Chapter 14
Marketing

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Learning outcomes

• Contextualise the marketing process
• Explain the target market
• Discuss marketing strategy
• Describe the elements of the marketing mix
• Differentiate between services marketing and product marketing
Marketing defined

- The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.
Simple model of the marketing process

Create value FOR customers and build customer relationships

Capture value FROM customers in return

Understand the marketplace and customer needs and wants

Design a customer-driven marketing strategy

Construct an integrated marketing programme that delivers superior value

Build profitable relationships and create customer delight

Capture value from customers to create profits and customer equity
The target market – the customer

- Actual and potential buyers who share a specific need or want that can be satisfied by a particular product or service

- You provide a need-satisfying offering in exchange for customer’s money, and during this exchange a relationship is built with the customer
The marketing strategy

1. Market segmentation
   - Geographic variables
   - Demographic variables
   - Psychographic variables
   - Behavioural variables

2. Market targeting
   - Market size
   - Expected growth
The marketing strategy

2. Market targeting (continued from previous slide)
   • Competitive position
   • Cost of reaching segment
   • Compatibility with the company’s objectives and resources

3. Differentiation

4. Positioning
Market segmentation

- Geographic variables
- Demographic variables
- Psychographic variables
- Behavioural variables
Market targeting

- Market size
- Expected growth
- Competitive position
- Cost of reaching segment
- Compatibility with the company’s objectives and resources
The marketing mix

• A set of four marketing tools, namely product, price, promotion and place, that the company designs and combines in such a way that the target market would purchase the offering
Marketing and the 4 Ps

• The marketing mix

1. **Product:**
   - Goods
   - Services
   - Ideas
   - Info
   - Digital products

• People
• Places
• Experiences & events
• Real or financial property
• Organisations
4 Ps - Product

Product/ service strategy:

- Choice of product/service and scope of product/service range
- Features of the product: design, style, size etc.
- Packaging
- Branding
- Warranty
- Instructions and installations
2. **Price**: optimum price is based on 4 factors:

- The company’s cost structure
- Perceived customer value
- Price elasticity
- Pricing strategies
Company cost structure

- Price = total cost + profit margin
- Where total cost = direct costs + indirect costs
- Selling price:
  
  average unit cost
  1 - mark-up %
Perceived customer value

- **Value**: subjective evaluation of benefits relative to costs to determine worth of a company’s product offering relative to other product offerings
- Value is created by:
  - Prestige
  - User-friendliness
  - Solution to a problem
  - Quality
  - After-sales service
Price elasticity

• Changes in customer demand following changes in price.
• Higher sensitivity to price (price elastic):
  o Substitute products available
  o Comparison of products is easy
• Less sensitivity to changes (price inelastic):
  o No substitutes exist
  o Customers have real/perceived need for product
  o Customers perceive specific benefits
  o Product clearly differentiated
Price strategies

1. Price skimming: set prices high to cover R&D costs
2. Price penetration: low price to gain market share and maximise sales
3. Competitive matching: match major competitor prices
4. Prestige pricing: set price at top of range to differentiate product as unique/superior quality
4 Ps - Promotion

3. **Promotion**: seller’s communication of to potential target market and others to influence buying behaviour

4. **Place** (method of distribution)
4 Ps - Promotion

3. **Promotion**: seller’s communication of info to potential target market and others to influence buying behaviour

- Methods of communication:
  - Personal selling
  - Mass selling
  - Sales promotion
Place

Physical/virtual locations where products and services are available in the right quantities when customers want them.
Place

- Indirect distribution: use of marketing channels
- Distribution channels make use of intermediaries, which:
  - Offer a convenient location
  - Provide an assortment
  - Break bulk
  - Hold inventory
  - Provide services
Services marketing

Characteristics of services:

• Intangibility
• Inseparability/simultaneity
• Variability
• Perishability
• Rental/access
Services marketing triangle

*Figure 14.2* Services marketing types

Services marketing triangle (cont.)

- Internal marketing: marketing activities directed towards the employees, who are the service providers
- Interactive marketing: marketing skills required for buyer-seller interaction during the service encounter
Services marketing triangle (cont.)

- External marketing: 7 Ps
  1. Service design
  2. Pricing
  3. Promotion
  4. Location
  5. Participants
  6. Physical evidence
  7. Process of service assembly
Service quality

SERVQUAL (Parasuraman, Berry & Zeithaml, 1988) measures perceptions of service in term of:

- Tangibles
- Reliability
- Responsiveness
- Assurance
- Empathy of service provider