Final Exam Review

A couple of things

- Presentations: share them with me by midnight of December 1st
- Peer evaluations due **Dec 6 via blackboard assignments**
  - **Each group member submit one**
- Project paper due **Dec 6 via blackboard assignments**
  - **One per group**
- Course evaluation
  - You should have received an email with a personalized link to complete them
- The final exam is **Friday, Dec 9, at 11 am in Edison**
  - Bring a pencil/pen and a calculator

Final: what you need to know

Chapters 1-18 excluding chapter 8 (lectures, discussions, cases, etc.) may appear on the exam

- The majority, but not all the questions, will be on chapters 10-18
- Bring a pencil/pen and a calculator

Services:
the intangible product (CH 13)

Service: intangible offering that involves an effort and performance that cannot be physically possessed.

Service vs Product Marketing (CH 13)

Factors differentiating products from services

1. Intangible
   - Requires using cues (signals)
2. Inseparable
   - Production and consumption are simultaneous
3. Heterogeneous
   - Same service provider's quality can vary
4. Perishable
   - Cannot be stored and reused

Providing a Good Service (CH 13)

How can firms provide a good service?

Recap (CH 13)

Key concepts to deliver a good service

1. Knowledge: understand customers' expectations
2. Standards: the service standards firms set
3. Delivery: actual service that firms provide to customers
4. Communication: firms deliver the service promoted

Service Failure (CH 13)

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Service Recovery (CH 13)

1. Listen to the customer
   – You need to know what is the problem to solve it!

2. Provide a fair solution
   – E.g., problem with hotel room -> change (and even upgrade) customer room

3. Do it quickly!
   – The longer it takes to resolve service failure the more irritated the customers

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Service Recovery Paradox* (CH 13)

"A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place" -- Etzel, M. and Silverman, B. (1981).

* A Managerial Perspective on Directions for Retail Customer Dissatisfaction Research
Etzel, M. and Silverman, B. (1981).

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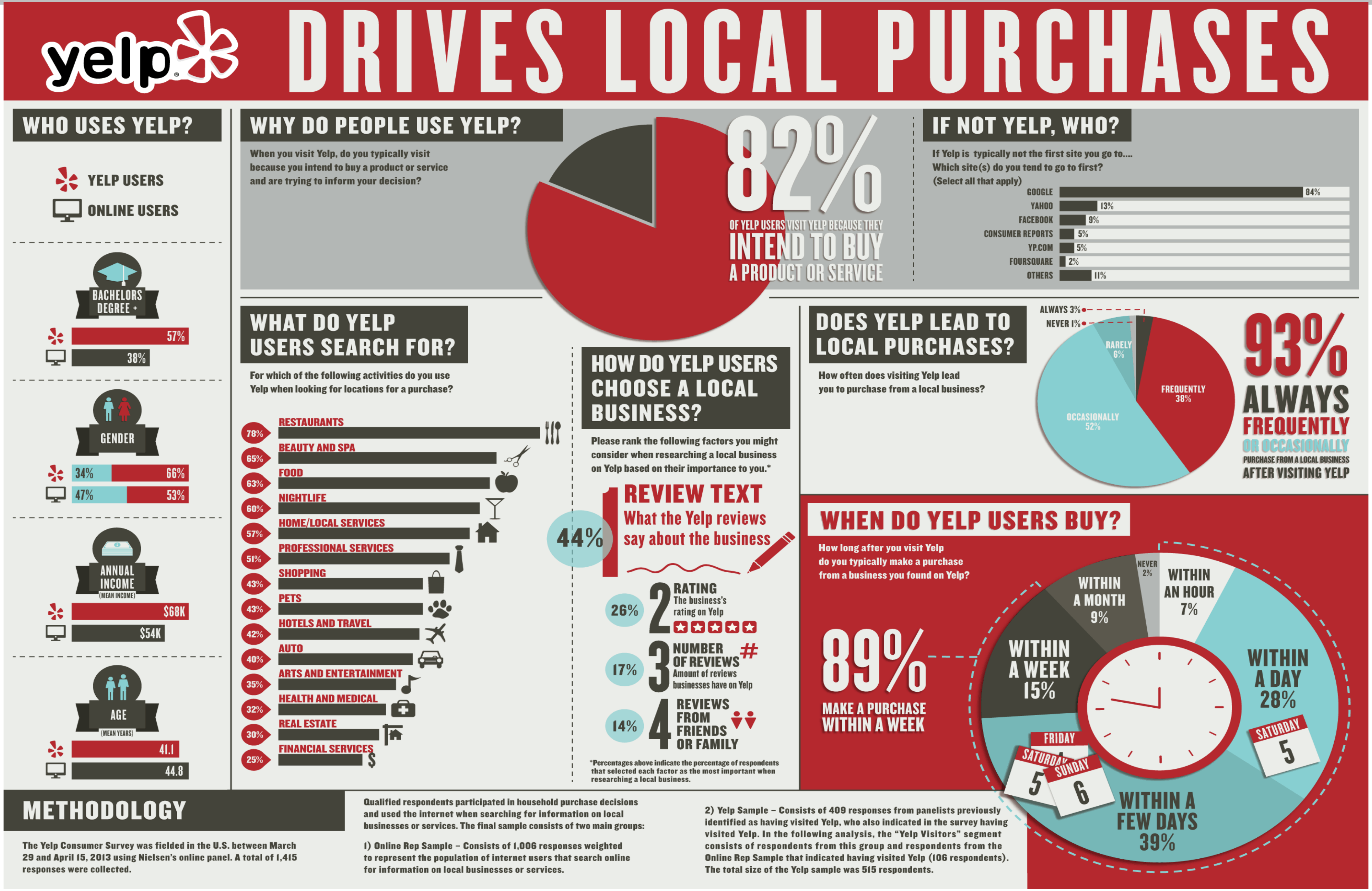
Reviews and ratings (CH 13)



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Pricing (CH 14)

Price is NOT just what you pay - it's everything that you, as a consumer, give in exchange for the product you purchase (time, effort in finding it, effort spent researching it)

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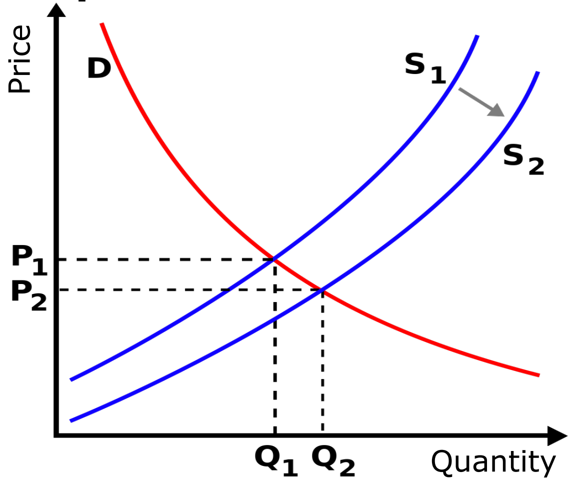
Pricing (CH 14)

Price is affected by many factors (5 C's)

- The company objective of the firm: Profit? Sales?
- Which customers the firm is targeting?
- Firm costs: variables and fixed
- Competitions: is there someone else selling a similar product to mine?
- Channel members (manufacturers, wholesalers, retailers)

Price elasticity of demand

- Example



$$P_1 = \$10 \qquad P_2 = \$5$$
$$Q_1 = 0.5M \qquad Q_2 = 0.75M$$

- **Pct. change Q** $= \frac{Q_2 - Q_1}{Q_1} * 100 = \frac{0.75 - 0.5}{0.5} * 100 = 50\%$
- **Pct. change P** $= \frac{P_2 - P_1}{P_1} * 100 = \frac{5 - 10}{10} * 100 = -50\%$
- **Elasticity** $= \frac{Pct.Change\ in\ Quantity}{Pct.Change\ in\ Price} =$ -1

Price elasticity of demand

- **Elasticity** = -1
  - 1% decrease in price results in an increase of 1% in quantity demanded

- Elastic market → price sensitive
  - Small change in price, large change in demand
- Inelastic market → price insensitive
  - Small changes in prices, small change in demand

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Costs (CH 14)

To make effective price decisions firms must take into account costs

- Variable costs
  - Vary with production volume

- Fixed costs
  - Unaffected by production volume

- Total costs
  - Sum of variable and fixed costs

Break-even analysis

- Computing break even point

  Revenue = Total costs

  P x Q = fixed costs + variable costs

  P x Q = fixed costs + variable costs per unit x Q

- We want to find Q (break-even units):

$$Q = \frac{Fixed\ costs}{\underbrace{P\ - variable\ cost\ per\ unit}_{\textbf{Contribution per unit}}}$$

Competition (CH 14)

Prices are affected by the presence and capabilities of competitors

- Pure or Perfect Competition
  - Large number of firms
  - Homogeneous products
  - Easy entry/exit
  - No market power (price taker)
    - Firms accept the prevailing prices

Competition (CH 14)

Prices are affected by the presence and capabilities of competitors

- Monopoly
  - One firm in the market (e.g., city, regional area, and doesn't necessarily have to be an entire country)
  - Unique product
  - Blocked entry (e.g., limited by government)
  - Significant market power

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Competition (CH 14)

Prices are affected by the presence and capabilities of competitors

- Oligopoly
  - Few large firms supply a sizable portion of products in the market
  - Homogenous or differentiated products
  - Significant barriers to entry (costly)
  - The market power of a firm depends on the actions of the other firms in the industry

Competition (CH 14)

Prices are affected by the presence and capabilities of competitors

– Monopolistic (imperfect) competition
  - Large number of firms
  - Differentiated products—products that differ slightly but serve similar purposes→ products are not perfect substitutes
  - Low barrier to entry
  - Some degree of market power

Competition (CH 14)

	Less price competition	More price competition
Fewer firms	Monopoly	Oligopoly
More firms	Monopolistic competition	Pure competition

Pricing strategies (CH 14)

- Everyday Low Pricing (EDLP)
  - E.g., Walmart
- High/low pricing
  - Sales

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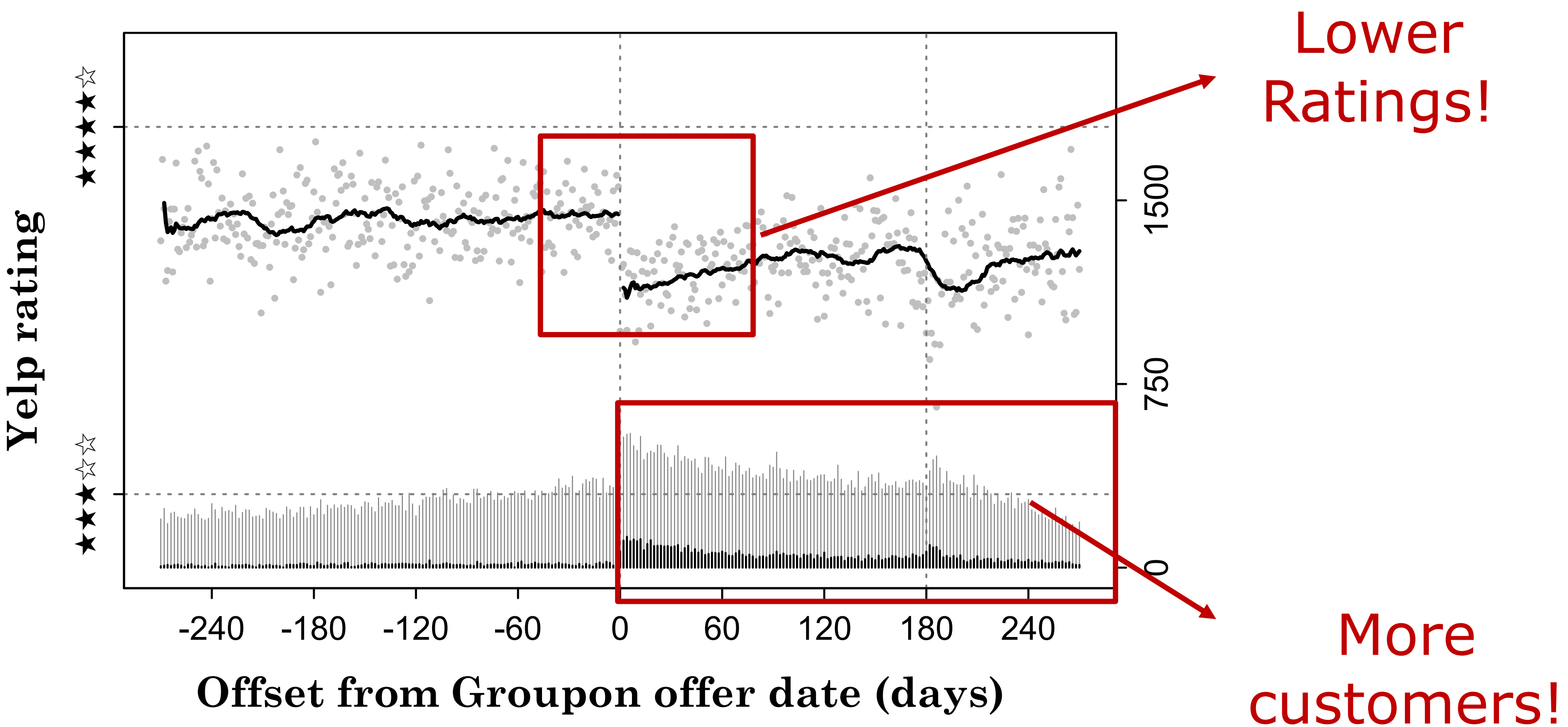
New Product Pricing Strategies (CH 14)

Two strategies:

1. Penetration pricing
   - Set initial price low to build sales, market share, profits
   - **Pros**: builds market share, quick profits, etc.
   - **Cons**: sacrifice profits, signaling, etc.

2. Price skimming
   - At first high price, then, when market saturated, low price
   - **Pros**: high quality perception, fast costs recovery, etc.
   - **Cons**: cannot last long, possible consumers dissatisfaction, etc.

The Groupon Effect on Yelp Ratings (CH 14)



(a) Rating vs. offset, centered on offer date

Dynamic pricing:
The Case of Uber (CH 14)

Dynamic pricing: The Case of Uber (CH 14)

- What is the goal (or goals) Uber is trying to achieve with the surge price algorithm?

1. Match demand with supply

2. Reducing waiting time

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Price discrimination (CH 14)

- Price discrimination
  - **First-degree**: “personalization”
  - **Second-degree**: quantity/version
  - **Third-degree**: groups

- Internet and big data are facilitating first degree price discrimination

Supply Chain (CH 15)

Supply chain vs marketing channels (CH 15)

- Supply chain represents ALL the organizations that figure into any part of the process of producing, promoting, and delivering an offering or product to its user
- Marketing channels: how the supply chain is organized and managed

Supply chain (simplified)

Make

Some of the activities include:
- Making the actual product
- Research & Development
- Supply chain management (efficiency, savings)

Move/store

This level in the supply chain may (or may not) include a wholesaler like Costco

Sell

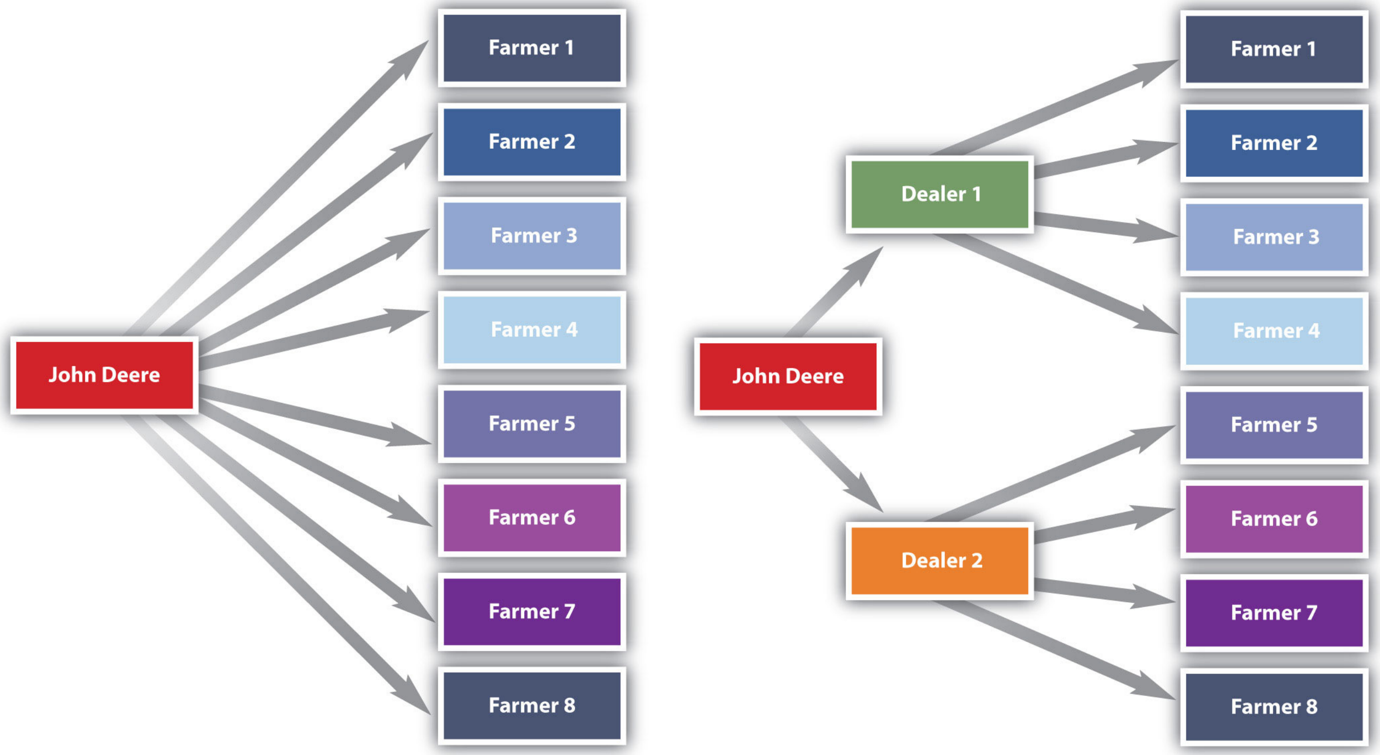
Retailers, distributors, and manufacturers will often work closely with one another to create a more efficient supply chain, which can improve sales and profitability. It can even result in savings for the consumer.

Consumers

If the consumer is not happy, no one along the supply chain is happy!

Marketing channels add value

Streamline the number of transactions an organization must make



Marketing Channels Add Value (CH 15)

- Increase value for consumers
  - Costco offers very competitive prices by cutting deals with manufacturers
- Retailers are more efficient and effective
  - Lower inventory
  - Have what you need in stock → sales increase

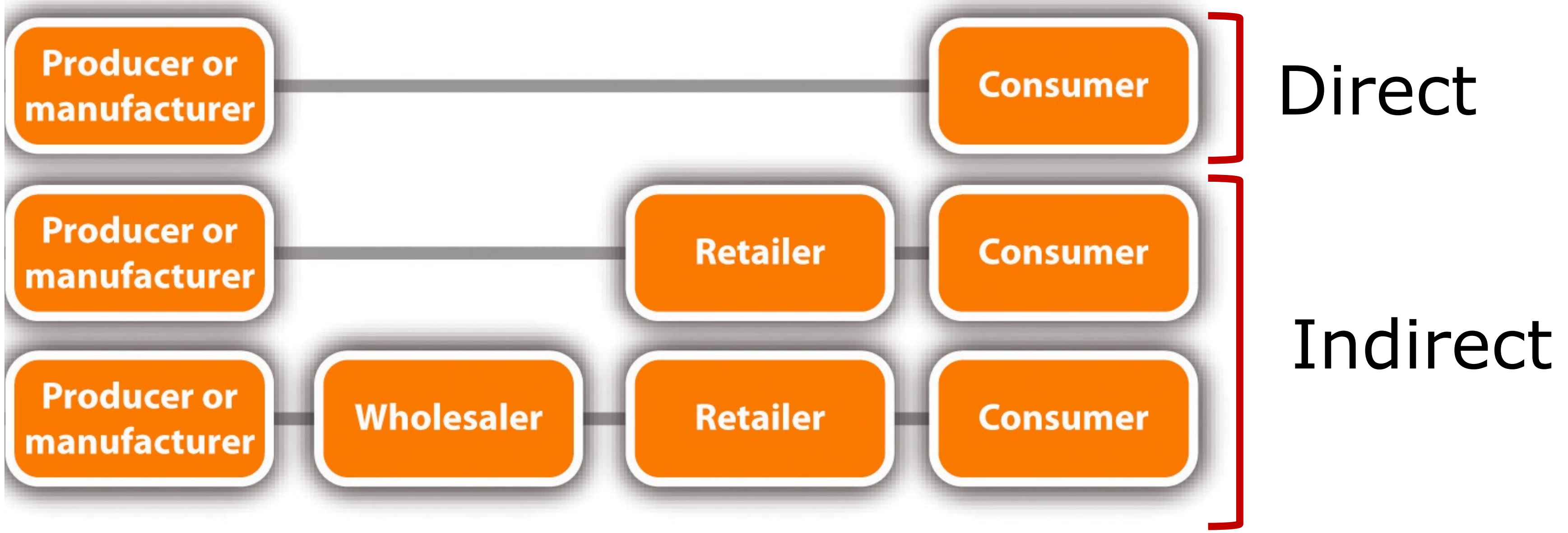
Marketing Channels Affects Other Aspects of Marketing (CH 15)

- Fulfilling delivery promises
  - Deliver on time!
- Meeting customer expectations
  - Have the product currently promoted
    - Avoid service failures and keep customers satisfied!
- Important to have a reliable and efficient supply chain
  - Break down: buy product on Amazon to be delivered Saturday, but UPS fail to deliver

Direct vs indirect marketing channel (CH 15)

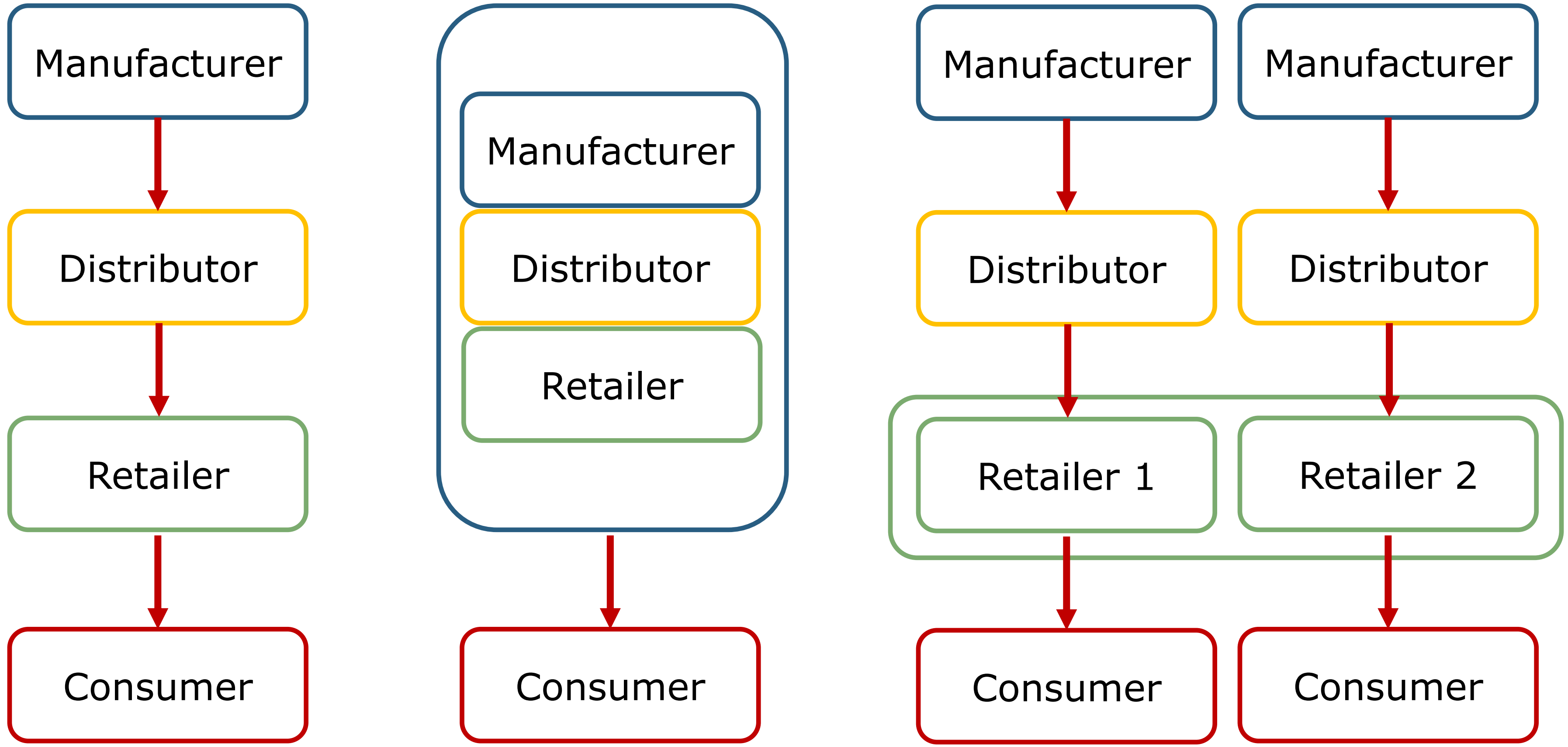
Depending on the entities participating in the channel we have:

1. Direct marketing channel
    - No intermediary level
2. Indirect marketing channel
    - At least one intermediary level



More types marketing channels (CH 15)

Conventional | Vertical | Horizontal



Every entity has its own goals

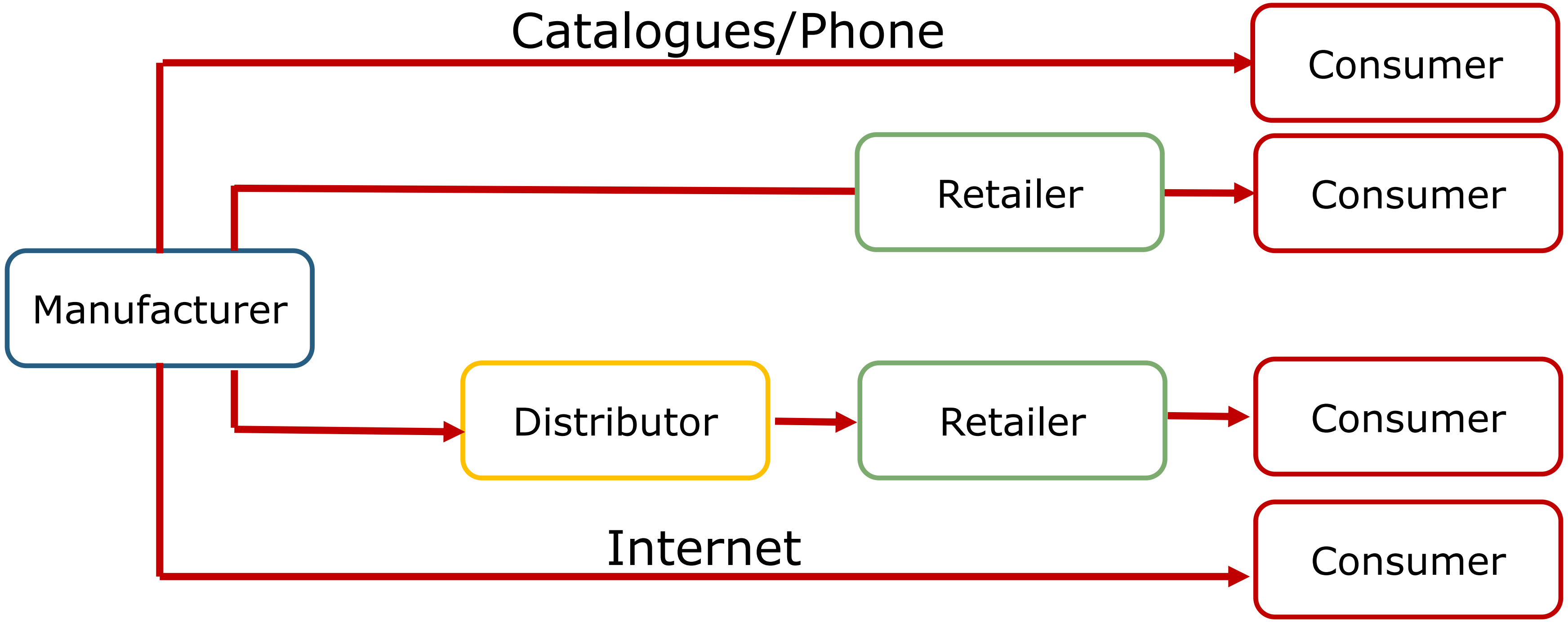
Entities act as unified system

2+ firms join at one level of the supply chain

Multichannel

Offline and online channels are two different channels that many company use

- Staples, Macy's, etc.

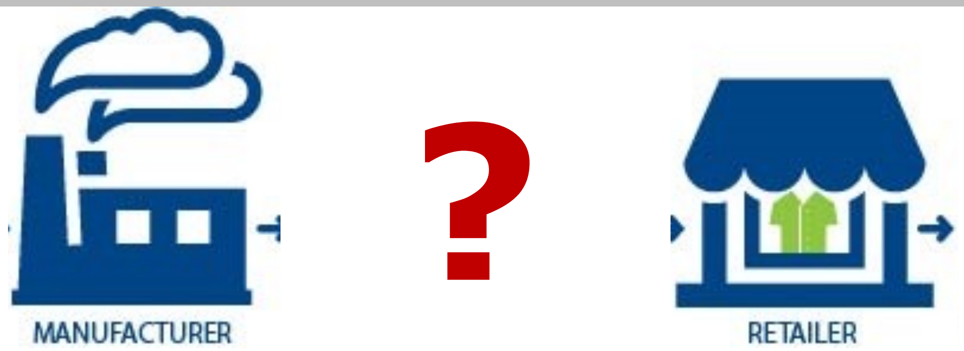


Retailing (CH 16)

Definition: Set of business activities that add value to products and services sold to consumers

- Location → bring product/service closer to consumers
- Wide selection of products
- Salespersons can help in final choice/fit a product, e.g.:
  - Clothes → tailor to fit perfectly
  - Bike → bike fitting and sizing

Manufacturer – retailers relationship (CH 16)



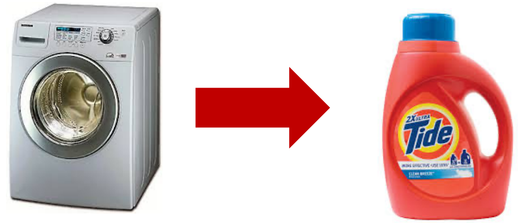
Which factors do manufacturers consider to establish relationship with retailers?

- Who fits your image best?
- What type of retailer should you pursue?
- What is your retail strategy?
- Multichannel presence – Online, brick & mortar

Retail strategy: Product

Retailers add value using the four Ps

1. Product: Home Depot Case
   - Provides customers better access to product they want!
   - Provides right assortment



   - Online store to match consumer needs
     - Easier to locate items
     - No need to have physical product in stores
       - Online we can find low selling items

Retail strategy: Price (CH 16)

Retailers add value using the four Ps

2. Price
   - It sets the image and perception of consumers

Retail strategy: Promotion (CH 16)

Retailers add value using the four Ps

3. Promotion

- Facilitate sales
- Affect firm image
- Different forms
  - Offline/online
  - Coupon
  - Credit cards
  - Social media
  - Mobile
  - Etc.

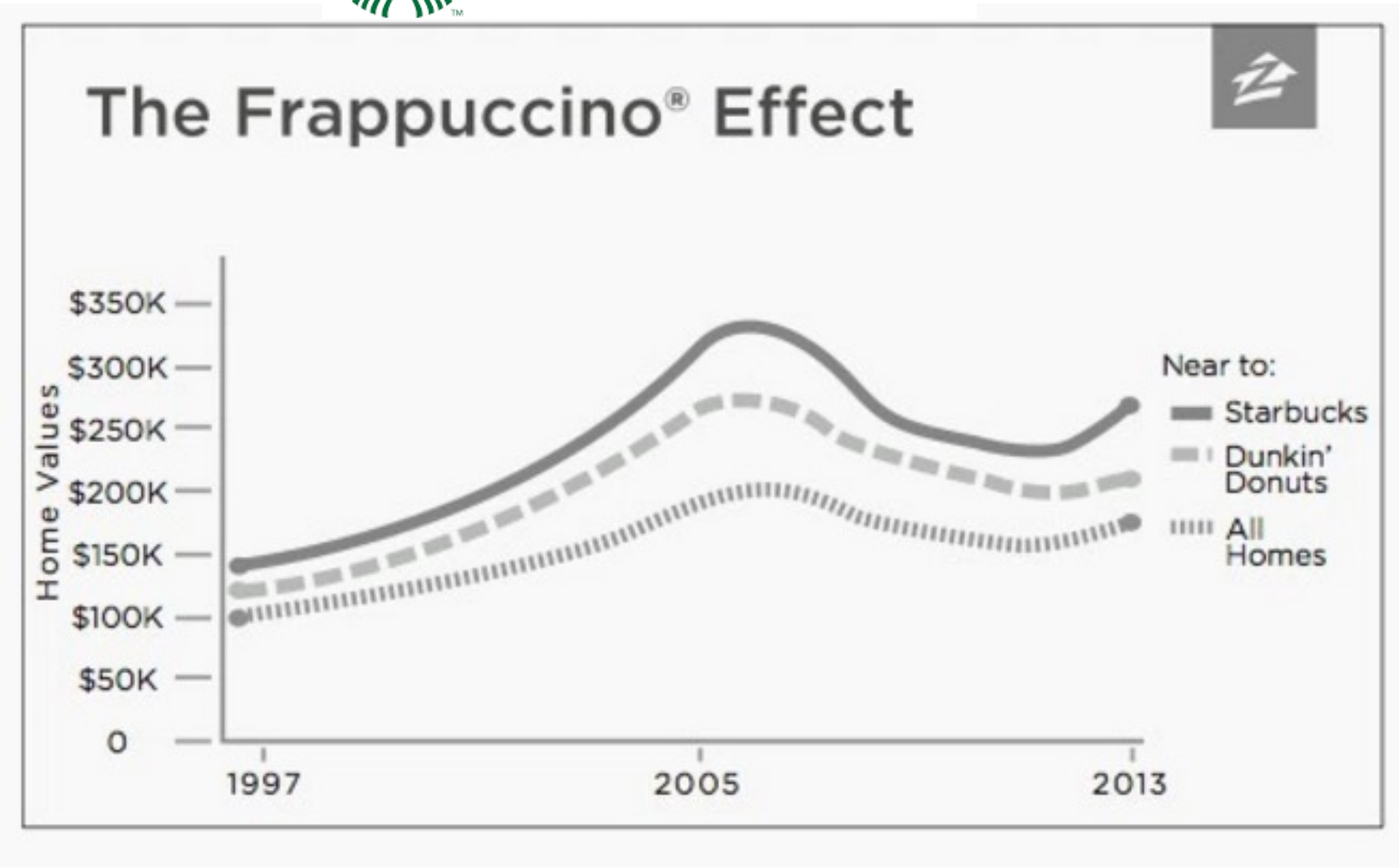
Retail strategy: Place (CH 16)

Retailers add value using the four Ps

4. Location, location, location
   - Being in a good location gives competitive advantage
     - If Starbucks is in a very good location, how can competitors find a competitive place where to open their stores?

Retail strategy: Place (CH 16)

STARBUCKS



Full article available at: http://qz.com/334269/what-starbucks-has-done-to-american-home-values/

Multichannel retailing (CH 16)

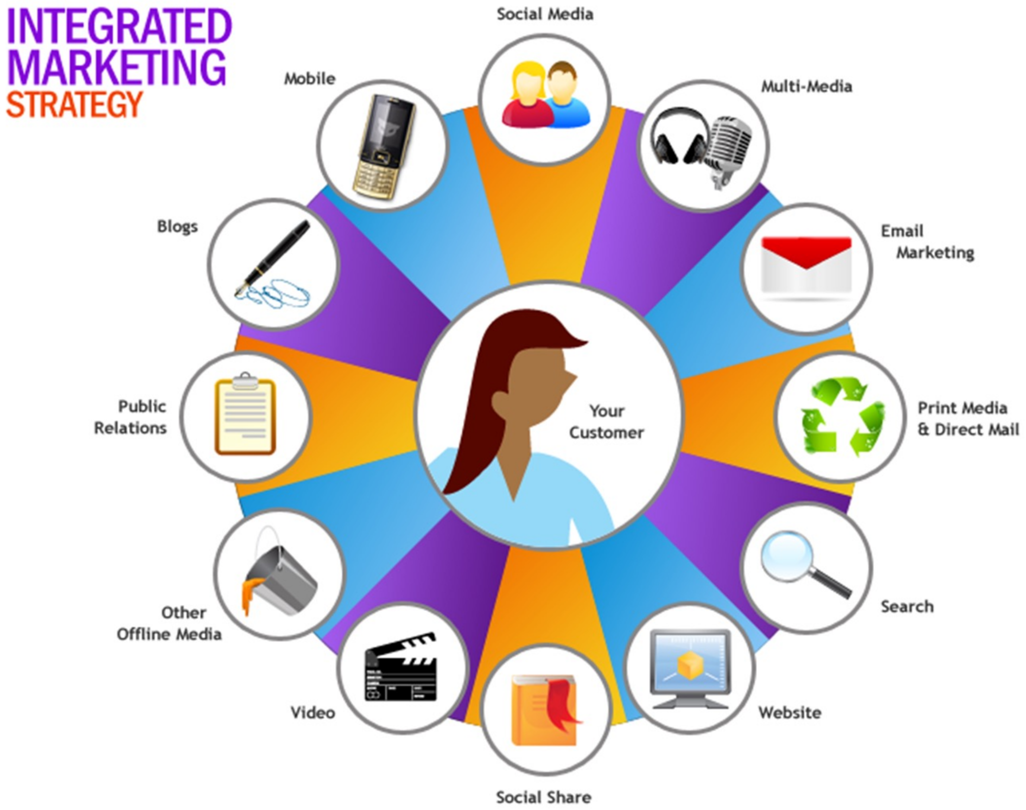
What are the challenges associated with having multiple retail channels?

- Consumers desire a seamless experience when interacting with multichannel retailers

GOAL: Unified commerce
multiple retail channels will work with each other to provide users a seamless, friction-proof shopping experience.

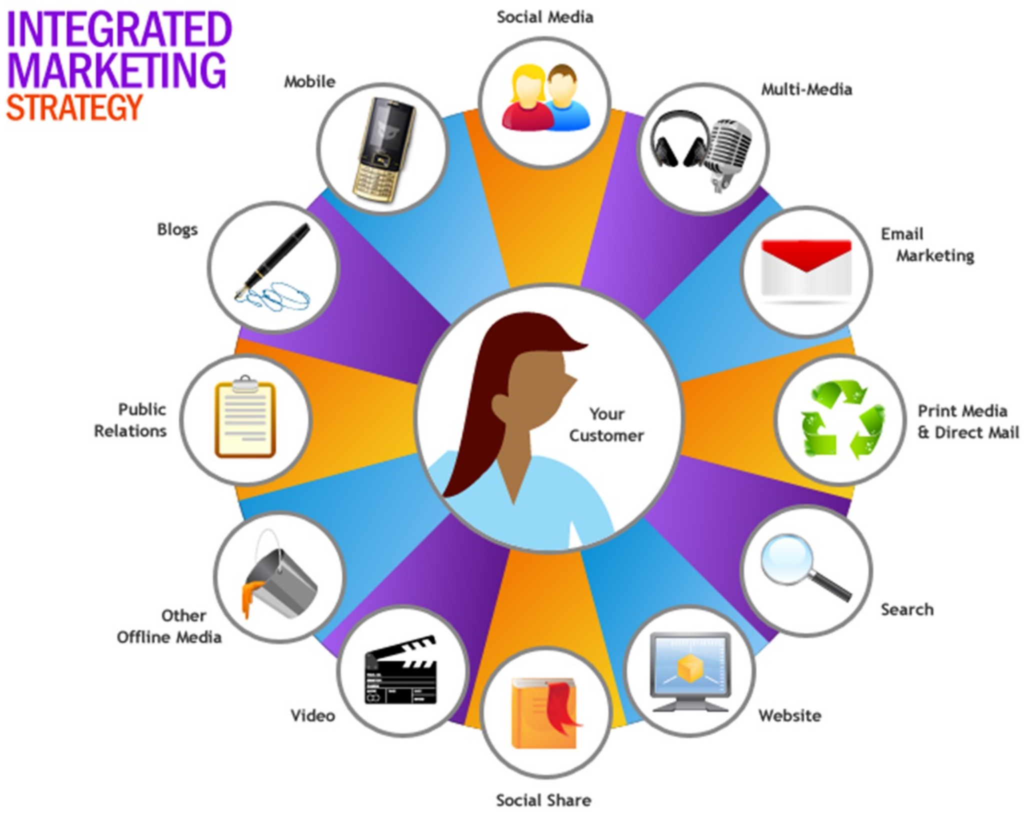
IMC

- Represents the fourth P: **Promotion**
- Encompasses several communications strategies

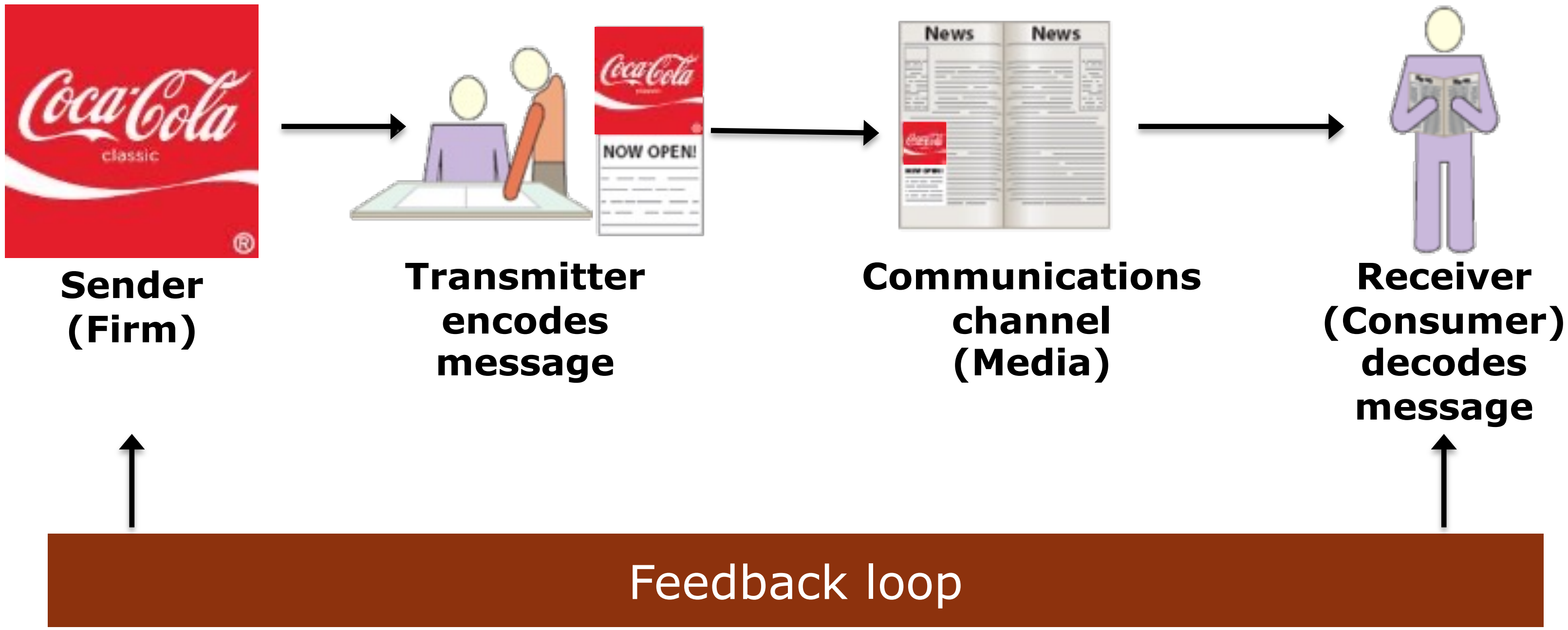


IMC (CH 17)

GOAL: Deliver a consistent message to the target customers across all the media channels



The Communication Process (CH 17)



- Every receiver decodes the message differently!
- Sender must adjust messages according to the medium and receivers' traits

Consumers: AIDA Model (CH 17)

Communication moves users through several stages

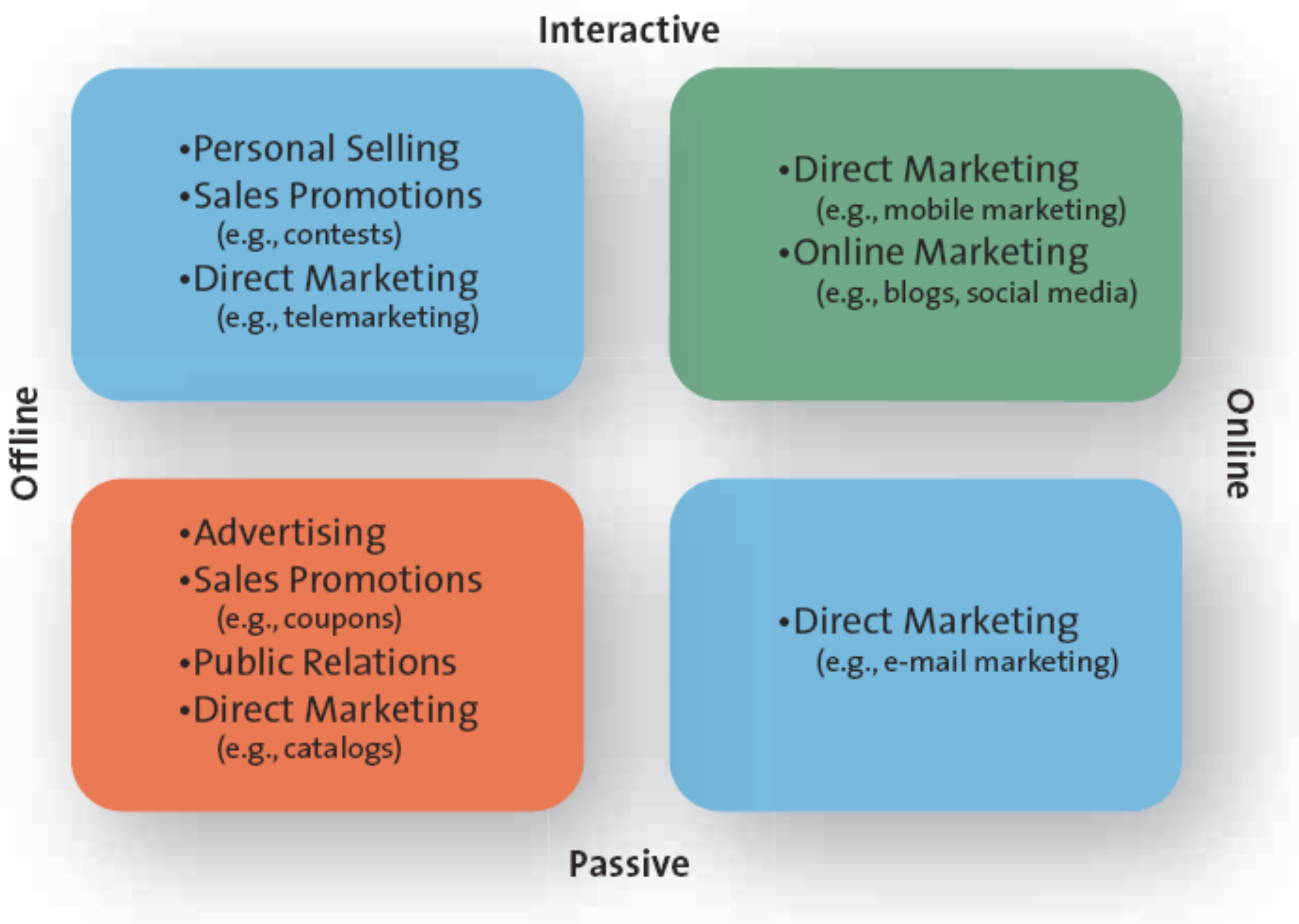
Awareness: The ability to attract the attention of the consumers

Interest: The ability to raise the interest of consumers by focusing on advantages and benefits

Desire: The advertisement convinces consumers that they want the product or service

Action: Leads consumers toward taking action by purchasing the product or service

IMC Elements (CH 17)



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Results (CH 17)

- How can we measure the success of a marketing communication strategy?
  - Traditional media
    - Frequency of exposure
    - Reach (% target population exposed)
    - Gross Rating Points (GRP): how many people within an intended audience might have seen their ads
      - E.g., 7 Ads in a TV channel, which reach 50% target segment, then GRP = 7 x 0.5
  - Web
    - Time spent on page, page views, clicks, where users come from, etc.

Advertising (CH 18)

Advertising

- Carried by some media channel
  - TV, Web, mail, etc.
- Source must be know
- Persuasive: Get consumers to take some action

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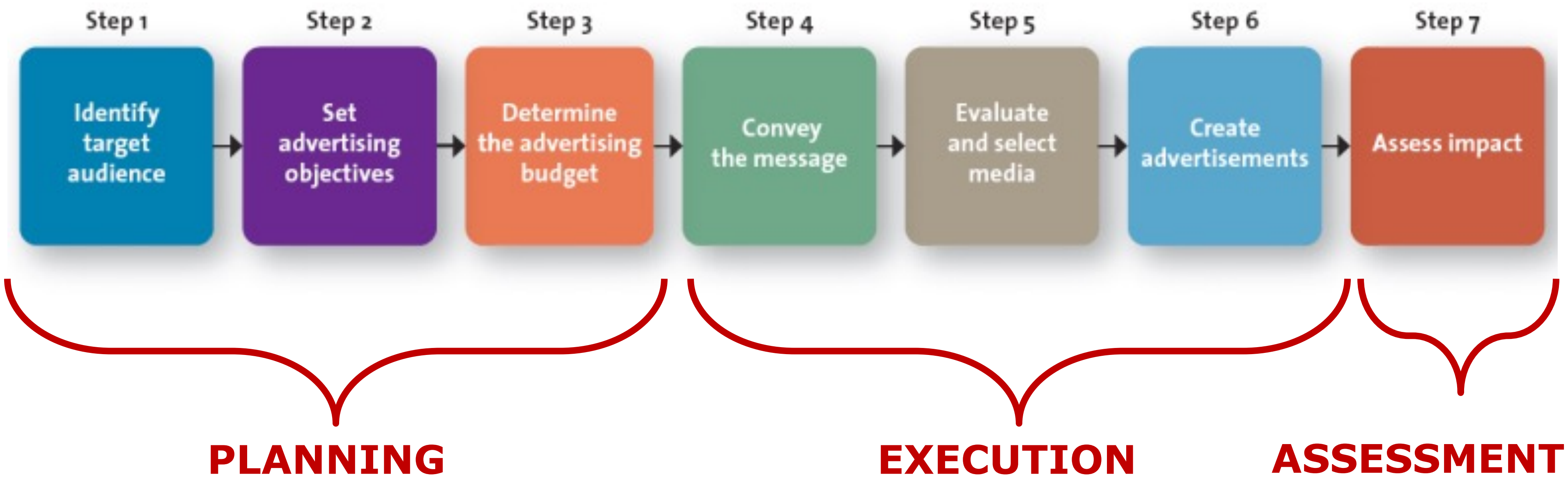
Steps in Planning and Executing an Ad Campaign (CH 18)



Step 1: Identify Target Audience (CH 18)

Three steps:

1. Conduct research
2. Set the tone
3. Select the media

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Step 2: Set Advertising Objectives (CH 18)

- INFORM: Create and build awareness at the early stage of the product life cycle (new products)
  - Build brand image, sales
  - Example: GM Ad

- PERSUADE consumers to take actions

- REMIND (well-established product)

- FOCUS: product vs institutional

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Step 5: Evaluate/Select Media (CH 18)

- Media planning
  - Combination of media used (media mix) and frequency of Ads

- Mass media (large audience) vs niche media (more targeted)

Step 7: Assess Impact (CH 18)

Pre-test, tracking, and post-test

- Pre-test → test the ad message before it is sent to a specific media
- Tracking key indicators while the ad is running, e.g., sales
- Post-test → test the impact of an ad message after it is published in any of the media

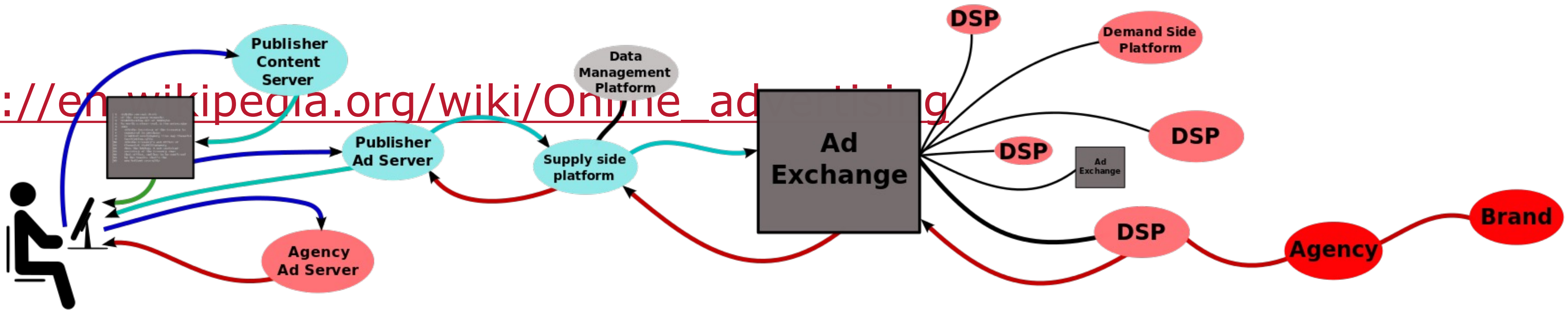
Step 7: Assess Impact (CH 18)

Experimental and Survey

- Experimental
  - Experimental test may be laboratory (controlled environment) or field test (original setting)
- Survey test involves learning consumers’ views through a survey method

Online Advertising (CH 18)

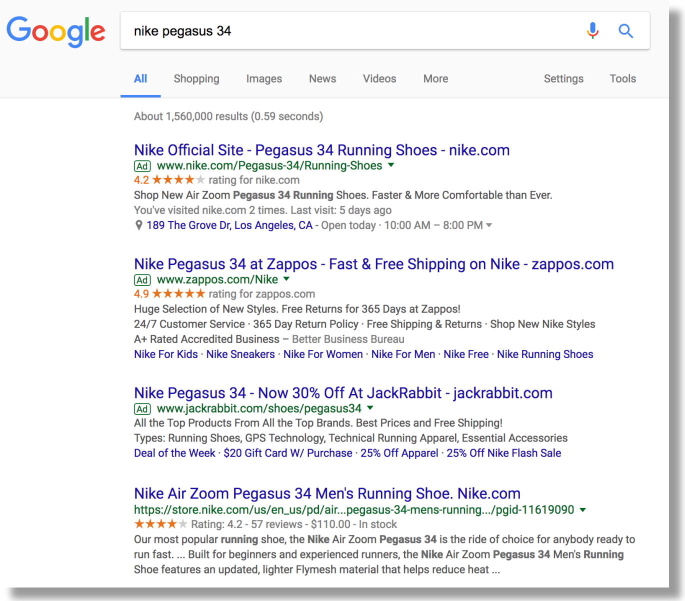
https://en.wikipedia.org/wiki/Online_advertising



- **Publisher:** integrates advertisements into its online content
- **Advertiser Agency:** creates the ad
- **Ad Exchange:** platform that facilitates the buying and selling of media advertising inventory from multiple ad networks

Google AdWords (CH 18)

- https://adwords.google.com/home/how-it-works/search-ads/#?modal_active=none
- Video



What type of auction does Google use?

Google AdWords (CH 18)

What can we measure?

- Clicks
  - # of time a user clicked on the Ad
- Impressions
  - # of times the Ad appeared in front of the user
- Click Through Rates
  - CTR = Clicks/Impressions
- Return on Marketing Investment (ROMI)
  - $\frac{Gross\ Margin - Expeditures}{Expenditures} \times 100$

Good luck with the presentation and the final!!!