DAYALBAGH EDUCATIONAL INSTITUTE

Marketing Management Unit 2

Unit II

- Marketing Environment
- Customer Value & Satisfaction
- Analyzing Markets
- Segmenting, Positioning & Targeting

Marketing Environment

Marketing Environment Audit

Macro environment

Demographic

Economic

Environmental

Technological

Political

Cultural

Task Environment

Markets

Customers

Competitors

Suppliers

Distribution Dealers

Public

Environmental Forces

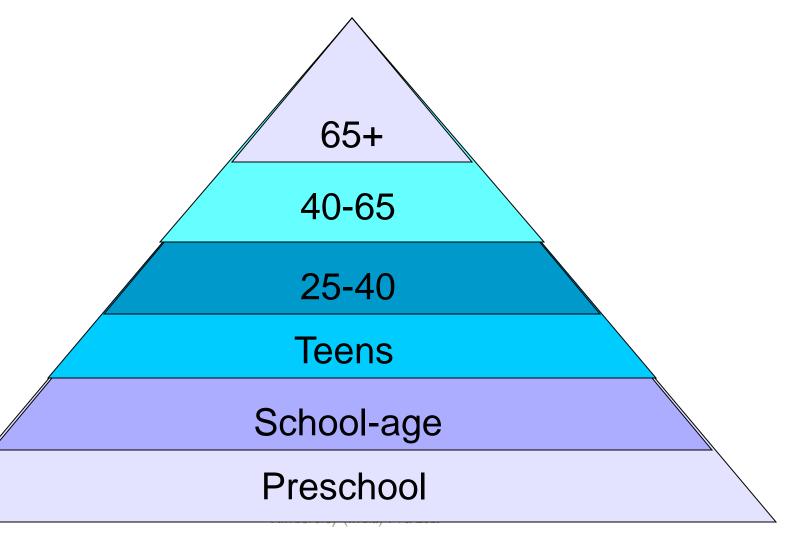
Demographic Political-Legal Economic Technological Socio-Cultural **Natural**

Population and Demographics

- Population growth
- Population age mix
- Ethnic markets

- Educational groups
- Household patterns
- Geographical shifts

Population Age Groups



Economic Environment

- Income Distribution
- Savings, Debt, and Credit
 - Levi's has responded to changes in income distribution by offering an upscale line and a mass market line

Social-Cultural Environment

Views of themselves

Views of others

Views of organizations

Views of society

Views of nature

Views of the universe

Natural Environment

Shortage of raw materials

Increased energy costs

Anti-pollution pressures

Governmental protections

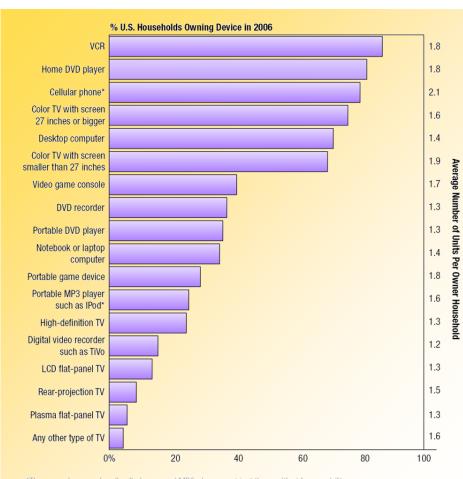
Technological Environment

Pace of change

Opportunities for innovation

Varying R&D budgets

Increased regulation of change



^{*}These numbers are for all cell phones and MP3 players, not just those with video capability.

Political-Legal Environment



Increase in business legislation

Growth of special interest groups

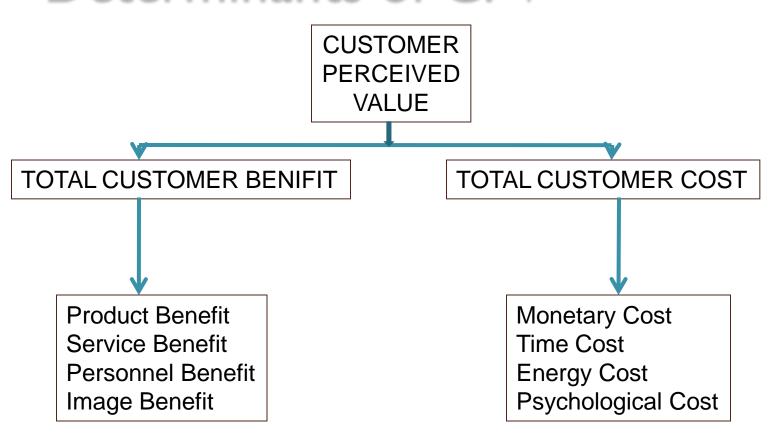
Customer Value & Satisfaction

Customer Perceived Value

- How are choices made?
- Customers value maximisers within costs and limited knowledge.



Determinants of CPV



CPV = benefits - costs

 Total Customer Benefit: perceived monetary value of bundle of benefits (economic, functional & psychological)

• Total Customer Cost: perceived bundle of costs expected to be incurred in evaluating, procuring, using and disposing the market offering.

Customer Value Analysis

- Identify major attributes and benefits that customers value
- Assess the quantitative importance of different attributes and benefits
- Assess company's and competitors performances on different customer values against their rated importance

- Estimate how customers in specific segment rate company's performance to that of competitors on specific attributes / benefits
- Monitor customer values over time

What is Loyalty?

- Consumers have varying degrees of loyalty
- A deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior.

The Value Proposition

The whole cluster of benefits the company promises to deliver.



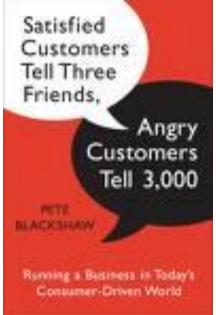


The Promises

- Whether the promises made in the value proposition are fulfilled depends upon how well the marketer manages the value delivery system.
- VDS is set of all the experiences customer will have on way of obtaining and using the offering.
- Core business processes help to deliver distinctive customer value.

Customer Satisfaction

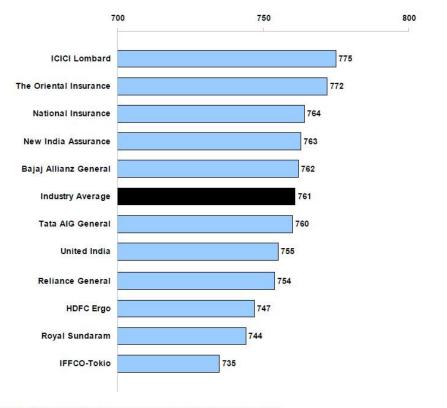
 'persons feeling of pleasure or disappointment that results from comparing a products perceived performance to their expectations'.



J.D. Power Asia Pacific 2009 India Auto Insurance Customer Satisfaction Index (AIS) StudySM

Auto Insurance Customer Satisfaction Index Ranking

(Based on a 1,000-point scale)



Included in the study but not ranked due to small sample is Cholamandalam MS.

Source: J.D. Power Asia Pacific 2009 India Auto Insurance Customer Satisfaction Index (AIS) Study M.

www.indiaautomotive.net

Satisfy Who All?

- Delivering high customer satisfaction through lower prices or greater services would lower profits....
- Company is also under an obligation to satisfy stakeholders....
- Therefore... deliver customer satisfaction subject to delivering acceptable level of stakeholder satisfaction

Remember.....

 Customers decision to be loyal or defect is an outcome of sum of encounters he has with the company....

Measuring Satisfaction

- Periodic surveys
- Customer loss rate
- Mystery shoppers
- Monitor competitive performance

Ground Reality

- Almost 25% customers are usually dissatisfied
- Only 5% complain. Balance 95% feel complaining is of no use.
- 54%-74% customers would do business again with company if complaint attended
- 95% would do so if attended promptly

Product and Service Quality

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

Total Quality Management

TQM is an organization-wide approach to continuously improving the quality of all the organization's processes, products, and services.

Maximizing Customer Lifetime Value

- Customer profitability: Who is a profitable customer? Important lifetime stream of revenue and costs....
- Customer equity: is the total combined customer lifetime values of all of the company's customers. Clearly, the more loyal the firm's customers, the higher the firm's customer equity.
- Lifetime value: is the present value of the future cash flows attributed to the customer relationship

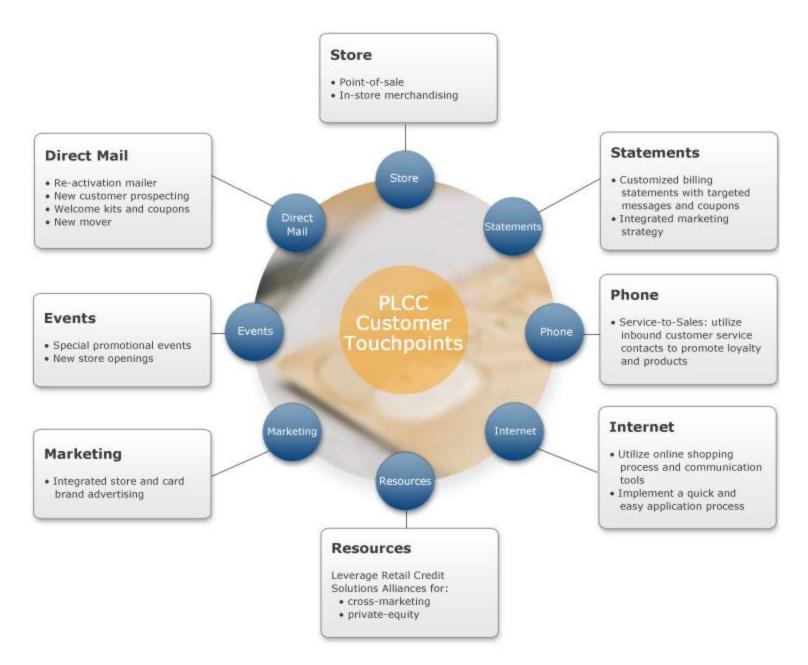
Drivers of Customer Equity

- Value equity: What the customer assesses the value of the product or service provided by the company to be;
- Brand equity: What the customer assesses the value of the brand is, above its objective value;
- Retention equity: The tendency of the customer to stick with the brand even when it is priced higher than an otherwise equal product

What is Customer Relationship Management?

 'the process of carefully managing detailed information about individual customers and ALL customer touch points to maximise customer loyalty.'

What are touch points?



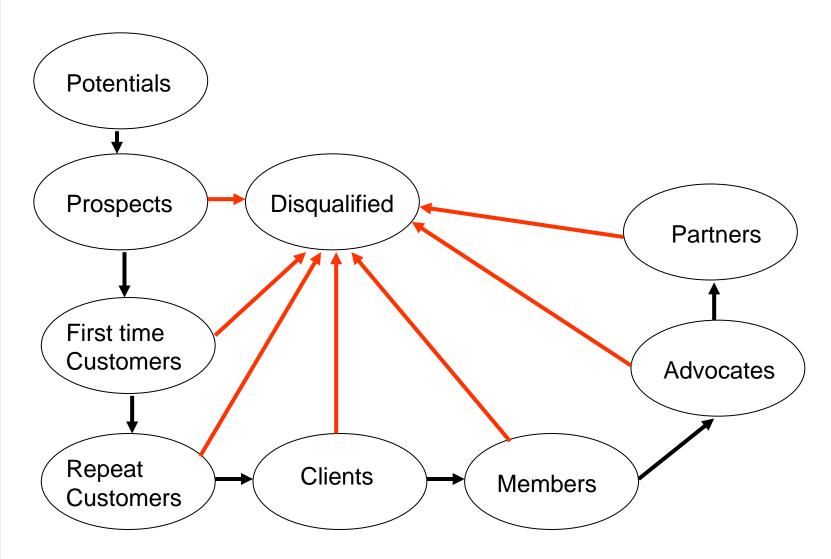
Framework for CRM

- Identify prospects and customers
- Differentiate customers by needs and value to company
- Interact to improve knowledge
- Customize products, services & messages for each customer

CRM Strategies to Increase Value of Customer Base

- Reduce rate of defection
- Increase longevity
- Enhance share of wallet
- Terminate low-profit customers
- Focus more effort on high-profit customers

Customer Retention Dynamics



Mass vs. One-to-One Marketing

Mass

- Average customer
- Customer anonymity
- Standard product
- Mass production
- Mass distribution
- Mass advertising
- One-way message
- Economies of scale

One-to-One

- Individual customer
- Customer profile
- Customized market offering
- Customized production
- Share of customer

Customer Retention

- Acquisition of customers can cost 5 times more than retaining current customers.
- The average company looses 10% of its customers each year.
- A 5% reduction to the customer defection rate can increase profits by 25% to 85%.
- The customer profit rate increases over the life of a retained customer.

Building Loyalty

- Create superior offerings
- Get cross departmental participation in planning and managing customer satisfaction and retention
- Organize and have accessible database on individual customers
- Encourage customers contacting company personnel
- Have reward programmes

Reducing Customer Defection

- Define and measure retention rate
- Distinguish causes of customer attrition
- Estimate profit loss associated with loss of customers
- Assess cost to reduce defection rate
- Gather customer feedback

Forming Strong Customer Bonds

- Add financial benefits
- Add social benefits
- Add structural ties

What is Customer Database?

 'an organised collection of comprehensive information about individual customers or prospects that is current, accessible, actionable for such marketing purposes as lead generation, lead qualification, sale of product or service or maintenance of customer relationships'.

What is Database Marketing?

 'the process of building, maintaining and using customer databases and other databases, to contact, transact and build customer relationships'.

Using the Database

- To identify prospects
- To target offers
- To deepen loyalty
- To reactivate customers
- To avoid mistakes

Database Key Concepts

- Customer database
- Database marketing
- Mailing list

- Business database
- Data warehouse
- Data mining

Analyzing Markets - Analyzing Consumer Markets

What is Consumer Behaviour?

Need to understand:

- why consumers make the purchases that they make?
- what factors influence consumer purchases?
- the changing factors in our society.

 Study of how people behave when obtaining, using, and disposing of products and services.

What Influences Consumer Behavior?

- Cultural factors
- Social factors
- Personal factors

Refer Table 6.1 and 6.2 on page 145
To see profile of major South Asian
Markets and Per Capita Consumption
Expenditure in India

Cultural Factors

• What is Culture?

The fundamental determinant of a person's wants and behaviors acquired through socialization processes with family and other key institutions.

Sub-cultures

- Nationalities
- Religions
- Racial groups
- Geographic regions
- Special interests

How does this interest marketers?

Fast Facts About Indian Culture

- Wrigley sells 10 million gum sticks a day
- Indian gum market comprises of 46% chewing gums and 55% bubble gums
- I I million watched the IPL T20 semi finals





Social Classes

- Divisions in society, mostly homogenous, which are hierarchically ordered and whose members share similar values, interests and behaviour.
- In India, marketers use socio-economic classification. It uses combination of education and occupation of chief wage earner of household, to classify urban buyers (A1,A2,B1,B2,C,D,E1,E2)
- Rural buyers as RI to R4.

(see Tables 6.3A & B; 6.4)

Characteristics of Social Classes

- Within a class, people tend to behave alike.
- Social class conveys perceptions of inferior or superior position.
- Class may be indicated by a cluster of variables (occupation, income, wealth).
- Class designation is mobile over time.

Social Factors

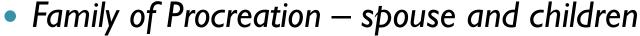
- Reference Groups all groups that have direct or indirect influence on the persons attitudes and behaviour.
- Family
- Social Roles
- Statuses

Reference Groups

- Membership direct influence
- Primary person interacts frequently like friends, neighbours)
- Secondary more formal like professional, religious
- Aspirational that a person wishes to join
- Dissociative whose values and behivours and individuals rejects

Family

- Family of Orientation parents, siblings…
 - Religion
 - Politics
 - Economics



Everyday buying behavior





Personal Factors

- Age
- Life cycle stage
- Occupation
- Wealth
- Personality- set of distinguishes psychological traits
- Values
- Lifestyle
- Self-concept



Brand Personality

- Sincerity
- Excitement
- Competence
- Sophistication
- Ruggedness

Key Psychological Processes

- Motivation
- Perception
- Learning
- Memory

Influence consumer responses

Motivation

- Freud's theory psychological forces shaping behavior largely unconscious.
 Person cannot understand his motivations.
- Maslow's hierarchy of needs
- Herzberg's two-factor theory

Perception

- Selective attention
- Selective retention
- Selective distortion
- Subliminal perception (messages in ads)

Learning

Change in behavior from experience.

Drives — strong internal stimuli calling for action

Cues — minor stimuli that determine when, where and how person responds.

Memory

 A constructive process. Information stored in bits and pieces. Assembles into meaningful whole when recalled. Involves: Memory encoding Memory retrieval

Stimulus-Response Model of Buyer Behaviour

Marketing Stimuli

Product

Price

Promotion

Place

Other Stimuli

Economic

Political

Social

Technological

Buyer Characteristics

Buyer Decision-Making Process Buyer Responses

Product choice

Brand choice

Retail choice

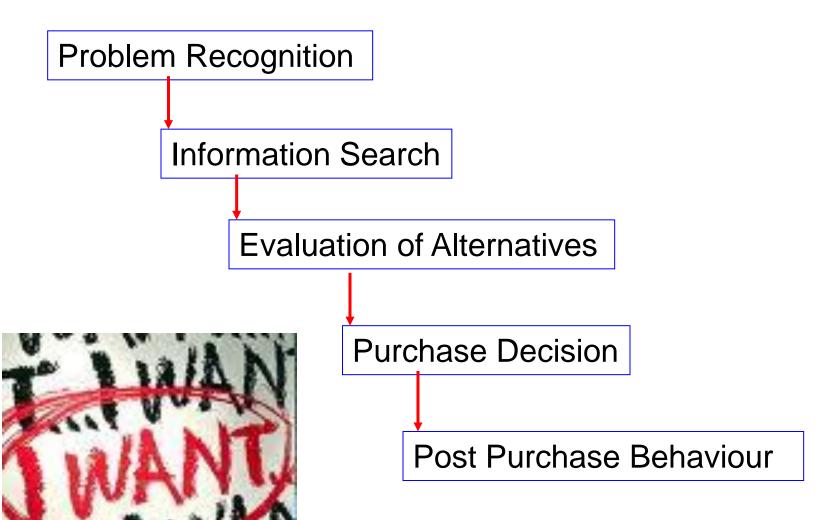
Dealer choice

Purchase timing

Purchase amount

Purchase frequency

The Buying Decision Process



Problem Recognition



EXTERNAL STIMULI TRIGGERS



Marketer's Task

- Identify circumstances that trigger off a need
- Helps in designing strategies that trigger interest

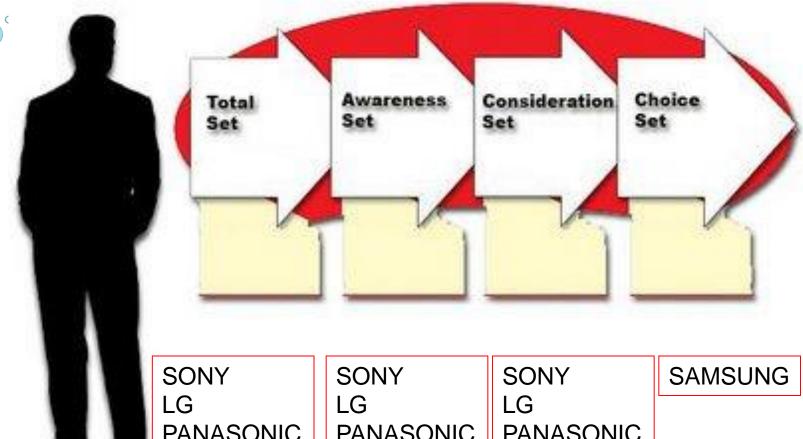


Information Search

- Personal family, friends, acquaintances
- Commercial advertisements, internet, sales force, packaging, resellers
- Public mass media, magazines like
- Experiential handling, examining, using



Search Dynamics



PANASONIC VIDEOCON ONIDA SAMSUNG

PANASONIC VIDEOCON SAMSUNG

PANASONIC SAMSUNG

Evaluation of Alternatives

- Consumer is trying to satisfy a need
- He is looking for certain benefits from the solution
- Each product as viewed as a bundle of attributes





Examples of Attributes



Location, cleanliness, atmosphere, tariff



Colour, effectiveness, taste, price



Safety, life, quality, price

Preferences among brands made in the CHOICE SET

Purchase Decision

Consumers take 'mental shortcuts' using simplifying choice heuristics (rule of thumb).....

Conjunctive heuristic — consumer sets minimum acceptable level for each attribute and selects the first that meets minimum standards of attributes desired.

 Lexicographic heuristic: consumer chooses the best brand on basis of most important perceived attribute

• Elimination by Aspects heuristic: consumer compares brands on an attribute selected probabilistically — where the probability of choosing the attribute is positively related to its importance...

Intervening Factors

- Even when brand evaluations formed, two factors intervene between purchase intention and purchase decision.
- Attitude of others

Unanticipated situational factors





Risk Factor.....

 Functional Risk: non-performance of product



Financial Risk: Over priced product







Risk Factor.....

- Social Risk: Product results in embarrassment from others
- Psychological Risk: affect mental wellbeing





 Time Risk: opportunity cost of finding replacement



Post Purchase Behaviour

Satisfaction

(higher is more desirable)





Post-purchase Use & Disposal

Keep it.... Use, store, convert for other use

 Get rid of itTemporarily (rent/lend) or permanently (give away, trade it, sell it, recycle it)

Analyzing Markets - Analyzing Business Markets

What is Organizational Buying?

Decision-making process by which formal organizations establish the need for purchased products and services, and identify evaluate, and choose among alternative brands and suppliers.

Characteristics of Business Markets

- Fewer, larger buyers
- Close suppliercustomer
 relationships
- Professional purchasing
- Many buying influences
- Multiple sales calls

- Derived demand
- Inelastic demand
- Fluctuating demand
- Geographically concentrated buyers
- Direct purchasing

Buying Situation

Straight rebuy



Modified rebuy

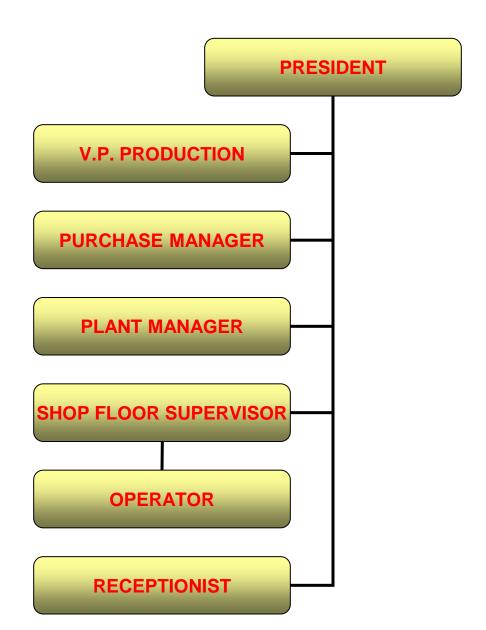


New task



The Buying Center

- Initiators: users and others who put in the request
- Users: those who actually would use the product
- Influencers: those who influence buying decision
- Deciders: those who decide the product and suppliers
- Approvers: those who authorize the purchase
- Buyers: those having formal authority to select supplier and arrange supplies
- Gatekeepers: those having power top prevent sellers or information from reaching the buying centre



Who is what?

Of Concern to Business Marketers

Who are the major decision participants?

- What decisions do they influence?
- What is their level of influence?

What evaluation criteria do they use?

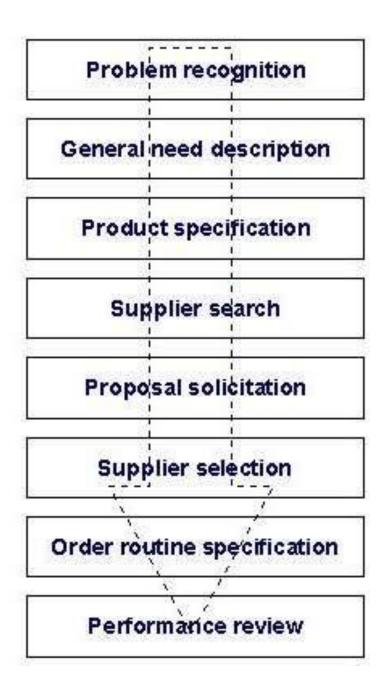
Purchasing / Procurement Process

- Earlier considered a low position
- Competition has made them important
- Important role in upward supply chain



Stages in Buying Process





Problem Recognition

 Someone in company recognises need due to internal or external stimuli





Need Description / Product Specification

- General characteristics finalised with quantity
- E.g. Brand

Wattage

Capacity

Conformity specifications

Supplier Search

- Catalogue Sites
- Auction sites
- Exchange markets
- Private exchanges
- Buying Alliances

E-Procurement

- Websites organized using vertical hubs
- Websites organized using functional hubs
- Direct extranet links to major suppliers
- Buying alliances
- Company buying sites



Order Routine Specification and Inventory

- Stockless purchase plans
- Vendor-managed inventory
- Continuous replenishment



Factors Affecting Buyer-Supplier Relationships

- Availability of alternatives
- Importance of supply
- Complexity of supply
- Supply market dynamism

Categories of Buyer-Seller Relationships

- Basic buying and selling
- Bare bones
- Contractual transaction
- Customer supply

- Cooperative systems
- Collaborative
- Mutually adaptive
- Customer is king



Segmenting, Positioning & Targeting

What is a Market Segment?

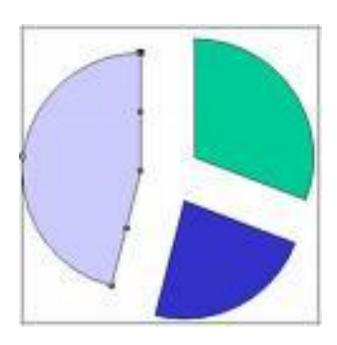
A market segment consists of a group of customers who share a similar set of needs ad wants.

Individual Marketing

 Customer design their own products and are taking individual initiative in deciding what to buy....

Basis of Segmenting Markets

- Geographic
- Demographic
- Psychographic
- Behavioral



Geographic Segmentation

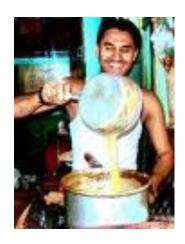


Division of market into different geographic regions

India

- More than 5000 towns
- 87% villages with population less than
 2000





Demographic Segmentation

Most popular method of segmentation used

- Age and Life Cycle
- Life Stage
- Gender
- Income
- Generation
- Social Class

Some Gender Facts

- South Asia, women usually shop for food, groceries, household goods
- 51% women buy hair-wash products based on what they think is best
- 52% buy freshening products like talcum powder
- 55% decide for personal care products like soaps
- 60% have a say in tooth paste

 75% of women with the title of vicepresident or higher at Fortune 500 companies out earn their husbands, bringing home on average 68% of household income Women's decision-making authority has grown in part because more households are headed by women -- 27% at last count, a fourfold increase since 1950. Their buying power has grown, too. In the past three decades, men's median income has barely budged -- up just 0.6% -- while women's has soared 63%. Some 30% of working women out earn their husbands.

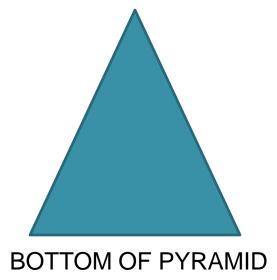
Income

• Companies serve different income classes...









- 93% information children get is from TV
- 40% is from print media
- 76% are able to influence cellophone purchase decision
- 43% influence buying of cars
- 63% (years age) are involved in decisions of computers, bicycles, clothes, TV's, cars

Social Class

- Influenced in India by caste system
- Strong influence on cars, clothing, furnishings, reading habits, leisure activities, retailers visited.....
- Consumption pattern influenced by socioeconomic factors, education....

Psychographic Segmentation

- Use of Psychology and Demographics to understand customer.
- Buyers divided on basis of psychological traits, personality traits, lifestyle, values.
- People within same demographic group can exhibit different psychographic profiles.
- Religion significant influencer in values/lifestyle

Behavioral Segmentation

 Buyers divided into groups on basis of knowledge of, attitude towards, use of or response to a product

 Decision Roles: Initiator, Influencer, Decider, Buyer, User.....

Buyer Readiness Stage Informed

Little interested

Some desire

Interested to buy

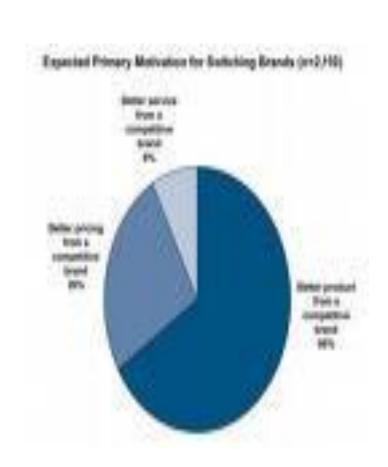
Loyalty Status

Hard core loyals

Split loyals

Shifting loyals

Switchers



Market Targeting

Segmentation Criteria

- I. Measurable
- 2. Substantial
- 3. Accessible
- 4. Differentiable
- 5. Actionable







What is Positioning?

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market.

Value Propositions

Scorpio, Mahindra and Mahindra

A vehicle that provides the luxury and comfort of a car, and the adventure and thrills of an SUV

Domino's

A good hot pizza, delivered to your door within 30 minutes of ordering, at a moderate price

Defining Associations

Points-of-difference (PODs)

Attributes or benefits
 consumers strongly associate
 with a brand, positively evaluate,
 and believe they could not find
 to the same extent with a
 competitive brand

Defining Associations

- Points-of-parity
 - (POPs)
- Associations that are not necessarily unique to the brand but may be shared with other brands