

# BU121 Midterm Notes

## 1) Business Model

- Describes the rationale of how an organization creates, delivers and captures value
- How you intend to make money with your idea. Turning an idea into a profitable business/sustainable not-for-profit.
  - Why do they fail?
  - Narrative: Logic is flawed, incorrect assumptions about the value chain
  - Numbers: Value creation is imperfect, assumptions are wrong

### Multi Sided Platform:

- Value is created by facilitating interactions between two or more distinct but independent groups of customers
- Valuable to one group *only* if the other groups of customers are also present - and grows in value to the extent that it attracts more users -(network effect)
- Often solved by one segment subsidizing another (one finances another)
- Ex. Visa, eBay, newspapers, Facebook/Snapchat/Youtube etc.
  - Chicken and Egg Strategy: Occurs when value proposition to two separate groups is dependent on penetration in the other. \*Kickstart virtuous cycle \*

### Long Tail Platform:

- Virtually endless selection
- Offers a large number of niche products, selling infrequently
- Ex. Netflix, iTunes

### Free:

- One segment benefits from a free service, which is financed by another part of the business model.
  - Advertising - Attracts users with free products, generates revenue by selling spaces for ads (Google)
  - Freemium - Provides basic services for free and premium for a fee (Skype)
  - Bait & Hook - Free Mobile Phones + Expensive phone plan, Gillette offers free handles and people buy razors

### Game Changers:

- Freemium
- Membership models
- Crowdsourcing Model
  - ➔ Crowdsourcing: Sourcing from a crowd (Exchange of money and rewards)
  - ➔ Crowdfunding: Funding from a crowd (\$\$\$)

### Same Product, Different Model:

- Elements of BMC change
- Ex. SOS vs Tutor, Future Shop vs PRISM

**How companies can have essentially the same product and different business models:**

**3 Ways to Make Money in Water Filtration**

Q Water	AquaOvo	Event Water Solutions
Rents water filtration systems for a monthly fee to restaurants	Sells water filtration systems with a stylish cooler for a one-time fee to individuals	Rents water filtration systems for a per-event fee to event holders





**Compare and contrast: BMC and SBMC**

BMC	SMBC
<ul style="list-style-type: none"> <li>• Identifies the value created from product service</li> <li>• Demonstrates personal benefits of the product</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Identifies the format of the intervention</li> <li>• Demonstrates social impact of the product</li> </ul>

whereas the BMC identifies the value to consumers

**2) Marketing**

**Marketing:** An integrated system of activities designed to plan, price, promote & distribute want satisfying goods & services.

**Integrated System:** Decisions you make about packaging, branding, distribution etc.

**Want Satisfying Goods & Services:** Problem-Solution fit - consumer has a problem or a want, and they will pay us to give them a solution to that problem

### 1st Key to Successful Marketing: Provide Unique Benefit

- Related to providing a want-satisfying good or service
- Must provide something the customer wants or needs - solution must FIT
- So we need to determine our target market

### 2nd Key: Convince the Customer That the Product Provides

- Achieved through consistent product, price, promotion & place decisions (4P's)
- 4P's/4A's (awareness, accessibility, affordability, acceptability) are integrated/consistent
- All parts of organization must have clear idea of the value proposition

### The Marketing Concept:

- Identifying consumer needs and producing the goods/services that will satisfy them while generating profits
- This involves focusing on customer wants/needs
- Integrating all of the organization's activities to satisfy these wants/needs
- And satisfying customer wants/needs legally and responsibly

### Consumer Decision Making Process:

- Need Recognition
- Information Search
- Evaluation of Alternatives
- Purchase
- Post-Purchase behaviour
  - Cultural: Values, attitudes and ideas embedded in one's beliefs that influence the buying decision
  - Social: Likely to seek out the opinion of other when making purchase decisions (reference groups, opinion leaders, family/friends)
  - Individual: Influenced by their own unique characteristics
  - Psychological: Influenced by external sources as well as internal

### Preferences/buying behaviour differs for consumers:

- Some customers are price sensitive and shop for the lowest prices
- Some customers are quality sensitive regardless of price
- Some customers are popularity sensitive and buy brands that are trending
  - Takeaway: Can't meet everyone's needs → Pick target market

### 3 Steps to Defining Target Market:

#### 1. Segmentation

- Determine the jobs the product does → Create segment for each job → Describe segment and incorporate other segments → Make a descriptive name for the segments

## Forms of Consumer Market Segmentation

Benefits Sought	Geographic	Demographic	Psychographic	Behavioural
What “job” is the customer hiring the product for, Benefit provided	Regional location, Population density, Size, Climate	Age, Gender, Education, Income, Social class, Household size	Personality, Lifestyle, Interests, Values, Attitudes	Product Usage, Volume, Frequency, Brand Loyalty

### 2. Perceptual Mapping

- Used to compare where competitors are/aren't in a market
- The location on the map is based on what consumers believe or think about a company/brand - where they *perceive* them
- Define Axes: Select the two most important factors that influence buying behaviour
- Plotting Competitors: Plot competitor based on consumer preferences

### 3. Preference Analysis

- Used to plot where consumer segments are based on buying criteria
- Use the same axes as your perceptual map
- The location on the map is based on where the ideal product would be for each customer group
- Using the axes, place each consumer group with an “X”
- An art not a science

### Targeting & Positioning

- Based on the perceptual map and preference analysis, select the market whose needs are not currently being met
- This will be the group whose circle has the least points in/near it
- Perfect problem-solution fit
- 2 Methods:
  - Consumer: Focus on how well you meet the needs of the target market
  - Competitive: Focus on how you meet needs compared to other competitors

### B2C (Business to Consumer) & B2B (Business to Business):

- Purchase Volume: Business is in much higher volumes

- # of Customers: Business marketers have far fewer customers
- Location of Buyers: Business customers are much more geographically concentrated
- Direct Distribution: Directly to the buyer vs using intermediaries for consumers

**Trends:**

- Social Media → Movement away from traditional advertising mediums (TV, newspapers, radio)
- Loyalty Cards → Promotes repetitive sales, frequency in customer traffic and allow companies to track purchase trends
- Green & Social Marketing → Selling products based on the environmental or social (greater good) benefit of the product

**Value Proposition Statement:**

Goal of Positioning: Occupy a clear, distinctive, and attractive place relative to competing products in the minds of target consumers

Statement : Our \_\_\_\_ (product/brand) is \_\_\_\_ (single most important claim) among all \_\_\_\_ (competitive frame) because \_\_\_\_ (single most important support).

**The Marketing Mix (4ps):**

<p style="text-align: center;"><u>Product</u></p> <ul style="list-style-type: none"> <li>● Classifications <ul style="list-style-type: none"> <li>● Life Cycle</li> </ul> </li> <li>● Total Product Concept <ul style="list-style-type: none"> <li>● Branding</li> </ul> </li> </ul>	<p style="text-align: center;"><u>Price</u></p> <ul style="list-style-type: none"> <li>● Objectives</li> <li>● Strategies</li> </ul>
<p style="text-align: center;"><u>Promotion</u></p> <ul style="list-style-type: none"> <li>● Advertising</li> <li>● Sales Promotions</li> <li>● Personal Selling</li> <li>● Public Relations</li> </ul>	<p style="text-align: center;"><u>Place</u></p> <ul style="list-style-type: none"> <li>● Direct vs Indirect</li> </ul>

**Classification:** Allows us to understand the approach consumers will take to purchase it

- Convenience Good/Service (buy routinely)
  - Staple - branding, max exposure, shelf position
  - Impulse - max exposure, shelf position, point of purchase
  - Emergency - near point of purchase readily accessible
- Shopping Good/Service (spend time shopping)

- Homogenous - exposure for price comparison
- Heterogenous - exposure near similar products
- Specialty Good/Service (make effort to buy)
  - Selective distinction for exclusivity
- Unsought Good/Service (hardly looking)
  - Aggressive promo, personal selling

### Product Life Cycle

- Introduction (ex. Wearable technology, apple watch)
  - Frequent product modifications, limited distribution and heavy promotion
  - Failure rate is high
- Growth (ex. Tinder)
  - Sales grow at increasing rate, profit is healthy
- Maturity (ex. Michael Kors)
  - Product has been in the market for a long time
- Decline (ex. Blackberry)
  - Change in consumer taste or new products have entered
  - ★ Slowing Down/Reversing the cycle:
    - Find new users and new markets (adaptation to other region's needs)
  - ★ Adoption Curve:
    - Innovators → Early Adopters → Early Majority → Late Majority  
→ Laggards

### Total Product Concept: Total Package of Benefits as experienced by the consumer

- Brand: The set of perceptions in the mind of the customer (Promotion)
- Package: How is the product physically presented to the customer (Promotion)
- Service: How is the product provided to the customer and supported (Relationship)
- Warranty: Is the product insured? Does that create peace of mind? (Relationship)
- Delivery: The movement of product to consumers possession? (Relationship)
- Credit: Cash only sales or can we offer receivables? (Place)
- Atmosphere: The ambience/climate of the place of sale? (Place)
- Image/Reputation: Ties in to brand/goodwill (Place)

- Accessibility: Can I get a hold of the product easily? (Place)
- Price: How much does the consumer have to pay? How does it make them feel?

**The Marketing Mix (4A's):**

<u>Acceptability</u> <ul style="list-style-type: none"> <li>● Functional</li> <li>● Psychological</li> </ul>	<u>Affordability</u> <ul style="list-style-type: none"> <li>● Economic</li> <li>● Psychological</li> </ul>
<u>Awareness</u> <ul style="list-style-type: none"> <li>● Product Knowledge</li> <li>● Brand Awareness</li> </ul>	<u>Accessibility</u> <ul style="list-style-type: none"> <li>● Availability</li> <li>● Convenience</li> </ul>

**Market Value Coverage (MVC) is the goal:**

- Measure of how well the overall marketing, strategy succeeds in ensuring that potential customer become actual customers
- Dimensions are additive
- Each A is dynamic
- A's are interactive
- Sequencing matters!

**Brand:**

- “A collection of perceptions in the mind of the consumer”
- Built not only through effective communications or appealing logos - it is built through the total experience that the product offers
- The real value of a brand is not seen, but experienced. The recognition, the connection, the loyalty, the reputation are all intangibles that define a brand's true worth.
- Brand Name: Communicate value proposition

**Price:**

<u>Pricing Mechanisms</u>	
Fixed “Menu” Pricing	Dynamic Pricing
<ul style="list-style-type: none"> <li>● List Price - MSRP (Manufacturer's Suggested</li> </ul>	<ul style="list-style-type: none"> <li>● Negotiation/Bargaining - eBay</li> </ul>

Retail Price) <ul style="list-style-type: none"> <li>● Product feature dependent</li> <li>● Customer segment dependent</li> <li>● Volume dependent</li> </ul>	<ul style="list-style-type: none"> <li>● Yield Management - Hotels, Airlines</li> <li>● Real-Time Market - Stock Market</li> <li>● Auctions</li> </ul>
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**Pricing Objectives:**

- 1) Profit Maximization: Producing a product as long as revenue from selling exceeds cost of producing it.
- 2) Target Return on Investment (ROI): A price is set to give the company a desired level of profitability in terms of return on its money.
- 3) Value Pricing: Offering a target market a fair price in relevance to the quality of the good/service.

**Pricing Approaches:**

- 1) Cost-Based: Price is based on markup on cost of product
- 2) Competitive-Based: Pricing is based on gaining or defending market share
- 3) Consumer-Based: Pricing is based on the perception of product value to consumer

**Pricing Strategies:**

- Price Skimming: Introduce with a high initial price and lower the price over time as it moves across the PLC
- Penetration Pricing: Selling new products at low prices in the hope of achieving a large sales volume
- Leader Pricing: Pricing products below the normal markup or even below cost to attract customers
- Bundling: Grouping two or more related products together and pricing them as a single product
- Odd-Even Pricing: Setting a price at an odd number to connote a bargain and at an even number suggest quality
- Prestige Pricing: Increasing price of a product so that consumers will perceive it as being of higher quality, status or value

**Promotion:**

**Objectives of promotion can be**

- Creating awareness, providing information - especially needed more common in the early stages of the product life cycle
- Getting customers to try products - free samples
- Keeping loyal customers - reminding customers of the quality of the product or telling customers when a product is improved
- Increasing the amount and frequency of use - loyalty cards or frequent-flyer programs
- Identifying target customers - helps find customers

### **Promotion Tools:**

- Advertising
- Personal Selling
- Sales Promotion/Discounts
- Publicity/Public Relations
  - The combination of these is known as *Integrated Marketing Communication Tools (IMC)*

### **Advertising:**

Form of **non-personal** sales presentation of a **long-term** nature that is **paid** for by an identified sponsor

**Non personal:** Done through a general medium, by the organization AS A WHOLE

**Long term:** Advertisements are made to last over a period of time, and have long term impacts on sales

**Paid:** Advertisements are never free

### **AIDA (Advertising Model):**

**A-** Attention/Awareness: Get the attention and the ears of the potential customers

**I-** Interest: Obtain the customer's interest in the product

**D-** Desire: Transform interest into desire for the product

**A-** Action: Convert the desire into action, by inviting purchase of the product

### **Making your message viral**

**KEY:** communicate brand in a way that persuades/ leads to sale

Laws of 'going viral'

- It's more than online - only 7% is done online
- 10 million views doesn't matter - want to turn customers loyal

- Shares are more important than views
  - Amplification Rate= number of shares/ number of views
- Not just Viral... VALUABLE VIRALITY

### **Personal Selling:**

- Involves sales representatives approaching individual customers face-to-face to pitch their product/service
- More effective but more expensive (salaries, commissions, travel expenses)
- Combine with advertising to:
  - Generate leads (potential clients' contact details)
  - Decrease cost/length of sales process (the consumer already knows about the product offered)
  - Reach 'inaccessibles' (people who cannot be contacted through personal selling)
  - Maintain image in buyer's mind (even after pitch is made, constant reminder are present)
- Factors to consider in budgeting decisions for personal selling:
  - Perceived risk of sale - financial, social, performance
  - Amount of information to convey
  - Degree of customizing necessary

### **Sales Promotion**

- Short term incentives to induce purchase
  - Free samples, trial period
  - Cents off coupons, cash rebates
  - Extra volume for same price, bonuses
  - Giveaways, contests
  - Premiums
  - Point-of-purchase displays
- Support personal selling and advertising
- MUST COMMUNICATE VALUE PROP

**Public Relations & Publicity:** The linking of organization goals with key aspects of the public interest and the development of programs designed to earn public understanding and acceptance.

- Getting the media to talk about you

- Greater impact due to perceived objectivity
  - The news comes from a neutral source - mass media, journals, personal blogs etc.
  - Objectivity improves the chances of customer belief and desire, if it is positive news
  - Publicity can be negative
  - Must be 'newsworthy'

### **Factors affecting Promotions:**

- Nature of product
- Market Characteristics
  - Scattered or highly informed customers/brand loyal consumers
  - Detailing: when salespeople stock merchandise rather than allow retail employees to do it, to get best display areas
- Available funds
- Push v.s Pull

*Push: promotional strategy in which a manufacturer uses aggressive personal selling and trade advertising to convince a wholesaler or retailer to carry and sell its merchandise*

*Pull: promotional strategy in which a manufacturer focuses on stimulating consumer demand for its product, rather than on trying to persuade wholesalers or retailers to carry the product*

### **Place:**

- Purchase is a function of desire and availability → think "A"ccessibility
- Logical decisions are costly, time consuming and not easily changed
- Choice of location must fit with value prop
- Critical decision
  - Use of marketing intermediaries/channel of distribution

### **Sell to vs. Sell through**

- Are we using intermediaries?

Manufacturer → Agent → Wholesaler → Retailer → Consumer

*Note: when using intermediaries you have to sell to them too AND give up control in how things are sold to the end consumer*

### Indirect Sales Channels:

**Implications - each intermediary wants to take a 'cut' of the price**

Potential solution to this: **Demand Backward Pricing**

Ex.

- Ex: Customers are willing to pay \$4.99
- **\$4.99** - 1.50 - 1.00 = \$2.49 to wholesaler
- \$2.49 + 1.00 + 1.50 = **\$4.99** to consumer
- Push vs. pull strategy comes up again here

### Forecasting Demand:

- An educated guess, not a math problem
- TAM (total addressable market) does not equal your Sales Forecast

2 Methods:

- 1) Top Down (Breaking down demand)
- 2) Bottom Up (Building it up)

#### **Top Down:**

- Logical analysis of external data
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#### **Bottom Up:**

- Preferred method - tells us what's actually possible to execute given our capacity
- Quantitative analysis of internal capabilities
- Compare to breakeven to ensure feasibility, is a sensitivity analysis required?

### Benefits of the Marketing Framework:

- Enables true customer centricity
- Helps improve marketing productivity and accountability
- Enables more effective resource allocation
- Takes a holistic view of business success
- Provides clear managerial prescriptions

### Finance

\* Principle #3: Accounting is the language of the business, cash is the currency

### Cash Stack vs. Profit

**Sales revenue - accounts receivable**

- If u dont collect the cash from your sales, your income statement will show profit, but you will not be able to pay off any of your debts (no cash)

### **Expenses - Accounts Payable**

- You have cash on hand but you actually owe it to the bank

### **Amortization**

- Not actually cash but a valuation

### Breaking Even

#### **Two types of cost**

- Fixed Costs (FC)
  - Costs that are fairly pre determined
  - Expected to remain fixed over a range of revenues for a set period of time
    - Ex. rent/marketing/interest/wages
- Variable Costs (VC)
  - Costs that are linked to your level of production
  - Cost resulting from providing a product or delivering a service therefore dependent on volume of sales
    - Ex. COGS/Commission

### Cash Budgeting

**The cash budget determines the net cash inflows and outflows, assuming no startup capital/financing**

### Cash Burn

- Cash build rate
  - How quickly a venture builds cash through collections on sales
- Cash burn rate
  - How quickly a venture 'burns through'/uses cash

### Leverage

- Often a company has to tradeoff accepting higher fixed costs to get lower VCRR. They must increase OPERATING LEVERAGE
  - The higher the fixed costs mean more has to be sold to cover them
    - Ex. higher survival revenue (breakeven) = higher RISK but
    - The lower variable costs result in a higher contribution and therefore RETURN is higher above breakeven