

Marketing Management II - Chap 6 - 7 - 8

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CHAP 6: Competitive Position & Sources of Advantage

- Competitive Advantage: superior customer value for lower price. Two sources of value attract two kinds of customers: price sensitive vs. performance conscious. Customer value vs. cost value. What are some of our competitive advantage?

Cost-Advantage	Dell - significantly lower cost position from high to create lower prices, while still achieving desirable profit margins
Differentiation Advantage	Apple - meaningful differentiation that creates desired performance benefits at a level superior to those of competitors
Marketing Advantage	Nike - market position and marketing effort that dominates the competition in brand recognition, product line and channels of distribution
Sustainable Advantage	past success do not guarantee future success: GM, NBC, Sears lost competitive advantage to new forces (foreign firms, other channels, internet, Wal-Mart, cost) - a company never rests

- Sources of Competitive Advantage
 - Cost Advantage
 - Differentiation Advantage
 - Marketing Advantage
- Cost Advantage
 - **Variable Cost Advantage** : volume as key factor (economies of scale effect), many product lines = scope effect (common component parts), learning effect: business build more and more of same product (process improvement)
 - **Marketing Cost Advantage**: derived from product line

extensions

- marketing scope effect happens when sales force given more products to sell to the same customers.
- advertising cost effect: each time an individual soup is advertised, the ad reinforces Campbell soup brand and other soups - advertise for other soups at the same time
- **Operating Cost Advantage**: lower operating cost contributes to operating advantage
- Differentiation Advantage: meaningful to customers and sustainable
 - **Product Advantage**: durability, performance, features, appearance, conformance to application
 - **Service Advantage**: has to be meaningful, sustainable --> FedEx, Apple (genius bar)
 - **Reputation Advantage**: attract and obtain price premium -> Louis Vuitton
- Marketing Advantage
 - **Market Share**: market leader's advantage come from market dominance (Google, Nike - need to know who is customer, what they want, how to communicate product in a way that best serve their needs) - > Dominance
 - **Product line**: more profitable during emerging and growing stages of a product life cycle. Product line expansion allows to expand from one market segment to another one - more lines = more customers = more sales
 - **Channel**: exclusive access - control market access = large shares
- Knowledge as a source of advantage
 - **Competitor intelligence**: less confrontational approach, superior knowledge of terrain and enemy (customers and competitors). Need both to craft adequate strategy and not overreact to both moves. "inside-the-box" strategy : businesses that lack both customer knowledge and competitor knowledge -blind attempts reactive strategy = partial knowledge. Best = oblique strategy (gains without too much losses, without direct confrontation) - partial knowledge = frontal attack. Go buy their product to figure out what they are up to
 - Figure out **perceptual map** based on surveys of customer ratings between the brand, set of competitors, & ideal product ranges
 - Sources: CI, trade press, trade shows, financial reports, industry

reports, customers, suppliers, CI opens the door for well timed, effective strategies

- Which strategy? Develop a knowledge advantage then attack obliquely, gains without excessive losses

- Competitor intelligence

- Identifying the **benchmark competitors**: have customers evaluate if they are interchangeable substitutes - use survey, create perceptual migrate different to ideal car, [multi dimensional perception map]
- **Competitor Analysis**: evolving competitor profile
- Obtaining **Competitor intelligence**: public info from dealers, trade press, financial reports, gov docs, trade shows, customers.
- A sample **competitor analysis** : Southwest Airlines vs. American, Delta, United.
- **Competitive benchmarking**: going outside of industry to benchmark. Improve competitive position identify key area of competitive weakness, then benchmark a performer in that area.

- Industry Analysis

- **Barriers to entry**: attractiveness of environment, political barrier, technology or low-cost manufacturing, resources, operating cost, R&D
- **Barriers to exit**: if easy to exit: not competitive
- **Customer buying power**: low buyer power in pharmaceutical industry - few patents, do not have other alternatives. If few customers who can easily switch suppliers. Large, concentrated groups of customer enable them to negotiate. If they can switch from one another- increased competition.
- **Supplier selling power**: flip side of supplier selling power. IF large purchase of commodity product, supplier power is low - weak in pharmaceutical. Buy suppliers at large volumes and have low switching costs
- **Product substitutes power**: The more there are substitutes, the easier it is for them to switch. Intensifies competition. - soft drink industry, substitutes are numerous. Premium pricing impossible
- **Competitive rivalry**: the greater excess capacity, the more intense the moves - lower prices and margins, higher marketing and sales expenses for attracting and retaining customers - unattractive industry - personal computer industry. Few

- competitors in pharmaceutical industry.
- **Prisoner's Dilemma:** downward price by one competitor force follower moves by other competitors in order to minimize lost profits. All the competitors would be better off if none of them cut prices. Worse outcome: one cut prices, industry matches the cut.

CHAP 7: Product Positioning, Branding, Product Line Strategies

- Brand Expansion strategies
 - **Fighter Brands:** designed to fight low-price competitors
 - **Product Positioning:** start with target customer, not engineers or product managers
 - **Product Positioning and Market Share:** reposition product to gain market share - ex. SAMSUNG
 - **Product Positioning Strategies:** know who is target customer, devise branding and brand management strategies.
- Product Positioning and Differentiation
 - **Product performance and differentiation:**
 - *Product quality requirements:* reliable and conform to spec., operate efficiently (failure free - 6 sigma)
 - *Product performance differentiators:* continuous improvement, extra coat of paint to exceed expectations, durability
 - *Product performance enhancement:* features, serviceability (airbags, entertainment system, easy to maintain and repair)
 - *Product performance emotional enhancement:* appearance, aesthetic characteristics, status
 - **Service quality and differentiation**
 - Service quality requirements: service reliability - FedEx
 - Service quality differentiators: service performance and responsiveness, going beyond customer expectations
 - Service quality enhancements: extended services, individualized customer attention (customer empathy) - tea time, personal shopper
 - Service quality emotional enhancements: appearance and reputation
 - **Brand differentiation**

- BRAND DIFFERENTIATION
 - Influenced by status of brand name, positive association with product quality, consistent image of brand personality
- Low Cost of Purchase
 - Low-price position: Wal-Mart - low price, while still meeting consumer's needs
 - Lower ownership costs: expenses other than purchase price associated with acquisition and use of a product - ex: inventory items
- Branding and Brand management Strategies
 - Brand identity: segment target markets, tracks customer behaviour by segment, define desired product positioning and value proposition for specific market
 - Brand encoding: hierarchy of possible naming components: company name, brand name, etc.
 - Company and product name: not associate with unrelated products
 - Company and brand name:
 - Umbrella brand and sub brands:
 - Brand name and product/benefit
 - Brand name only
- Brand name development
 - Founder/Owner Names: CK, Estee Lauder
 - Functional names: FedEx
 - Invented names: Google, Kleenex, Ketchup
 - Experiential name: Magellan, Safari, Red Bull
 - Evocative names: Apple,
- Creating a new brand name:
- Protecting your brand name and intellectual property
 - Copyright: date, deposit at US copyright Office
 - Trademark: TM naems
 - US Patent
 - Licensing: allow owners to obtain payment for creations
 - Assignment: single payment, series of payment overtime, royalties or combinasion
- Brand equity
 - Brand assets
 - i. Brand Awareness: can more easily introduce new products and enter new markets

and enter new markets

- ii. Emotional connection: Lexus and quality
- iii. Brand loyalty: lower market and sales expense - Apple
- iv. Product line extensions: Honda and product quality
- v. Price premium Apple, Rolex
- vi. Use brand score card to measure brand asset
- Brand liabilities: Arthur Anderson, Toyota
 - Customer dissatisfaction: complaint - Bank of America Meryl Lynch
 - Product or service failures: Toyota
 - Questionable practices: Tiger Woods, lawsuits, allegations
 - Poor record on social issues: Oil companies and sweatshops
 - Negative associations: disreputable individual, unpopular venture or unpleasant event
 - Use brand liabilities score card to measure brand liabilities
- Brand equity
 - Value of a brand - can be borrowed by extending brand name to a line of products in the same product category, or even to other categories.
- Brand and product line strategies
 - **Product Line Development:** broad line of products creates more selling opportunities, requires product differentiation and careful positioning, the broader, the more ROA. The higher performance position, the higher price charged.
 - **Umbrella brands and product line extensions:** core product of a business - transfer of quality perception from core product or brand to product line extensions that use the same brand name. enhance effectiveness of marketing programs. Ex: Frito's Cheetos
 - Brand awareness: products can be introduced at lower cost of advertising
 - Known quality: line extension shares reputation of quality
 - Market reach: easier access to retail outlets
 - Product experience :more variety, buy variations of core brand
 - Leverage awareness and image of umbrella brand. Take care that new products will not erode reputation of umbrella brand and adversely affect profits
 - Product line extensions

- Vertical brand extensions: can be franchised - other versions of the product
- Horizontal brand extensions: additions of complementary products
- New product-market brand extensions: Honda brand into lawn mowers, snowblowers, etc. - related relevance, and benefits of core brand carries on.
- Cobranding: association with another product market. Reese's Peanut Butter cups
- Bundling and unbundling strategies
 - Product bundling: complete customer solution - living room sets, entertainment packages, software applications, - create superior value (economic or perceived)
 - Pure product bundling: sale of 2 product at lower overprice
 - Mixed bundling: allow them to purchase each items at sales price, with additional level of savings.. - more profitable. Perception of value exceed pure bundling
 - Product unbundling: architecture, agriculture, chemical processing - create value for customers and sales growth opportunities.

CHAP 8: Value-Based pricing and pricing strategies

- Apple's Pricing Strategies
- **Cost Based-pricing vs. Market Based Pricing**
 - Ignores customer performance needs, overlooks competitors offering relative to customer needs and price sensitivity
 - **Cost-based pricing**: underpricing and lower profits
 - **Cost-based pricing**: overpricing and lower profits
- Value pricing: requires customer and competitive intelligence
 - ? a. **Value in use pricing**: attractive savings after considering life-cycle cost of acquiring, owning, using, maintaining and disposing of a product. Analyze total cost of ownership to increase prices. Higher price, but lower shipping, handling, inventory financing, useave, waste, disposal.

- ? b. **Life-cycle value pricing:** set with respect to total cost of ownership over life cycle of a product on the basis of the NPV of the difference between the company's and a competitor's life-cycle ownership costs - costs less for subsequent years (analysis, equipment, documentation, etc).
- ? c. **Perceived-value pricing:**, from product performance service quality and brand reputation.
- ? d. **Performance based pricing:** sign conjoint analysis
- e. **Customization value pricing:** unbundling features and performance levels. Present full-feature option as reference price
 - o **Understanding total cost of ownership** - price is only the tip of the ice berg.
- Product life-cycle pricing strategies:
 - o **Skim pricing:** allows to penetrate market, proprietary product advantage (patent), temporary, highly profitable, - has to be lowered later on
 - o **Single-segment pricing:** value-based, based on customer savings, regardless of production/marketing costs.. Needs to have consumer knowledge
 - o **Penetration pricing:** focused on volume, in grow stage, mass-market strategy, when differentia on is diminishing, customers more price sensitive, competitive entry is easy. A volume leader can lower prices
 - o **Low-cost-leader pricing:** BIC and Wal-Mart - volume advantages. It can also be efficient operations or superior technology, outsourcing, motivated employees
 - o **Multi-segment pricing:** address different needs of different segments, growth stage.
 - o **Plus-one pricing:** in mature market/late stages, value-based on the ONE area of meaningful performance
 - o **Reduce-focus pricing:** raise prices incrementally to the point where best combo of volume and margin is achieved - reduce volume and MS for higher margins
 - o **Harvest pricing:** in the decline phase of product life cycle. Raise prices to reduce volume more quickly, until customers are not willing to pay to exist market. Possible to uncovered profitable niche market.

• Price and profitability more is not always better! Grow revenue, but

- Price and profitability: more is not always better! Grow revenue, but not profit because fixed expenses will not change - will bankrupt company. Must ask: how much volume to maintain current level of profitability
 - Price elasticity and profitability: negative number, degree to which volume changes when price changes. Prestigious products have + price elasticity (increase in demand when price increases). Between 0 and 1 are inelastic. A very large number = consumers very sensitive to price moves.
 - **Inelastic price management**: do not decrease price in hopes of gaining sales volume!
 - **Elastic price management**: but price might not be elastic enough to increase profits...must do calculations
- Price and break-even analysis: when operating income is zero
 - Price and break-even volume:
 - Price and break-even market share:
- Product line pricing
 - **Positive cross-price elasticity** = substitutes, lowering price of one, decrease demand for another
 - **Negative cross-price elasticity** = complementary products, lowering price of one, increase demand for the other product
 - Pricing substitute products
 - Tide:
 - Surf
 - Pricing complementary products