Washington University of Virginia

BUS 510E ORGANIZATION THEORY

Lecture Notes #10

ORGANIZATION AND MARKETING PRINCIPLES

Primary Source

Kotler, Philip and Gary Armstrong. *Principles of Marketing*, 12th ed. Upper Saddle, NJ: Prentice Hall, 2008.

Part I. Defining Marketing and the Marketing Process

I. Marketing: Managing Profitable Customer Relationships

1. Marketing Definition: In the old sense, marketing is selling and advertising, but the new sense of marketing is the process by which companies create value for customers and build strong customer relationship in order to capture value from customers in return.

2. A Simple Model of the Marketing Process

Figure: A Simple Model of the marketing Process

Understand the marketplace and customer needs and wants
Design a customer-driven marketing strategy
Construct an integrated marketing program that delivers superior value
Build profitable relationships and create customer delight
Capture value from customers to create profits and customer equity

3. Building Customer Relationships: The Overall process of building and maintaining profitable customer relationship by delivering superior customer value and satisfaction. The aim of customer relationship management is to produce high customer equity, the total combined customer lifetime values of all of the company's customers. The key to building lasting relationships is the creation of superior customer value and satisfaction.

II. Company and Marketing Strategy

Marketing's role in strategic planning: Under the strategic plan, the major function departments must work together to accomplish strategic objectives. Marketing plays a key role in the company's strategic planning by providing a marketing-concept philosophy and inputs regarding attractive market opportunities. within individual business units, marketing designs strategies for reaching the unit's objectives and helps to carry them out profitably. Marketers alone cannot produce superior value for customers. A company's success depends on how well each department performs its customer value-adding activities and how well the departments work together to serve the customer. And they must partner effectively with other companies in the marketing system to form a competitively superior value-deliver network.

Part II. Understanding the Market Place and Consumers

I. The Marketing Environment

Marketing environment: The actors and forces outside marketing that affect marketing ability of management to build and maintain successful relationship with target customers.

(a) **Microenvironment** - The actors close to the company that affect its ability to serve its customers - the company, suppliers, marketing intermediaries, customer markets, competitors, and public.

(b) **Macro-environment** - The larger societal forces that affect the microenvironment - demographic, economic, natural, technological, political and cultural forces.

II. Managing Market Information

Marketing information system - People, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers.

1. Developing Marketing Information: Marketers can obtain the needed information from internal data, marketing intelligence, and marketing research.

(a) **Internal Databases**: Electronic collections of consumer and market information obtained from data sources within the company network.

(b) **Marketing Intelligence**: The systematic collection and analysis of publicly available information about competitors and developments in the marketing environment.

(c) **Marketing Research**: The systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization.

2. Analyzing Marketing Information:

3. distributing and Using marketing Information

II. Consumer Markets and Consumer Buyer Behavior

1. Characteristics affecting Consumer Behavior

(a) Cultural factors: Culture, Subculture, Social class - Relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors. Major American social classes are Upper, Middle, Working, and Lower classes.

(b) Social Factors: Groups - Two or more people who interact to accomplish individual or mutual goals. Opinion leader - Person within a reference group who, because of special skills, knowledge, personality, or other characteristics, exerts social influence on others.

(c) Personal Factors: A buyer's decisions also are influenced by personal characteristics such as the *buyer's age and life-cycle stage, occupation, economic situation, lifestyle, and personality and self-concept*.

2. Types of Buying Decision Behavior

(a) **Complex Buying Behavior**: Consumer buying behavior in situations characterized by high consumer involvement in a purchase and significant perceived differences among brands.

(b) **Dissonance-reducing buying behavior**: Consumer buying behavior in situations characterized by high involvement but few perceived difference among brands.

(c) **Habitual buying behavior**: Consumer buying behavior in situations characterized by low consumer involvement and few significant perceived brand differences.

(d) **Variety-seeking buying behavior**: Consumer buying behavior in situations characterized by low consumer involvement and significant perceived brand differences.

3. The Buyer Decision Process

Stages	***Explanation***
1. Need recognition	The consumer recognizes a problem or need
2. Information search	The consumer is aroused to search for more information; the consumer may simply have heightened attention or may to into active information search.
3. Evaluation of alternatives	The consumer uses information to evaluate alternative brands in the choice set.
4. Purchase decision	The buyer's decision about which brand to purchase.
5. Post-purchase behavior	The consumers take further action after purchase, based on their satisfaction or dissatisfaction. Buyer discomfort caused by post-purchase conflict.

III. Business Markets and Business Buyer Behavior

1. Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit. As compared to consumer markets, business markets usually have fewer, larger buyers who are more geographically concentrated. Business demand is derived, largely inelastic, and more fluctuating. More buyers are usually involved in the business buying decision, and business buyers are better trained and more professional than are consumer buyers. In general, business purchasing decisions are more complex, and the buying process is more formal than consumer buying.

2. Major factors influencing business buyer behavior: Business buyers make decisions that vary with the three types of buying situations: *straight re-buys*, *modified re-buys*, and *new tasks*. (a) Straight rebuy - the buyers routinely reorders something without any modification. (b) Modified rebuy - the buyer wants to modify product specifications, prices, terms, or suppliers. (c) New task - the buyer purchases a product or service for the first time.

3. The business buying process: Eight Stages

1. Problem recognition
2. General need description
3. Product specification
4. Supplier search
5. Proposal solicitation
6. Supplier selection
7. Order-routine specification
8. Performance review

4. Institutional and government markets: The institutional market consists of schools, hospitals, prisons, and other institutions that provide goods and services to people in their care. These markets are characterized by low budgets and captive patrons. The government market consists of government units - federal, state, and local - that purchase or rent goods and services for carrying out the main functions of government. Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying. Government buyers operate under the watchful eye of Congress and many private watchdog groups. Hence, they tend to require more forms and signatures and to respond more slowly and deliberately when placing orders.

Part III. Designing a Customer-Driven Marketing Strategy and Integrating Marketing Mix

I. Customer-Driven marketing Strategy

Major Steps in designing a customer-driven marketing strategy

Steps	***Actions***
1. Market Segmentation	Dividing a market into smaller groups with distinct needs, characteristics, or behaviors who might require separate products or marketing mixes.
2. Market Targeting	The process of evaluating each market segment's attractiveness and selecting one or more segments to enter.
3. Differentiation	Actually differentiating the firm's market offering to create superior customer value.
4. Positioning	Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers. Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers.

II. Product, Services, and Branding Strategy

1. The Major Classifications of Products and Services: (a) **Consumer Products** - those brought by final consumers - are usually classified according to consumer shopping habits. (b) **Industrial products** - purchased for further processing or for use in conducting a business - include materials and parts, capital items, and supplies and services. Other marketable entities - such as organizations, persons, places, and ideas - can also be thought of as products.

2. Individual product decisions involve product attributes, branding, packaging, labeling, and product support services. A product line is a group of products that are related in function, customer-purchase needs, or distribution channels. Line stretching involves extending a line downward, upward, or in both directions to occupy a gap that might otherwise by filled by a competitor. In contrast, line filling involves adding items within the present range of the line. All product lines and items offered to customers by a particular seller make up the product mix. The mix can be described by four dimensions: width, length, depth, and consistency.

3. Brand strategy: In building brands, companies need to make decisions about brand positioning, brand name selection, brand sponsorship, and brand development. A company has four choices when it comes to developing brands. - line extensions, brand extensions, multi-brands, or new brands.

4. Four Characteristics affecting the marketing of services: Services are characterized by four key characteristics: they are intangible, inseparable, variable, and perishable. Good service companies focus attention on both customers and employees. They understand the service-profit chain, which links service firms profits with employee and customer satisfaction. Service marketing strategy calls not only for external marketing but also for internal marketing to motivate employees and interactive marketing to create service delivery skills among service providers. To succeed, service marketers must create competitive differentiation, offer high service quality, and find way to increase service productivity.

III. New-Product Development and Product Life-Cycle Strategies

1. Developing New-Product Ideas: Companies find and develop new-product ideas from a variety of sources. Many new-product ideas stem from internal sources. Companies conduct formal research and development, pick the brains of their employees, and brainstorm at executive meetings. Other ideas come from external sources. By conducting surveys and focus groups and analyzing customer questions and complaints, companies can generate new-product ideas that will meet specific consumer needs.

2. Major Stages in New-product Development Process:

1 Idea generation; 2 Idea screening; 3 Concept development and testing
4 Marketing strategy development; 5 Business analysis; 6 Product development
7 Test marketing; 8 Commercialization

3. The Stages of the product life cycle

1 Product development; 2 Introduction stage; 3 Growth; 4 Maturity; 5 Decline

IV. Pricing Products: Understanding and Capturing Customer Value

Factors to Consider when Setting Prices

1. Value-based Pricing: Setting prices based on buyers' perceptions of value rather than on the seller's cost. **2. Cost-based Pricing**: Setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk.

3. **Other Internal and External Considerations** affecting Price Decisions

Internal factors: the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations.

External factors: the nature of the market and demand, competitors' strategies and prices, and other environmental factors.

V. Price-Adjustment Strategies

Strategy	***Description***
Discount and allowance pricing	Reducing prices to reward customer responses such as paying early or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effect
Promotional pricing	Temporarily reducing prices to increase short-run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
Dynamic pricing	Adjusting prices continually to meet the characteristics and needs of individual customers and situations
International pricing	Adjusting prices for international markets

VI. Marketing Channels and Supply-Chain Management

1. Marketing Channel (Distribution Channel) is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. through their contacts, experience, specialization, and scale of operations, intermediaries usually offer the firm more than it can achieve on its own. Members of the marketing channel perform many key functions helping transactions: information, promotion, contact, matching, negotiation, physical distribution, financing, and risk taking.

Figure: Comparison of Conventional Distribution Channel with Vertical marketing System

Conventional marketing channel	***Vertical marketing system***
Producer	Producer Wholesaler Retailer
Wholesaler	
Retailer	
Consumer	Consumer

Figure: Multichannel Distribution System

Producer			
		Distributors	
	Retailers	Dealers	
Consumer Segment 1	Consumer Segment 2	Business Segment 1	Business Segment 2

VII. Retailing and Wholesaling

1. Major Store Retailer Types: Specialty Stores, Department Stores, Supermarkets, Convenience Stores, Discount Stores, Off-Price Retailers, and Superstore.

2. Major Types of Retail Organizations: Corporate chain stores, Voluntary chains, Retailer cooperatives, Franchise organizations, Merchandising conglomerates.

3. Major Types of Wholesalers

Type	***Sub-type***	***Sub-sub-type***
Merchant wholesalers	Full-service wholesalers	Wholesale merchants Industrial distributors
	Limited-service wholesalers	Cash-and-carry wholesalers Truck wholesalers Drop shippers Rack jobbers Producers' cooperatives Mail-order wholesalers
Brokers and agents	Brokers	
	Agents	Manufacturers' agents Selling agents Purchasing agents Commission merchants
Manufacturers' and Retailers' Branches and offices	Sales Branches and offices	
	Purchasing officers	

VIII. Communicating Customer Value

Integrated Marketing Communications Strategy

Figure: Integrated marketing communications
Carefully blended mix of promotion tools

Figure: Elements in the Communication Process

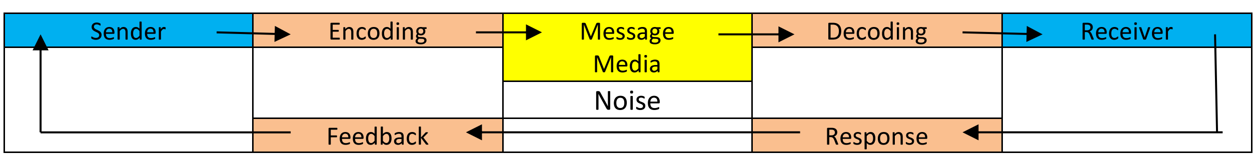
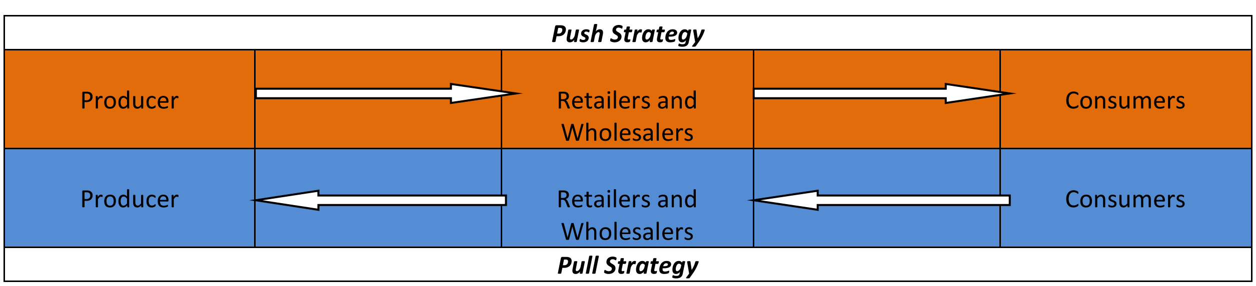


Figure: Push versus Pull Promotion Strategy



IX. Advertising and Public Relations

Figure: Major advertising decisions

<table>
<tr><td colspan="2" align="center">Objective setting
Communication objectives, Sales objectives</td></tr>
<tr><td colspan="2" align="center">Budget decisions
Affordable approach, Percent of sales, Competitive parity, Objective and task</td></tr>
<tr><td align="center">Message decisions
Message strategy
Message execution</td><td align="center">Media decisions*
Reach, frequency, impact
Major media types
Specific media vehicles
Media timing</td></tr>
<tr><td colspan="2" align="center">Advertising evaluation
Communication impact, Sales and profit impact, Return on advertising</td></tr>
</table>

*Profiles of major media types
Television, Newspapers, Direct mail, Magazines, Radio, Outdoor, Internet

Public Relations (PR): Building good relation with the company's various publics by obtaining favorable publicity, building a good corporate image, and handling or heading off unfavorable rumors, stories, and events.

X. Personal Selling and Sales Promotion

Personal selling - personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

Major steps in sales force management

Designing sales force strategy and structure
Recruiting and selecting salespeople
Training - Compensating - Supervising - Evaluating

Sales Promotion: Short-term incentives to encourage the purchase or sale of a product or service. Sales promotion campaigns call for setting sales promotions objectives; selecting tools; and developing and implementing the sales promotion program by using **consumer promotion tools** (coupons, cash refund offers, price packs, premiums, advertising specialties, patronages rewards, point-of-purchase promotions, and contests, sweepstakes, and games), and **business promotion tools** (conventions, trade shows, and sales contests) as well as deciding on such things as the size of the incentive, the conditions for participation, how to promote and distribute the promotion package, and the length of the promotion. After this process is completed, the company evaluates it sales promotion results.

XI. Direct and Online Marketing

Forms of direct marketing

Form	*Description*
Direct-mail marketing	Direct marketing by sending an offer, announcement, reminder, or other item to a person at a particular address
Catalog marketing	Direct marketing through print, video, or electronic catalogs that are mailed to selected customers, made available in stores, or presented online.
Telephone marketing	Using the telephone to sell directly to customers.
Direct-response Television marketing	Direct marketing via television, including direct-response television advertising and home shopping channels.
Kiosk marketing	Many companies are placing information and ordering machines in stores, airports, and other locations.
New digital direct marketing technologies	Mobile phone marketing, Podcasts and Vodcasts, Interactive TV
Online marketing	Company efforts to market products and services and build customer relationship over the internet.
Integrated direct marketing	Direct-marketing campaigns that use multiple vehicles and multiple stages to improve response rates and profits.

Part IV. Extending Marketing

I. Creating Competitive Advantage

1. Basic Competitive Strategies

*Overall cost leadership
*Differentiation
*Focus
*Operational excellence
*Customer intimacy
*Product leadership

2. Market Leader Strategies

*Market **Leader** strategy
*Market C**hallenger** strategy
*Market **Follower strategy**
*Market **Nicher strategy**

II. The Global Marketplace

1. Looking at the Global Marketing Environment

The international trade system - WTO and GATT

Economic, Political-legal, Technological, and Socio-cultural Environments: Uncertainty - changing environment gives MNEs both threats and opportunities.

2. Deciding Whether to go global,

which markets to enter, and

how to enter the market

3. Deciding on the Global marketing program and

Global marketing organization

III. Marketing Ethics and Social Responsibilities

1. Social criticisms of marketing

(a) **Marketing's impact on individual consumers**: High prices; Deceptive practices; High-pressure selling; Shoddy, harmful or unsafe products; Planned obsolescence; Poor service to disadvantaged consumers.

(b) **Marketing's impact on Society as a whole**: False wants and too much materialism; Too few social goods; Cultural pollution; Too much political power

(c**) Marketing's impact on other businesses:** Acquisitions of competitors; marketing practices that create barriers to entry; and unfair competitive marketing practices.

2. Citizen and public actions to regulate marketing

(a) **Consumerism**: An organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers.

(b) **Environmentalism:** An organized movement of concerned citizens and government agencies to protect and improve people's living environment

(c) **Public actions to regulate marketing**

3. Business actions toward socially responsible marketing

(a) **Enlightened marketing**: A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system.

(b) **Marketing ethics**: Increasingly, companies are responding to the need to provide company policies and guidelines to help their managers deal with questions of marketing ethics. One principle states that issues should be decided by the free market and legal system. Second puts responsibility not on the system but in the hands of individual companies and managers, based on personal integrity, corporate conscience, and long-term consumer welfare.

(End of Lecture Notes #10)