University of Southern California
Marshall School of Business

BUAD 307
Lars Perner, Ph.D., Instructor

Marketing Fundamentals
Fall, 2010

SUMMARY OF CLASSROOM MATERIAL

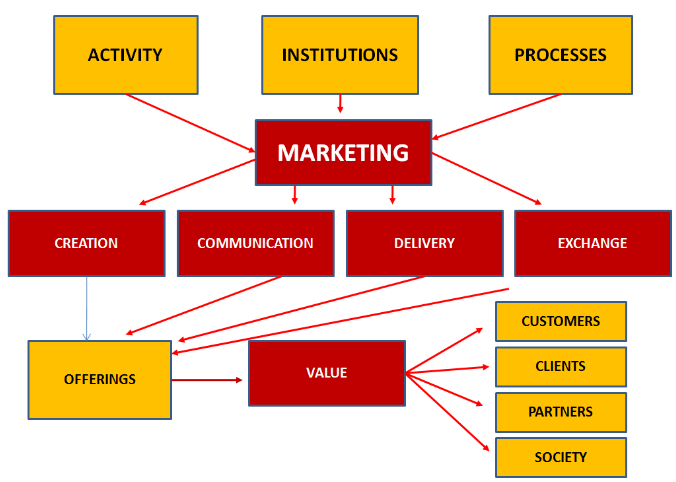
MARKETING OVERVIEW

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 2007 definition offered by the American Marketing Association reads: ""The (1) activity, (2) set of institutions, and (3) processes for (4) creating, (5) capturing, (6) communicating, (7) delivering, (8) and exchanging (9) offerings that have (10) value for (11) customers, (12) clients, (13) partners, and (14) society at large." (Numbering added.)

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."

Graphically, the scope of marketing might be represented as follows:



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 (or contribute other forms of value) to make the venture worthwhile considering opportunity costs. This idea can best be described as a ratio:

$$\text{VALUE} = \frac{\text{BENEFITS RECEIVED}}{\text{COSTS}}$$

Value can be created in a number of different ways. Some firms manufacture basic products (e.g., bricks) but provide relatively little value above that. Other firms make products whose tangible value is supplemented by services (e.g., a computer manufacturer provides a computer loaded with software and provides a warranty, technical support, and software updates). It is not necessary for a firm to physically handle a product to add value—e.g., online airline reservation systems add value by (1) compiling information about available flight connections and fares, (2) allowing the customer to buy a ticket, (3) forwarding billing information to the airline, and (4) 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 (usually in terms of money). 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 one 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 "super centers" combine even more items into one setting.

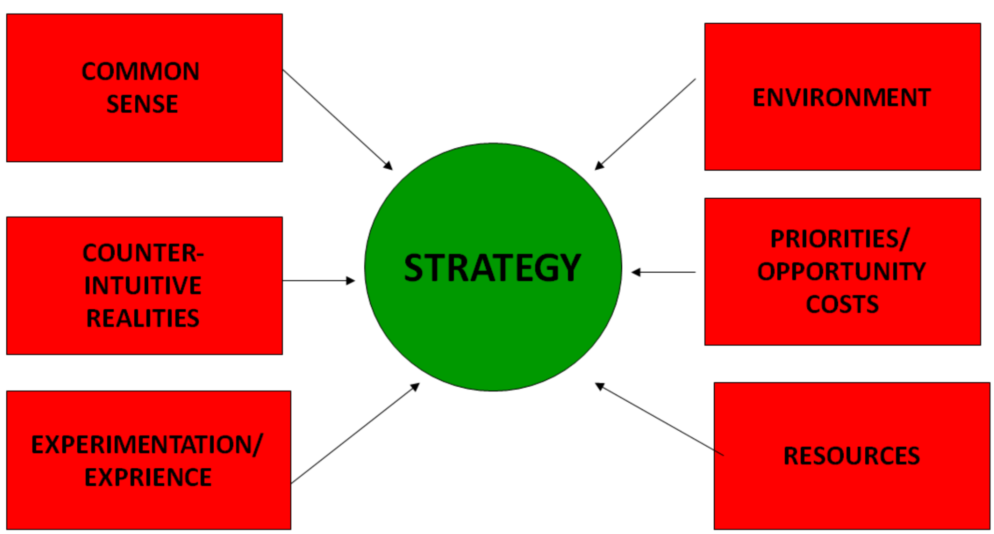
The 4 *Ps*—*product*, *place* (distribution), *promotion*, and *price*—represent the variables that are within the control of the firm (at least in the medium to long run). In contrast, the firm is faced with uncertainty from the environment.

SUMMARY OF CLASSROOM MATERIAL

STRATEGY

Plans and planning. Plans are needed to clarify what kinds of strategic objectives an organization would like to achieve and how this is to be done. Such plans must consider the amount of resources available. One critical resource is capital. Microsoft keeps a great deal of cash on hand to be able to "jump" on opportunities that come about. Small startup software firms, on the other hand, may have limited cash on hand. This means that they may have to forego what would have been a good investment because they do not have the cash to invest and cannot find a way to raise the capital. Other resources that affect what a firm may be able to achieve include factors such as:

- *Trademarks/brand names*: It would be very difficult to compete against Coke and Pepsi in the cola market.
- *Patents*: It would be difficult to compete against Intel and AMD in the microprocessor market since both these firms have a number of patents that it is difficult to get around.
- *People*: Even with all of Microsoft's money available, it could not immediately hire the people needed to manufacture computer chips.
- *Distribution*: Stores have space for only a fraction of the products they are offered, so they must turn many away. A firm that does not have an established relationship with stores will be at a disadvantage in trying to introduce a new product.



Plans are subject to the choices and policies that the organization has made. Some firms have goals of social responsibility, for example. Some firms are willing to take a greater risk, which may result in a very large payoff but also involve the risk of a large loss, than others.

Strategic marketing is best seen as an *ongoing and never-ending process*. Typically:

- The organization will identify the *objectives* it wishes to achieve. This could involve profitability directly, **but often profitability is a long term goal that may require some intermediate steps.** The firm may seek to increase market share, achieve distribution in more outlets, have sales grow by a certain percentage, or have consumers evaluate the product more favorably. Some organizations have objectives that are not focused on monetary profit—e.g., promoting literacy or preventing breast cancer.

- An analysis is made, taking into consideration issues such as *organizational resources, competitors, the competitors' strengths, different types of customers, changes in the market*, or *the impact of new technology*.
- Based on this analysis, a plan is made based on *tradeoffs between the advantages and disadvantages* of different options available.
- This strategy is then carried out. The firm may design new products, revamp its advertising strategy, invest in getting more stores to carry the product, or decide to focus on a new customer segment.
- After implementation, the results or outcome are evaluated. If results are not as desired, a change may have to be made to the strategy. Even if results are satisfactory, the firm still needs to monitor the environment for changes.

Levels of planning and strategies. Plans for a firm can be made at several different levels. At the *corporate* level, the management considers the objectives of the *firm as a whole*. For example, Microsoft may want seek to grow by providing high quality software, hardware, and services to consumers. To achieve this goal, the firm may be willing to invest aggressively.
Plans can also be made at the *business unit* level. For example, although Microsoft is best known for its operating systems and applications software, the firm also provides Internet access and makes video games. Different managers will have responsibilities for different areas, and goals may best be made by those closest to the business area being considered. It is also more practical to hold managers accountable for performance if the plan is being made at a more specific level. Boeing has both commercial aircraft and defense divisions. Each is run by different managers, although there is some overlap in technology between the two. Therefore, plans are needed both at the corporate and at the business levels.

Occasionally, plans will be made at the *functional* level, to allow managers to specialize and to increase managerial accountability. Marketing, for example, may be charged with increasing awareness of Microsoft game consoles to 55% of the U.S. population or to increase the number of units of Microsoft Office sold. Finance may be charged with raising a given amount of capital at a given cost. Manufacturing may be charged with decreasing production costs by 5%.

The firm needs to identify the business it is in. Here, a *balance* must be made so that the firm's *scope is not defined too narrowly or too broadly*. A firm may define its goal very narrowly and then miss opportunities in the market place. For example, if Dell were to define itself only as a computer company, it might miss an opportunity to branch into PDAs or Internet service. Thus, they might instead define themselves as a provider of "information solutions." A company should not define itself too broadly, however, since this may result in loss of focus. For example, a manufacturer of baking soda should probably not see itself as a manufacturer of all types of chemicals. Sometimes, companies can define themselves in terms of a customer need. For example, 3M sees itself as being in the business of making products whose surfaces are bonded together. This accounts for both Post-It notes and computer disks.

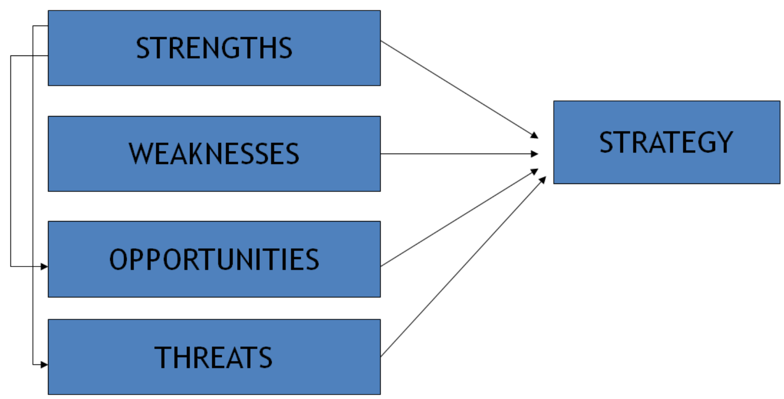
A firm's mission should generally include a discussion of the *customers served* (e.g., Wal-Mart and Nordstrom's serve different groups), the kind of technology involved, and the markets served.

Several issues are involved in selecting target customers. We will consider these in more detail within the context of segmentation, but for now, the firm needs to consider issues such as:

- The *size* of various market segments;
- How well these segments are being *served by existing firms*;
- *Changes* in the market—e.g., growth of segments or change in technology;
- How the firm should be *positioned*, or seen by customers. For example, Wal-Mart positions itself as providing value in retailing, while Nordstrom's defines itself more in terms of high levels of customer service.

A SWOT ("Strengths, Opportunities, Weaknesses, and Threats") analysis is used to help the firm *identify effective strategies*. Successful firms such as Microsoft have certain strengths. Microsoft, for example, has a great deal of technology, a huge staff of very talented engineers, a great deal of experience in designing software, a very large market share, a well respected brand name, and a great deal of cash. Microsoft also has some weaknesses, however: The game console and MSN units are currently running at a loss, and MSN has been unable to achieve desired levels of growth. Firms may face opportunities in the current market. Microsoft, for example, may have the opportunity to take advantage of its brand name to enter into the hardware market. Microsoft may also become a trusted source of consumer services. Microsoft currently faces several threats, including the weak economy. Because fewer new computers are bough during a recession, fewer operating systems and software packages.

Rather than merely listing strengths, weaknesses, opportunities, and threats, a SWOT analysis should suggest how the firm may use its strengths and opportunities to overcome weaknesses and threats:



Decisions should also be made as to how resources should be allocated. For example, Microsoft could either decide to put more resources into MSN or to abandon this unit entirely. Microsoft has a great deal of cash ready to spend, so the option to put resources toward MSN is available. Microsoft will also need to see how threats can be addressed. The firm can earn political good will by engaging in charitable acts, which it has money available to fund. For example, Microsoft has donated software and computers to schools. It can forego temporary profits by reducing prices temporarily to increase demand, or can "hold out" by maintaining current prices while not selling as many units.

Criteria for effective marketing plans. Marketing plans should meet several criteria:

- The plan must be *specific* enough so that it can be implemented and communicated to people in the firm. "Improving profitability" is usually too vague, but increasing net profits by 5%, increasing market share by 10%, gaining distribution in 2,000 more stores, and reducing manufacturing costs by 2% are all specific.
- The plan must be *measurable* so that one can see if it has been achieved. The above plans involve specific numbers.
- The goal must be *achievable* or realistic. Plans that are unrealistic may result in poor

use of resources or lowered morale within the firm.

- The goals must be *consistent*. For example, a firm cannot ordinarily simultaneously plan improve product features, increase profits, and reduce prices.