

Strategic Marketing Management

Lecture 1 - Marketing: An Introduction

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Explain the nature of marketing
2. Discuss the forms of customer value
3. Explain the scope of marketing
4. Apply marketing management principles
5. Discuss the marketing environment
6. Describe market measurement and forecasting techniques
7. Discuss thoroughly the modern marketing context

NATURE OF MARKETING

Marketing is the process by which companies determine what products or services may be of interest to customers, and the strategy to use in sales, communications and business development. It is an integral process through which companies create value for customers and build strong customer relationships in order to capture value from customers in return. Marketing is used to identify the customer, to keep the customer, and to satisfy the customer.

With the customer as the focus of its activities, it can be concluded that marketing management is one of the major components of business management. The evolution of marketing was caused due to mature markets and overcapacities in the last 2-3 centuries. Companies then shifted the focus from production to the customer in order to stay profitable. The term marketing concept holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions. It proposes that in order to satisfy its organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than competitors.

Marketing. Several definitions have been proposed for the term marketing. Each tends to emphasize different issues. Memorizing a definition is unlikely to be useful; ultimately, it makes more sense to thinking of ways to benefit from creating customer value in the most effective way, subject to ethical and other constraints that one may have. The 2006 and 2007 definitions offered by the American Marketing Association are relatively similar, with the 2007 appearing a bit more concise.

Note that the definitions make several points:

- A main objective of marketing is to create customer value
- Marketing usually involves an exchange between buyers and sellers or between other parties
- Marketing has an impact on the firm, its suppliers, its customers, and others affected by the firm's choices
- Marketing frequently involves enduring relationships between buyers, sellers, and other parties

- Processes involved include “creating, communicating, delivering and exchanging offerings”

Delivering customer value. The central idea behind marketing is the idea that a firm or other entity will create something of value to one or more customers who, in turn, are willing to pay enough to make the venture worthwhile considering opportunity costs. Value can be treated in a number of different ways. Some firms manufacture basic products but provide relatively little value above them. Other firms make products whose tangible value is supplemented by services. It is not necessary for a firm to physically handle a product to add value – e.g. online reservation systems add value by:

- Compiling information about available flight connections and fares,
- Allowing the customer to buy a ticket,
- Forwarding billing information to the airline and,
- Forwarding reservation information to the customer.

It should be noted that value must be examined from the point of view of the customer. Some customer segments value certain product attributes more than others. A very expensive product – relative to others in the category – may, in fact, represent great value to a particular customer segment because the benefits received are seen as even greater than the sacrifice made. Some segments have very unique and specific desires and may value what – to some individuals – may seem a lower quality” item – very highly.

Some Forms of Customer Value

The **marketing process** involves ways that value can be created for the customer. **Form utility** involves the idea that the product is made available to the consumer in some form that is more useful than any commodities that are used to create it. A customer buys a chair, for example, rather than the wood and other components used to create the chair. Thus, the customer benefits from the specialization that allows the manufacturer to more efficiently create a chair than the customer could do himself or herself. **Place utility** refers to the idea that a product made available to the customer at a preferred location is worth more than at the place of manufacture. It is much more convenient for the customer to be able to buy food items in a supermarket in his or her neighborhood than it is to pick up these from the farmer. **Time utility** involves the idea of having the product made available when needed by the customer. The customer may buy a turkey a few days before Thanksgiving without having to plan to have it available. **Intermediaries** take care of the logistics to have the turkeys – which are easily perishable and bulky to store in a freezer – available when customers demand them. **Possession utility** involves the idea that the consumer can go to one store and obtain a large assortment of goods from different manufacturers during one shopping occasion. **Supermarkets** combine food and other household items from a number of different suppliers in one place. Certain “**superstores**” such as the European hypermarkets and the Wal-Mart “**supercenters**” combine even more items into one setting.

The Marketing Vs. The Selling Concept

Two approaches to marketing exist. The **traditional selling concept** emphasizes selling existing products. The philosophy here is that if a product is not selling, more aggressive measures must be taken to sell it – e.g., cutting price, advertising more, or hiring more aggressive salespeople. When the railroads started to lose business due to the advent of more effective trucks that could deliver goods right to the customer’s door, the railroads cut prices instead of

recognizing that the customers ultimately wanted transportation of goods, not necessarily railroad transportation. Smith Corona, a manufacturer of typewriters, was too slow to realize that consumers wanted the ability to process documents and not typewriters per se. The **marketing concept**, in contrast, focuses on getting consumers what they seek, regardless of whether this entails coming up with entirely new products. The **4 Ps – product, place, promotion, and price** – represent the variables that are within the control of the firm. In contrast, the firm is faced with uncertainty from the environment.

Scope of Marketing

Marketing people are involved in marketing **10 types of entities**: goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

Goods: Physical goods constitute the bulk of most countries' production and marketing effort. The United States produces and markets billions of physical goods, from eggs to steel to hair dryers. In developing nations, goods – particularly food, commodities, clothing and housing – are the mainstay of the economy.

Services: As economies advance, a growing proportion of their activities are focused on the production of services. The U.S. economy today consists of a 70-30 services-to-goods mix. **Services** include airlines, hotels and maintenance and repair people as well as professionals such as accountants, lawyers, engineers and doctors. Many market offerings consist of a variable mix of goods and services.

Experiences: By orchestrating several services and goods, one can create stage and market experiences. Walt Disney World's Magic Kingdom is an experience; so is the Hard Rock Café.

Events: Marketers promote time-based events, such as the Olympics, trade shows, sports events, and artistic performances.

Persons: Celebrity marketing has become a major business. Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals draw help from celebrity marketers.

Places: Cities, states, regions, and nations compete to attract tourists, factories, company headquarters, and new residents. **Place marketers** include economic development specialists, real estate agents, commercial banks, local business associations and advertising and public relations agencies.

Properties: are intangible rights of ownership of either real property or financial property. **Properties** are bought and sold, and this occasions a marketing effort by real estate agents and investment companies and banks.

Organizations: actively work to build a strong, favorable image in the mind of their publics. Philips, the Dutch electronics company, advertises with the tag line, "Let's Make Things Better." The Body Shop and Ben & Jerry's also gain attention by promoting social causes. Universities, museums and performing arts organizations boost their public images to compete more successfully for audiences and funds.

Information: The production, packaging and distribution of information is one of society's major industries. Among the marketers of information are schools and universities; publishers of

encyclopedias, nonfiction books and specialized magazines; makers of CDs; and Internet Web sites.

Ideas: Every market offering has a basic idea at its core. In essence, products and services are platforms for delivering some idea or benefit to satisfy a core need.

Marketing Management

Marketing Management is a business discipline which is focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities. Rapidly emerging forces have compelled firms to market beyond the borders of their home country, making international marketing highly significant and an integral part of a firm's marketing strategy. **Marketing managers** are often responsible for influencing the level, timing and composition of customer demand accepted definition of the term. In part, this is because the role of a marketing manager can vary significantly based on business size, corporate culture and industry context. For example, in a large consumer products company, the marketing manager may act as the overall general manager of his or her assigned product to create an effective, cost-efficient marketing management strategy, firms must possess a detailed, objective understanding of their own business and the market in which they operate. In analyzing these issues, the discipline of marketing management often overlaps with the related discipline of strategic planning.

Structure

Traditionally, marketing analysis was structured into **three areas:** Customer analysis, Company analysis and Competitor analysis. More recently, it has become fashionable in some marketing circles to divide these further into certain **five "Cs":** Customer analysis, Company analysis, Collaborator analysis, Competitor analysis, and analysis of the industry context

Department analysis is to develop a schematic diagram for market segmentation, breaking down the market into various constituent groups of customers, which are **customer segments or market segmentations**. Market managers work to develop detailed profiles of each segment, focusing on any number of variables that may differ among the segments: demographic, psychographic, geographic, behavioral, needs-benefit, and other factors may all be examined. Marketers also attempt to track these segments' perceptions of the various products in the market using tools such as perceptual mapping. In **company analysis**, marketers focus on understanding the company's cost structure and cost position relative to competitors, as well as working to identify a firm's core competencies and other competitively distinct company resources. Marketing managers may also work with the accounting department to analyze the profits the firm is generating from various product lines and customer accounts. The company may also conduct periodic brand audits to assess the strength of its brands and sources of brand equity. The firm **collaborators** may also be profiled, which may include various suppliers, distributors and other channel partners, joint venture partners, and others. An analysis of complementary products may be performed if such a product exists.

Marketing management employs various tools from economics and competitive strategy to analyze the industry context in which the firm operates. These include Porter's five forces, analysis of strategic groups of competitors, value chain analysis and others. Depending on the industry, the regulatory context may also be important to examine in detail. In **competitor analysis**, marketers build detailed profiles of each competitor in the market, focusing especially

on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profit, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments and other factors.

Marketing management often finds it necessary to invest in research to collect the data required to perform accurate marketing analysis. As such, they often conduct market research to obtain this information.

Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

Marketing Process

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market products that satisfy those needs. The process of doing so can be modeled in a sequence of steps: the **situation** is analyzed to identify opportunities, the **strategy** is formulated for a value proposition, **tactical decisions** are made, the **plan** is implemented, and the **results** are monitored.

The marketing process:

1. Situation analysis
2. Marketing mix decisions
3. Marketing strategy
4. Implementation and control

Situation analysis

A thorough analysis of the situation in which the firm finds itself serves as the basis for identifying opportunities to satisfy unfulfilled customer needs. In addition to identifying the customers' needs, the firm must understand its own capabilities and the environment in which it is operating. The **situation analysis** thus can be viewed in terms of an analysis of the external environment and an internal analysis of the firm itself. The external environment can be described in terms of **macro-environmental factors** that broadly affect many firms, and **micro-environmental factors** closely related to the specific situation of the firm.

The **situation analysis** should include past, present and future aspects. It should include a history outlining how the situation evolved to its present state, and an analysis of trends in order to forecast where it is going. **Good forecasting** can reduce the chance of spending a year bringing a product to market only to find that the need no longer exists. If the situation analysis reveals gaps between what consumers want and what currently is offered to them, then there may be opportunities to introduce products to better satisfy those consumers. Hence, the situation analysis should yield a summary of problems and opportunities. From this summary, the firm can match its own capabilities with the opportunities in order to satisfy customer needs better than the competition.

There are **several frameworks** that can be used to add structure to the situation analysis:

- **5C Analysis:** Company, customers, competitors, collaborators, climate. **The company** represents the internal situation; the **other four** cover aspects of the external situation.

- **PEST analysis:** For macro-environmental political, economic, societal, and technological factors. A **PEST analysis** can be used as the “climate” portion of the 5C framework.
- **SWOT analysis:** Strengths, weaknesses, opportunities and threats – for the internal and external situation.

A **SWOT analysis** can be used to condense the situation analysis into a listing of the most relevant problems and opportunities and to assess how well the firm is equipped to deal with them.

Marketing strategy

Once the best opportunity to satisfy unfulfilled customer needs is identified, a strategic plan for pursuing the opportunity can be developed. **Market research** will provide specific market information that will permit the firm to select the target market segment and optimally position the offering within that segment. The result is a value proposition to the target market.

The *marketing strategy* then involves:

1. Segmentation
2. Targeting
3. Positioning the product within the target market
4. Value proposition to the target market

Marketing mix decisions

Detailed tactical decisions then are made for the controllable parameters of the marketing mix.

The *action items* include:

1. Product development – specifying, designing, and producing the first units of the product.
2. Pricing decisions
3. Distribution contracts
4. Promotional campaign development

Implementation and control

At this point in the process, the marketing plan has been developed and the product has been launched. Given that few environments are static, the results of the marketing effort should be monitored closely. As the market changes, the marketing mix can be adjusted to accommodate the changes.

Often, small changes in consumer wants can be addressed by changing the advertising message. As the changes become more significant, a product redesign or an entirely new product may be needed. The marketing process does not end with implementation, continual monitoring and adaptation is needed to fulfill customer needs consistently over the long term.

MODERN MARKETING CONTEXT

At all points of the modern marketing system people have formed associations and eliminated various middlemen in order to achieve more efficient marketing. **Manufacturers** often maintain their own wholesale departments and deal directly with retailers. **Independent stores**

may operate their own wholesale agencies to supply them with goods. **Wholesale houses** operate outlets for their wares, and farmers sell their product through their own wholesale cooperatives. Recent years have seen the development of **wholesale clubs**, which sell retail items to consumers who purchase membership that give them the privilege of shopping at wholesale prices. **Commodity exchanges**, such as those of grain and cotton, enable businesses to buy and sell commodities for both immediate and future delivery.

Methods of merchandising have also been changed to attract customers. The one-price system, probably introduced by A.T. Stewart in New York, saves salesclerks from haggling and promotes faith in the integrity of the merchant. Advertising has created an international market for many items, especially trademarked and labeled goods. In 1999 more than \$308 billion was spent on advertising in the United States alone. The number of customers, especially for durable goods, has been greatly increased by the practice of extending credit, particularly in the form of installment buying and selling, buying and selling of goods on credit, with the stipulation that payments shall be made at specified intervals in set amounts. Customers also buy through mail-order catalogs by placing orders to specialized “home shopping” television channels and through online transactions on the Internet, the international computer network linking together thousands of individual networks at military and government agencies, educational institutions, nonprofit organizations, industrial and financial corporations of all sizes, and commercial enterprises.

Services are marketed in much the same manner as goods and commodities. Sometimes a service, like that of a repair person or physician, is marketed through the same act that produces it. Personal services may also be brokered by employment agencies, booking agents for concert or theatrical performers, travel agents, and the like. Methods of marketing now include market research, motivational research, another means of determining consumer acceptability of a product before the producer decides to manufacture and market it on a large scale. **Market research**, often conducted by means of telephone interviews with consumers, is a major industry itself, with the top 50 U.S. marketing firms tallying revenues of \$5.9 billion in 1998.

INDUSTRIAL MARKETING

Which some marketing experts have described as a “**sleeping giant**”, has been the subject of very little research. And this despite the fact that it generates higher volumes of sales than consumer marketing. Several developments have transformed industrial marketing in the last few years.

1. **TECHNOLOGY** has become the cornerstone of industrial marketing. New product technologies are emerging and manufacturing processes are evolving. **Information technology** is being leveraged to develop new products and services, in addition to streamlining operations.
2. The **INTERNET** has revolutionized industrial marketing. It has helped bring down the communication costs between the industrial marketers and other stakeholders drastically. E-procurement and e- marketplaces have gained popularity among organizational buyers.

The nature of competition has undergone a sea change in the industrial marketplace. Industrial marketing has reached a stage where we say , “The Business Network is the Business Strategy”. Today, competition is between value-chain partnerships rather than between industrial firms.

MARKET MEASUREMENT AND FORECASTING

Determining the potential of a market segment is indispensable for analyzing the opportunities within a segment, and for deciding if it can possibly be chosen as a target market. It is not only the present market potential that is important and gives an indication of opportunities, but the firm must also be interested in market forecasts. As you have seen the firm wants to survive in the long term and achieve its primary goal being to maximize profitability. Consequently, **market forecasting** is also a very important aid for decision making by marketing management.

Measuring and forecasting requires an analysis of the market with an aim of expressing it in quantitative quantities both present and in the future. The quantitative measurement and forecasting of the market, together with its qualitative characteristics, are used as a basis for decision making by marketing management. Market measurement and forecasting can be seen as a subdivision of market research. This is a very superficial description of the important role market measurement and forecasting play.

KEY CONCEPTS IN PERSPECTIVE

You have probably often heard of the concept “**market potential**”. In marketing terms this means the maximum potential demand for a certain product in a specific market as a whole. **Market potential** is relevant to a specific geographical area, a specific period of time, specific types of products, a specific market segment, and is expressed in terms of all these.

Another concept that is relatively seldom used in colloquial language is **sales potential**, which pertains to the maximum demand for a firm’s product. **Sales Potential** in the same way as market potential, pertains to a specific geographical area, period, and market segment.

Sales potential, however, does not pertain to the types of products a firm deal with, but to a specific product of the firm.

Potential market share is the difference between market potential and sales potential and actually gives an indication of which part of the potential market the firm expects to gain.

Market potential, sales potential and potential market share can pertain either to the present and/or the future. A firm strives to enjoy its sales potential to the full. Market measurement and forecasting, however, are not only relevant to potential demand, but also to actual present and future sales. The actual sales of a type of product in a specific area, period and market segment can also be called the effective demand.

The **market share** of one of a firm’s products is calculated by the ratio of the actual sales of the product concerned to the actual sales in terms of that type of product. This ratio is expressed as a percentage.

You have now learned the meaning of a few elementary concepts in terms of market measurement and forecasting. The marketer can compare these measurements to each other to gain insight into an important indicator of the success of the market offering in relation to other firms, the total market and the market potential.

THE MANAGEMENT OF MARKET MEASUREMENT AND FORECASTING

When you hear the management of market measurement and forecasting being expressed, by this stage you will already realize that it pertains to the planning, implementation

and control of the market measurement and forecasting activities. Just as with any other scientific research, measurement and forecasting must be approached in a systematic and planned fashion to obtain the best value.

Several steps can be mentioned for approaching market measurement and forecasting:

1. **Describe the problem and information needs.** Seeing that it is very expensive to gather information, this step must be very carefully planned. The problem about which information should be gathered must be very clearly defined. Definition of the problem will determine which information must be clearly acquired so that only relevant data is gathered.

2. **Gathering relevant information.** Gathering information serves a dual purpose. **Firstly**, it provides sufficient data for the information needed that is required to solve a problem, and **secondly**, it serves as a basis for the choice of particular methods of measurement and/or forecasting that are to be used.

3. **Selecting the method of market measurement and forecasting.** The choice of measurement and forecasting methods begins with the evaluation of the data that has been gathered. There must be sufficient data of the right quality to provide a satisfactory answer to the problem by means of existing methods of analysis. Thereafter a suitable method can be selected by comparing the information needed and the abilities of the methods to meet the needs.

The method is selected by taking the following *factors into account*:

a.) **the nature and availability of data.** Is there sufficient data of the right nature that can be processed with the help of the specific method? What pattern does the data follow? Certain methods of forecasting can only handle some data patterns effectively. The following patterns can appear in the data: tendencies, seasonal fluctuations and conjuncture patterns.

b.) **the accuracy that is required for decision making is influenced by the choice of methods.** As some methods supply a much more accurate answer than others.

c.) **costs play a role here.** In the same way as they do in most business activities. Just as in the case of marketing research, the cost involved in the chosen method must be weighed up against the accuracy and importance of the required information. Some methods are able to deliver very reliable information, but at extra cost and time.

d.) **time.** Careful consideration is necessary in deciding whether the period of time needed for measurement or forecasting will provide the desired result. Furthermore, the application of certain methods takes much more time than others.

e.) **application.** The results must be useful to the people who have to base their decisions thereon. This means that the results must be of a nature that will enable these people to interpret and understand it effectively. There are several methods that can be selected for measuring and forecasting the market, as will become apparent in the succeeding lecture.

4. **Execution and evaluation.** Once suitable methods have been selected, processing of the information can begin. The results of measuring and forecasting must be evaluated for their accuracy so that corrections can be made in the future. Market forecasting pertains to the long-term and unpredictable changes are likely to necessitate an adaptation of the results.

Textbooks:

- Strategic Marketing Management, Naval, Girly H. Mind shapers Co, Inc. 2021
 - Strategic Marketing Management, Butler, Dane ED-TECH Press 2019
- Strategic Marketing Management: The Framework, Chernev, Alexander Cerebellum Press 2019