

# 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

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## 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

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## Simple model of the marketing process

Create value FOR customers and build customer relationships

Capture value FROM customers in return



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## 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

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## The marketing strategy

1. Market segmentation
  - Geographic variables
  - Demographic variables
  - Psychographic variables
  - Behavioural variables
2. Market targeting
  - Market size
  - Expected growth

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## 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

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## Market segmentation

- Geographic variables
- Demographic variables
- Psychographic variables
- Behavioural variables



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## Market targeting

- Market size
- Expected growth
- Competitive position
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## 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

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## 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

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## 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

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## 4 Ps - Price

2. **Price**: optimum price is based on 4 factors:

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

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## Company cost structure

- Price = total cost + profit margin
- Where total cost = direct costs + indirect costs
- Selling price:

average unit cost

1- mark-up %

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## 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

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## Price elasticity

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



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## 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

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## 4 Ps - Promotion

- 3. Promotion:** seller's communication of to potential target market and others to influence buying behaviour
- 4. Place** (method of distribution)

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## 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

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## Place

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

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## 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

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## Services marketing

### Characteristics of services:

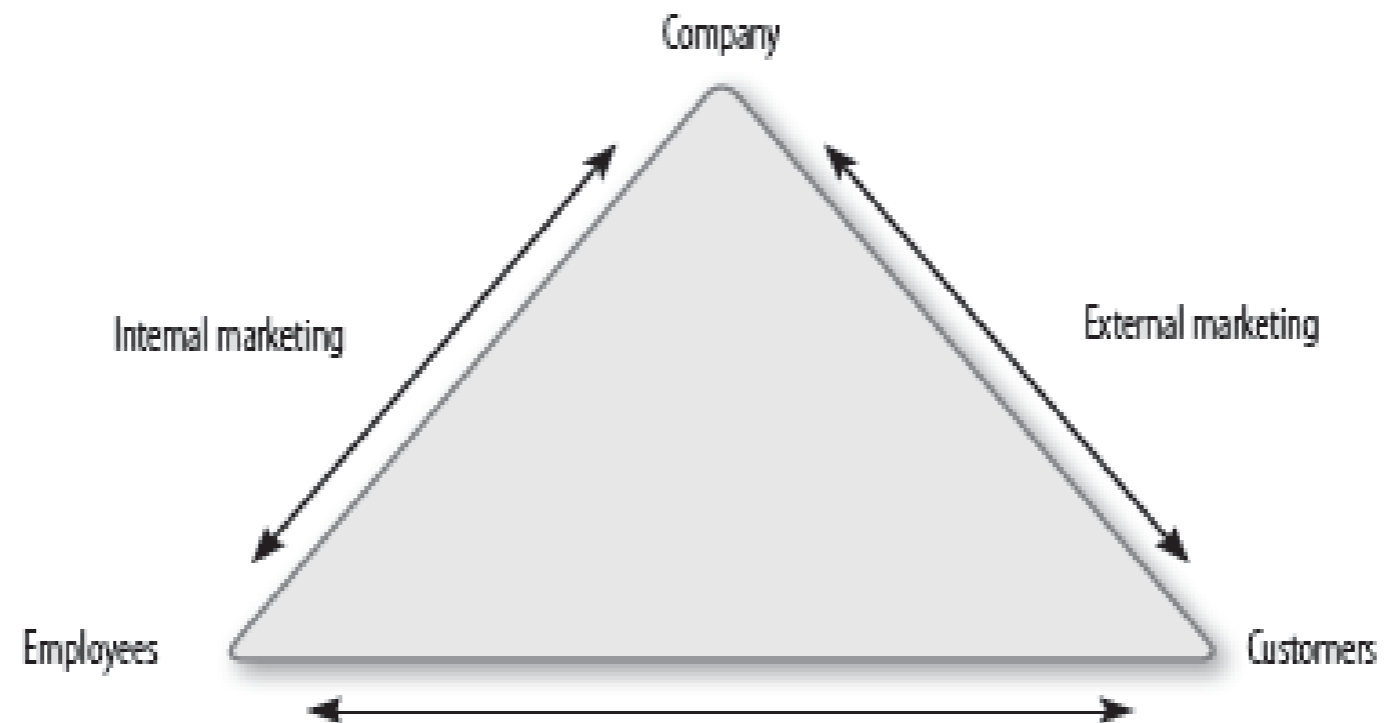
- Intangibility
- Inseparability/simultaneity
- Variability
- Perishability
- Rental/access

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## Services marketing triangle

Figure 14.2 Services marketing types



Source: Armstrong and Kotler, 2013:238.



## 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



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## 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

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## Service quality

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

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