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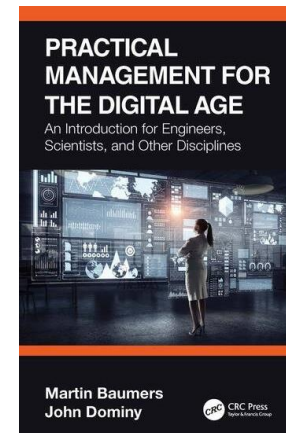
Marketing



What we will talk about today:

Marketing

- *Definition of marketing and the service-dominant logic*
- *Summary of digital marketing*
- *Customer engagement*
- *Segmenting the market*
- *The marketing mix*
- *Organisational culture and marketing*



*Lecture builds on Chapter 11 in
Baumers and Dominy (2021)*

Context: Traditional view of marketing

“Marketing forms part of the activities needed to make customers aware of the product”

Marketing

- About placing the product before potential customers

Selling

- Persuading potential customers to buy a particular product

Advertising

- Supports both of these activities
 - can be persuasive
 - can generate awareness



Modern view of marketing

A broader view of marketing is now accepted:

“Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably”

- Customer satisfaction traditionally describes the degree to which a customer perceives that a product or service meets their expectations
- Business understand the requirements of current and prospective customers will be able to generate products or service offerings that will satisfy these requirements

But what do customers want?

Marketing usually distinguishes between three different kinds of customer requirements: customer needs, customer wants, and customer demands:

- *Customer needs* are states of felt deprivation that customers are trying to satisfy. They include physical, material, social, emotional and material needs
- *Customer wants* are customer needs shaped by a customer's traits such as their personality (if the customer is an individual person)
- *Customer demands* are needs and wants that coincide with a customer's willingness to pay



A modern theory of marketing

Service-dominant logic builds on the premise that organizations, business, markets and society as a whole is based on the exchange of services, even in the case of the provision of physical products and that the universal purpose of businesses is to apply their competences to serve customers

→ *This means that marketing is really about creating value with the customers!*

Up to the 1950s

Marketing as communicating and selling to a market
("telling and selling")

1950s to 2010s

Marketing to customers by delivering value, entailing the management of customers

2010s and onwards

Marketing with the customers to co-create value, involving the customers as partners



Digital marketing

“The key question is not whether to deploy Internet technology — companies have no choice if they want to stay competitive — but how to deploy it.”

- Digital marketing is the pursuit of marketing goals through the use of digital media, digital data and information technology.
- This includes: business websites, proprietary applications, social media activities, search engine optimization, online advertising, email marketing, building relationships with the online presences of other organizations...
- Managing relationships by these means is now known as *Customer Relationship Management (CRM)*
- The objective of such activities is to acquire as many new customers as possible and to maximize sales to the existing customer base

Customer lifetime value

One key element to the theory and practice of customer relationship management is the concept of customer lifetime value (CLV).

Customer lifetime value is the total value of a customer or a customer group to a business resulting from transactions throughout the relationship between the business and the customer.

- Customer lifetime value is the total net benefit arising from a customer or a group of customers to a business over their relationship with the business
- There are many different ways to estimate customer lifetime value and some of these methods are technically demanding
- Accurate estimates of future customer lifetime values are highly desirable for the planning of business activities since they provide an answer to the question of how much a business can invest in acquiring a new customer and still make a profit

A worked example of CLV

Objective: Find out what the what profit is obtained from the average customer of a period of 5 years.

- Set of assumptions (have a look at the book...)
- Starting with a “cohort” of 10,000 customers



EOY	Customers	Retention at end of year	Annual customer revenue	Total annual revenue	Net annual profit (10%)	Cumulative net profit	Customer lifetime value
1	10,000	50%	\$200	\$2,000,000	\$200,000	\$200,000	\$20
2	5,000	55%	\$240	\$1,200,000	\$120,000	\$320,000	\$32
3	2,750	60%	\$280	\$770,000	\$77,000	\$397,000	\$40
4	1,650	65%	\$320	\$528,000	\$52,800	\$449,800	\$45
5	1,073	70%	\$360	\$386,100	\$38,610	\$488,410	\$49

“Channels” for digital marketing

Digital marketers typically distinguish between three different kinds of digital channels through which customers can be reached: *paid media*, *owned media* and *earned media*.



Paid media: analogous to non-digital forms of marketing such as TV or print advertisements, some online marketing channels require the business to pay for visitors, display ads to adopt affiliate marketing in which an affiliate will be paid a commission for the promotion of the business’s product and services.

Owned media: another channel through which a business can reach a target audience is through its own websites, blogs, social media accounts and through email. Non-digital owned media include product brochures and the advertising that occurs in stores and retail outlets.

Earned media: The traditional forms of earned media include the publicity resulting from engaging with important organizations, people and influencers. New forms of earned media include the exposure created through viral and social marketing, including any communications, ratings and reviews published by customers.

BUT:

→ Digital marketing activities will frequently be complemented or supported by traditional marketing activities (e.g. TV ads or in-person sales).... This is known as *“multichannel marketing”*



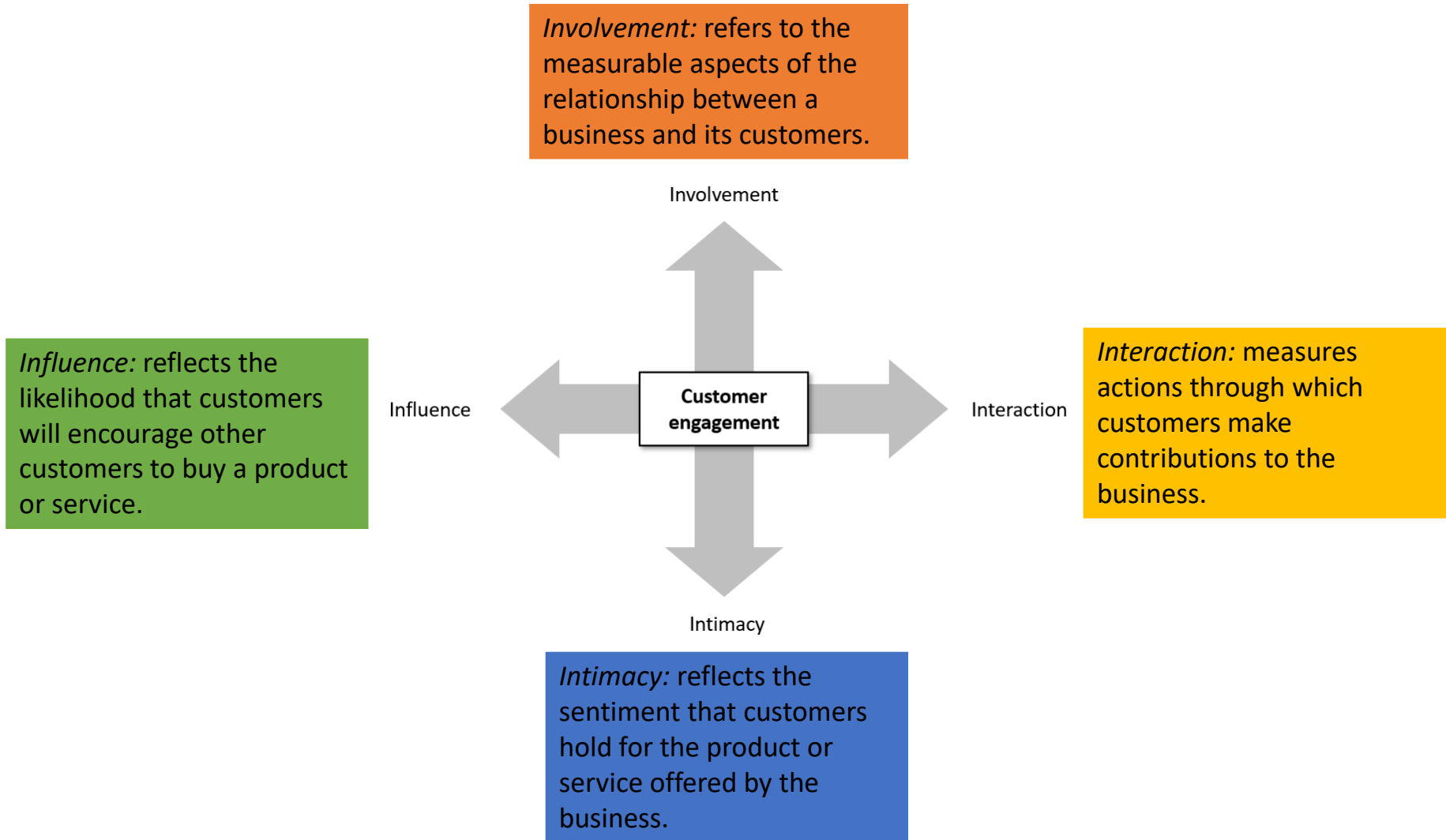
... but this list is not exhaustive ...

Customer engagement

The objective of building customer engagement has emerged as highly important for all businesses and is a central objective in marketing:

- *Customer engagement is the repeated interaction between a customer and a business through online and offline communication channels*
- Its objective is to strengthen the relationship a customer has with a business through mental, emotional and social factors as well as through the objects the customer owns

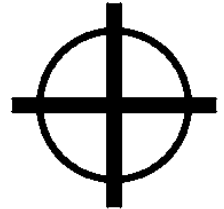
Four dimensions of customer engagement



Developing customer engagement through CRM

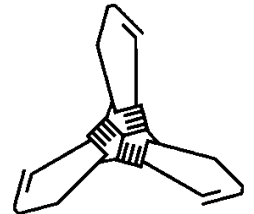
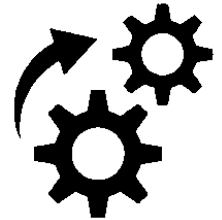
Adopting the customer relationship management approach enables a multitude of activities by which customer engagement can be improved:

- *Cost-effective targeting*: by collecting data on customers, it is possible to effectively target customers with specific marketing communications
- *Permission marketing* (or inbound marketing): some actions by customers, such as visiting a certain website, signing up to a mailing lists, or registering their interests, allow marketers to identify highly relevant groups of customers for further marketing activities
- *Tailored marketing communications*: coupled with sophisticated software systems, data on customers allows the tailoring of marketing communications to small groups of customers or to individuals



Developing customer engagement, continued

- *Sense-and-respond communications:* by closely monitoring customer behaviour during interactions, for example with a company website, or when a customer fills in online feedback forms, particularly timely and relevant marketing communications can be designed and delivered to the customer
- *Automated communications:* once the necessary systems are in place, targeted communications can be sent to customers in an automated way, incurring little additional cost
- *Loyalty programs:* the data required by customer relationship management can be obtained by customer loyalty schemes allowing the identification of individual patterns of interaction and habits



Segmenting the market

The general basis for the commercial success of any business relies on its ability to create market offers that meet the needs of customers:

- This requires identifying such needs, which may be diverse in a population of potential customers
- The process of splitting an overall market with customers that have diverse needs into smaller groups that exhibit more similar needs is referred to as market segmentation

Aspects of market segmentation



- *Demographic factors:* a straightforward and effective method to segment markets is by using demographic factors, which relate to the structure of the population measured by statistical means, such factors can include age, gender, family status, education, nationality, religion and ethnicity - **this form of segmentation is used frequently in B2C marketing.**



- *Geographic factors:* a market can be segmented by geographic factors, relating to the location of customers. This allows businesses to varied products or services according to local preferences if a particular region or geographical location is promising – **this form of segmentation is important for B2C and B2B marketing.**



- *Behavioral and psychological factors:* it is also common for markers to distinguish between different customers according to their attitude towards a product of service or according to how it will be used. Additionally, there may be psychological and cognitive factors to consider, such as the tendency towards loyalty - **this form of segmentation is relevant for both B2C and B2B marketing.**

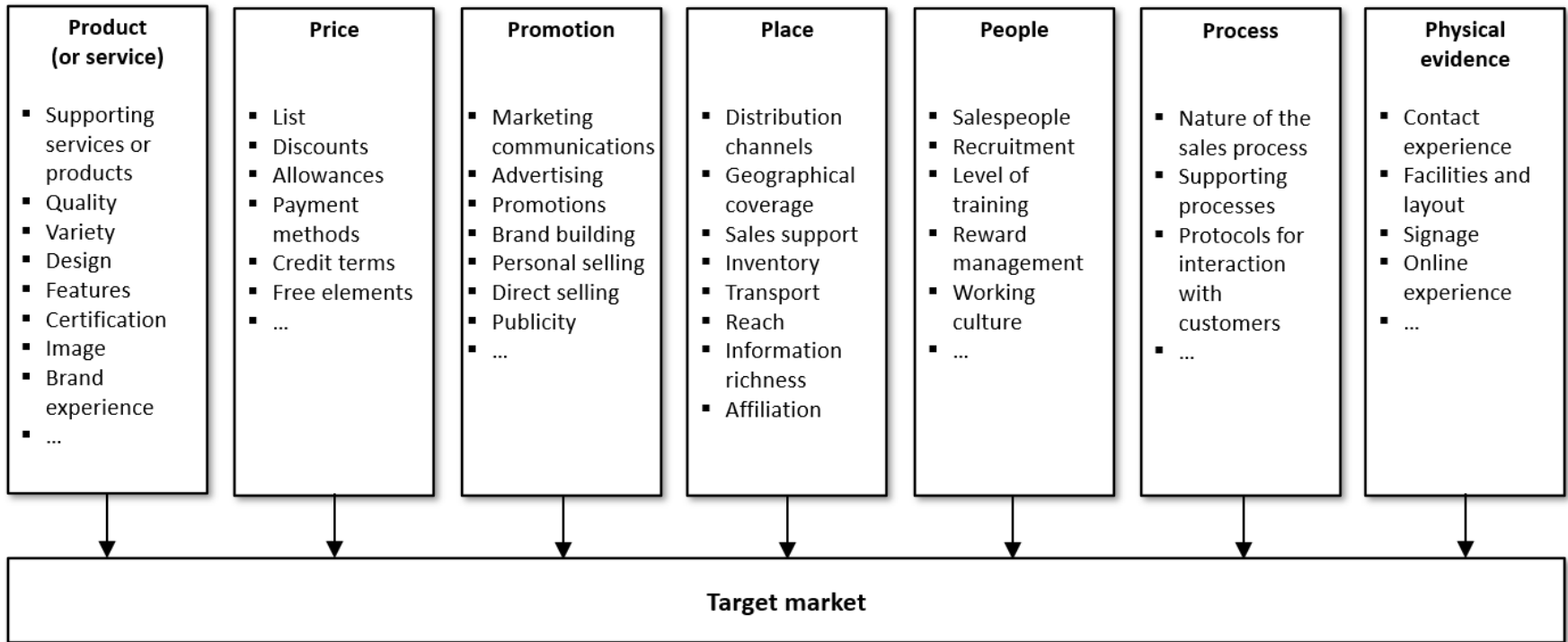
The marketing mix

The instruments available to marketers to create as much demand for the market offer as possible are traditionally summarized in what is known as the *marketing mix*:

- *Originally proposed as the four 'P's of product, price, promotion, place by marketing scholar Jerome McCarthy in 1960*
- *Later extended by the additional elements people, process and physical evidence to better reflect the characteristics of services*



The marketing mix, continued



1. Product (or service)

Product refers to the products or services that make up the market offer to the customer audience in the target market.

- This is mostly a combination of aspects since a physical product is usually supported through services such as delivery or support and a service may include some physical objects that facilitate enhance the service, such as in-flight meals on board a commercial flight.

A highly important aspect of products or services as part of the marketing mix is their *branding*:

- A branded product or service is one whose features are differentiated from other products or services that satisfy the same need.



Branding is the practice of distinguishing a product or service offering from competing offerings through its overall features and characteristics as perceived by the customer.

Some context on branding

With the emergence of the large consumer goods companies over the last century, the concept of the brand replaced the personal relationship with the business owners.

Think of the following brands:



Rolls-Royce®



They will evoke certain expectations:

- Quality
- Consistency
- A little bit of “magic”

→ *In return for brand loyalty and a price premium*

More context on branding and brands...

Do Heinz Beanz really taste better than stores' own brands?



OR



Coca-Cola and Pepsi

World domination of soft drinks - BUT diversification from core product

- Marketing-heavy industry



- In 1998, The Coca Cola Company has provided an estimated 3% of all human liquid intake (Hughes et al., 1998)

Rolls-Royce (motor cars)

- Exclusivity to the point of invisibility? Under BMW ownership

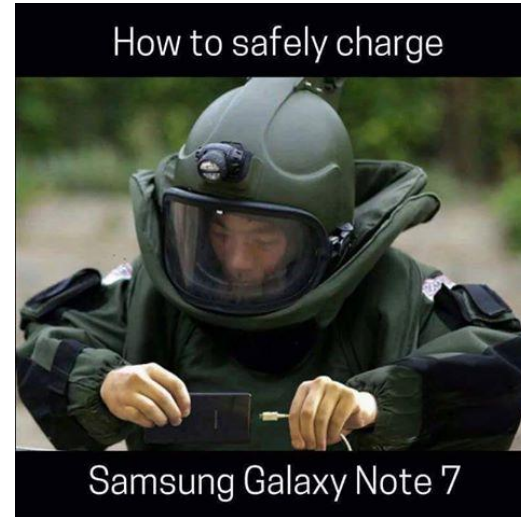


Nike

- Very clever branding and market positioning, with manufacturing operations at external companies.
- Nike's "Demand Creation" (i.e. Marketing) budget was \$3.2bn in 2015, at a total revenue of \$30.6bn
 - More than 10% of overall revenue!



But it is easy to destroy brand confidence...



2. Pricing

Businesses face the challenge of setting the appropriate price for their products. The overall goal of pricing is (normally) to maximize profit..

- While economics dictates that the profit-maximizing price is determined by the market, at least in the long-term, in some circumstances it is desirable to vary this price in the short-term as part of marketing activities, for example to promote sales, to capture market share, or to signal that a product is of high value
- For the use of pricing as a marketing instrument, recall the concept of own-price elasticity of demand...
$$PED = \frac{(q_1 - q_0)/q_0}{(p_1 - p_0)/p_0}$$
- A product's *list price*, which is the price recommended by a business selling through intermediaries such as retailers, gives customers important signals about the quality of products
- It may well be the case that an increase in the list price counterintuitively leads to higher sales volumes in some situations → *does this violate the law of demand?!*

3. Promotion



Promotion refers to the *marketing communication* employed to create awareness of the market offer among potential customers:

- Successful promotion will create an interest in a product or service and persuade potential customer to investigate it further
- The most important form of promotion is advertising, which is used to transmit a pre-defined, yet increasingly customized, message to the target audience of a product or service
- Where a personal selling approach is used outside of the traditional selling setting, such as in retail environments for B2C business models, the term *direct selling* is used.
- *Publicity*, also known as *public relations*, is an umbrella term of activities aimed at establishing a positive public image of a business

Viral marketing

One form of social media marketing is viral marketing, also known as buzz marketing. Applied to the online context, viral marketing utilizes word-of-mouth, in which awareness of brands and specific marketing communications are transmitted from one user to another using electronic systems, for example in the form of social media posts or emails.



4. Place

The place element of the marketing mix refers to the distribution of products or services to the final users. This can be organized by the business directly or indirectly through intermediaries, such as retailers in the case of consumer products.

- The goal of marketers is to place products or services prominently in the minds of potential buyers.
- Place also plays a very important role in digital commerce. Here it has been argued that three general forms of *navigational advantage* are crucial in ensuring successful marketing . These are as follows:



Reach



Richness



Affiliation

5. People

In the marketing mix people refers to the way in which the business interacts with customers and other stakeholders in the process of marketing and selling products or services.

- In many businesses the emphasis will be on salespeople or employees interacting directly with customers.
- People are also important in many service industries, such as professional services, financial services and in hospitality where the service is generated directly by the people the customers interact with.



6. Process

The process element of the marketing mix refers to the group of activities in a business that result in the delivery of the benefits of products or services.

- Normally focused on the sales process and operational in nature, other marketing-relevant processes include the development of new products, promotion activities and customer service.
- A process forms a sequential ordering of specific tasks that involve one or more employees.
- Many marketing-relevant processes form protocols of how a business plans to interact with customers.
 - *For example, a restaurant may have processes that define how customers are promptly greeted, seated, served and led out of the premises so that other customers can be served...*



7. Physical evidence

The final element of the marketing mix is physical evidence. This refers to the expression of a product or service in a physical, or tangible, form.

- It involves all physical aspects of the encounter between the business and the customer, including equipment, furniture and facilities.
- Physical evidence may also refer to the abstract aspects that make up the environment in which the encounter between the business and the customer takes place, including interior design, colour schemes and facility layout
- Also includes souvenirs, mementos or other commemorative documents featuring business signage, etc.



And finally: organisational culture and marketing

Different businesses exhibit different organizational cultures. Organizational cultures are the various norm, values, assumptions and beliefs held by the members of an organization that guide how an environment is perceived and responded to. A set of distinct cultures with respect to marketing have been identified.

Product orientation: businesses with this orientation prioritize the development and perfection of a product or service

Production orientation: emphasizing the ability to generate large volumes of products or services as efficiently and economically as possible

Selling orientation: guided by the objective to sell products and services as effectively and rapidly as possible, normally by employing aggressive sales techniques.

Marketing orientation: marketing activities permeate the entire business, and a strong emphasis is placed on satisfying customer needs



Lecture summary:

- *Seen that marketing has changed dramatically over the recent past... with the emergence of service-dominant logic*
- *Understand the importance and nature of digital marketing*
- *Now know customer engagement and how to segment a market*
- *Understand the marketing mix and the relationship between organisational culture and marketing*



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Thank you!