of these people when the discussion gets overheated.
- With an increase the amount of advertising, some customers may react negatively thinking that the increase is an intrusion. This certainly is often the case with email advertising or spam.
- With an increase in the length of coverage of a warranty – It is very unlikely that this would lessen customer satisfaction with more than a small number of customers. However, as with the price decrease, some customers may perceive that lengthy warranties are provided only with products that have problems.

E. How is the impact of marketing actions on comparative customer satisfaction determined?

It is determined largely through customer and competitive research and analysis. One component of the customer analysis and research involves determining how important or how much value different things are to targeted customers. For example, a price reduction will not have much impact on comparative customer satisfaction if price is a lot less important than quality or convenience to targeted customers.

III. In making the marketing decisions discussed previously under II, what factors do we need to consider, analyze, and possibly research?

A. **Customer analysis and research** is needed to try to quantify the impact that marketing options may have on comparative customer satisfaction and sales, even if there is no competitive response.

More specifically, when analyzing the impact that a possible marketing action will have on customer satisfaction with no competitive response, it is necessary to consider how the action will be a) perceived, b) interpreted and then c) valued by customers.

As an example, assume that adding more sugar to a food product is being considered. One customer analysis question is whether customers will be aware of this change if it is made but not emphasized in advertising. A second customer analysis question is whether customers who become aware of this change will interpret it as a positive change vs. a negative change. A third customer analysis question is the importance of the perceived change on overall satisfaction, which deals with the extent that the perceived change is valued.

- B. **Competitive analysis and research** is needed to estimate the impact of marketing options on comparative customer satisfaction, as competitors often will attempt to neutralize our attempts to increase comparative customer satisfaction.

The basic point here is that competitors often monitor what we are doing and consider our attempts to increase comparative customer satisfaction as a threat to them. Competitors often react aggressively to neutralize and negate such perceived threats.

- C. Analysis of **channel intermediaries**, which usually means an analysis of **wholesalers** and/or **retailers** by a producer, or an analysis of producers and/or wholesalers by a retailer.

This analysis needs to be considered because actions of a retailer can influence customer satisfaction of a producer's products. For example, if a sales person at Circuit City makes a negative recommendation of a computer brand that they carry, this is likely to have a negative impact on customer satisfaction of the computer brand in question. In addition, actions of a producer can influence the degree of customer satisfaction toward a retailer.

This analysis also is needed because these channel intermediaries often are actually customers to a producer because they usually purchase the products they carry and then resell them.

- D. Analysis of **political and legal** representatives and institutions

Laws can be passed that create problems or opportunities for organizations and the courts often need to then interpret these laws through when civil or even criminal indictments are made against organizations. For example, laws are being considered against pharmaceutical companies that restrict their consumer advertising, largely because of the problems with Vioxx and Celebrex.

- E. Negative publicity that often results when these cases are newsworthy also can have a negative impact on customer satisfaction.