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MARKETING MODULES SERIES

Marketing Module 1: Marketing

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Foreword

A marketing strategy is something that every single food and agriculture-related business (farms, wholesalers, retailers, etc.), no matter how big or small, needs to have in place in order to succeed in the marketplace. Many business owners in the food and agriculture sector in New York State and elsewhere are hesitant to set up an actual marketing strategy because they simply do not know how to go about developing it. How to better market their products and services remains a primary concern among New York State food businesses as a result.

In response to this need, we offer this Marketing Modules Series of eight modules which constitute a comprehensive training course in marketing management. The overall goal of this series is to improve the marketing skills of food business managers and owners in New York State so that they can develop successful marketing strategies to increase business profitability. More specifically, these Marketing Modules are intended to support the efforts of extension specialists and extension educators as they develop marketing training programs for their stakeholders.

Module 1 (Marketing) offers an overview of the series and discusses the basic pillars of a marketing strategy. Modules 2, 3 and 4 (Customer, Company and Competition, often referred to as 'The 3 Cs') focus on key concepts and techniques to conduct market analysis. Modules 5, 6, 7 and 8 (Product, Price, Placement/Distribution and Promotion, or 'The 4 Ps'), hone in on the essential elements of marketing tactics.

To facilitate their use in extension-related educational activities, modules tow to eight consists of three components: 1) a summary of the fundamental concepts, 2) a real-world example relevant to the New York State food and agriculture system to illustrate these concepts, and 3) a set of teaching slides to be used in training sessions and other educational activities in which these modules can be used individually or in combination. Because Module 1 (Marketing) is an overview of the whole series it only includes components 1 and 3. Examples for each of the sections in Module 1 can be drawn from the other seven Modules.

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The complete Marketing Modules series can also be accessed online at: http://hortmgt.gomez.dyson.cornell.edu/Marketing-Modules.html.

1. Marketing and Marketing Management

Marketing, as defined by the American Marketing Association, is "the process of planning and executing the conception, pricing, promotion and distribution of ideas, products, and services, to create exchanges that satisfy individual and organizational goals." Marketing Management, according to Phillip Kotler, is "the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering and communicating superior customer value." Marketing Management can also be described as the ongoing process by which a firm attempts to satisfy its chosen customers' needs and wants, profitably, by applying marketing techniques and managing the firm's marketing resources and activities.

To develop effective and cost-efficient marketing management strategies, firms need to have an objective and detailed understanding of their own business and the market in which they operate, which requires an accurate, fact-based market analysis. In turn, this analysis can lead to the development of marketing plans that specify how the firm will execute the preferred strategy and achieve the business' objectives. Typically, a marketing plan includes: an executive summary, a situation analysis (summarizing the facts and insights gained through market research and marketing analysis), the firm's mission statement (or long-term strategic vision), a statement of the firm's key objectives, the marketing strategy (specifying the target segments to be pursued and the positioning to be achieved) and the marketing mix 4P's (Product, Price, Place/Distribution and Promotion) and how these components will be implemented.

2. The Importance of a Marketing Orientation

Having a marketing orientation has become paramount to the success of business firms in the current economic environment, now characterized by highly empowered consumers, hyper-competitive markets, technological innovations and globalization. Formerly, firms used to have a production orientation. Many later moved to a sales orientation and now to a market orientation. Nevertheless, some firms are still mired in a product orientation, failing to recognize the broad scope of their business, and thus falling into what Theodore Levitt calls "Marketing Myopia." Some examples to illustrate how production-oriented and marketing oriented firms see their business:

Production Oriented Firms	***Marketing Oriented Firms***
"We make cameras and film"	"We help preserve beautiful memories"
"We make blue jeans"	"We offer comfort, fashion and durability in apparel"
"We operate a long distance telephone company"	"We provide multiple forms of reliable, efficient and inexpensive communication services"

3. The 3 C's

A market orientation can lead to superior firm performance. To adopt a marketing orientation firms need to focus on: the costumer, competitors and the firm's competencies - commonly referred to as "The 3 C's".

3.1 The 3 C's: Customer Analysis

Development of a firm's marketing strategy begins with the customer, or as indicated above, with the definition of the target market(s) the firm will attempt to serve. Firms need to know how and why their potential customers buy. This means having a good understanding of the customers' buying behavior and their buying decision process in each of the potential target markets.

Consumer's buying behavior is determined by their own characteristics (influenced by cultural, social, personal and psychological factors) and by external factors including marketing factors () and other stimuli generated by the economic, technological, and political environment. Marketing factors can be categorized as the 4 P's: product, price, placement/distribution, and promotion.

Decision making by the customer typically encompasses five stages: identification of a need or problem, search for internal and external information, evaluation of alternatives, purchasing, and post-purchase analysis. To understand the buying decision process, firms need to have an in-depth knowledge of the Decision Making Unit (DMU) and the Decision Making Process (DMP).

With respect to the DMU, firms need to know who is involved in the purchasing process and the role they play. A member of the DMU can be an initiator, a decider, an influencer, a purchaser and/or a user. More than one member of the DMU can play each role and each member can play more than one role.

With respect to the DMP, firms need to have specific information about the process by which consumers buy the products the firm sells. For example: do they search for information? If so, how do they conduct that search? What criteria do they use in evaluating alternatives? How important are the different attributes? How do the members of the DMU interact? Where do they prefer to buy? How will the product be used? How frequently? How important is the need/problem it addresses.

To understand the potential customers' buying behavior and identify and characterize their potential market segments, successful firms make use of the principles of consumer behavior and commonly engage in some form of marketing research.

For more information see Marketing Module 2: Customer Analysis

3.2 The 3 C’s: Company Analysis

Through company analysis a firm attempts to identify its strengths and weaknesses to satisfy its potential target customers’ needs and expectations. The fit of the product/service to the firm’s mission and goals is as important as the fit of the product/service to the target market.

Marketers focus on understanding the company's cost structure and cost position relative to competitors, as well as concentrating on the firm's core competencies and other competitively distinct resources. Core competencies are particular strengths relative to other organizations in the industry; these attributes provide the fundamental basis for the provision of added value. A core competency can be the technical/subject know-how, a reliable process, close relationships with customers and suppliers, the product development process, and/or the firm’s culture (e.g. employee dedication).The firm’s resources include all the assets, capabilities, organizational processes, firm attributes, information, and knowledge that the firm controls.

The overall evaluation of a firm’s strengths, weaknesses, opportunities, and threats is called SWOT analysis. It starts with the definition of an objective and aims at identifying the internal and external factors that are key to achieving the objective. Ideally, the SWOT analysis should be conducted by a group representing a broad range of perspectives throughout the firm. SWOT analysis groups key pieces of information into two main categories:

- Internal factors – The *strengths* and *weaknesses* internal to the firm
- External factors – The *opportunities* and *threats* presented by the external environment

Internal factors may be viewed as strengths or weaknesses depending upon their impact on the specific objective. What may represent strengths with respect to one objective may be weaknesses for another objective. Internal factors include all of the 4 P’s (product, price, placement/distribution and promotion), as well as personnel, finance, manufacturing capabilities, and so on. The external factors include the opportunities and threats posed by the macro and micro-environments. The macro-environment includes demographic, economic, technological, political, legal, social and cultural factors, etc. The micro-environment includes the customers, competitors, distributors and suppliers.

Results of the SWOT analysis are used by decision makers to determine if the specified objective is attainable. If it is not, a different objective must be selected and the process repeated. If, on the other hand, the objective seems attainable, the results of the SWOT analysis are used as inputs in the generation of the firm’s marketing strategies.

For more information see Marketing Module 3: Company Analysis

3.3 The 3 C’s: Competitor Analysis

Competitors’ analysis is the assessment of the strengths and weaknesses of current and potential competitors. It provides both an offensive and defensive strategic context for identifying opportunities and threats. Using SWOT analysis, marketers typically develop detailed profiles of each competitor in the market.

Competitors' profiling gives a firm more strategic agility. It can reveal strategic weaknesses in rivals that the firm might consider exploiting and it may also allow for anticipating rivals' response to the firm's own strategies, the strategies of other competing firms, and changes in the market environment. Understanding the competition means that an offensive strategy can be implemented more quickly to exploit opportunities and capitalize on strengths. Similarly, defensive strategies can be employed more effectively to counter the threat of rival firms bent on exploiting the firm's own weaknesses. Firms that develop a systematic and advanced competitor profiling have a significant competitive advantage.

Competitor's profiling implies an in-depth description of competitors' background, finances, products, markets, facilities, personnel, and strategies. Background encompasses things such as: location of offices, plants, online presence, history, governance and organizational structure, among others. Finances includes: profit growth profile, various financial ratios, liquidity, cash flow, method of growth (organic or acquisitive), dividend policy and profitability. Products includes: depth and breadth of product lines, R&D strengths, new products developed, new product success rate, brands and strength of brand portfolio, brand loyalty and brand awareness, patents and licenses, and quality control conformance. Profiles of competitor markets encompasses segments served, market shares, customer base, distribution channels used (direct & indirect), geographical coverage, growth rate, customer loyalty, promotional mix. Facilities includes things such as: production capacity, capacity utilization rate, age of plant, plant efficiency, capital investment, location, and shipping logistics. Personnel encompasses: number of employees, key employees, and skill sets, strength of management, and management style, compensation, benefits, employee morale and retention rates.. Corporate and marketing strategies encompass: objectives, mission statement, growth plans, marketing strategies, and recent acquisitions/divestitures.

In addition, it is very important for firms to analyze not only current competitors but also to identify and assess potential competitors. The most common types of potential competitors are: companies competing in a related product/market, companies using related technologies, companies already targeting the firm's prime market segment even if with unrelated products, companies from other geographical areas with similar products and new start-up companies organized by former employees and/or managers of existing companies.

Firms should know and keep in mind that the entrance of new competitors is likely when there are: high profit margins in the industry, unmet product demand, no major barriers to market entry, future growth potential, competitive rivalry is not intense and/or gaining a competitive advantage over existing firms is feasible.

For more information see Marketing Module 4: Competitor Analysis

4. What is Marketing Strategy?

Once the firm has an adequate understanding of the customer base and of its own competitive position in the market, marketing managers are in a position to develop the marketing strategies to accomplish the firm's goals. Developing a marketing strategy encompasses three major decisions: a) selecting a target market; b) determining the way the firm wants to position its product/service in the mind of its target customers; and c) defining the marketing mix that will allow it to reach the selected target market and accomplish the desired positioning. The marketing mix is commonly referred to as the 4P's: product, placement/distribution, promotion and price.

It is very important for firms to keep an eye on any changes that may have an impact on the implementation and effectiveness of its marketing strategies. Factors to monitor for signs of change include, but are not limited to: technology, culture, politics, laws and regulations, and social norms.

4.1 Selecting a Target Market

In the selection of a target market a firm needs to consider which potential customers (segments) it should attempt to serve and the resources needed to do it successfully. The fit between the potential market and the firm's objectives as well as its competitive position (strengths and weaknesses) with respect to the competition must be assessed. Very importantly, the firm has to estimate the likely financial returns associated with the potential market(s).

4.1.1 Market Segmentation

To determine which potential customers to serve, firms make use of market segmentation. This technique aggregates customers into groups, making them homogeneous within a group and heterogeneous across groups. Different segments usually have different needs and expectations and, as such, may require different versions of the same product, may be willing to pay different prices for it, may buy in different places and may be reached by different media.

Segmentation can be conducted on the basis of several criteria, including: demographics (age, income, gender, occupation, etc.), psychographics (personality and lifestyle characteristics), geography (urban- rural, regional, national, etc.), usage (user vs. non-user, light, medium or heavy user, etc.), or multiple combinations of these.

Typically, marketers select one or more customer segments they intend to target and select those that score high on the following two dimensions: 1) the segment is large, growing, makes frequent purchases, is not price sensitive (i.e. is willing to pay high prices). and 2) the firm has the resources and capabilities to compete for a share of the market and serve the target customers better than the competition and in a profitable way.

For more information on customer segments see Supplement No. 1 in Marketing Module 2: Customer Analysis

4.2 Product/Service Positioning

An equally important part of a firm's marketing strategy is to determine how it wants its customers in each of the potential segments to view its product/service. This is usually formalized in a "positioning statement". Defining the positioning statement is of great importance to the firm because, once this is done, it is easier to determine the marketing mix (product, price, placement/distribution and promotion) the firm needs to use in each potential market segment to accomplish the desired positioning,

Typically the positioning statement starts with the name of the product/service, followed by the single most important claim the firm wants to make about it, followed by how it compares to competitors' products/services and ending with some argument on how the product/service and its benefits are supported. *For examples of product positioning statements, see Supplement No. 1 at the end of this Module.*

5. The Marketing Mix: The 4P's

Once the marketing objectives have been defined, the target market selected , and the desired positioning determined, marketers focus on to how to best implement the chosen strategy. Typically this implies implementing the marketing mix (The 4P's: product, price, placement/distribution and promotion) with the goal of consistently delivering a compelling value proposition that reinforces the chosen positioning, builds customer loyalty and brand equity and results in the accomplishment of the firm's marketing and financial objectives.

5.1 Product

A product/service is best viewed as the "bundle" of characteristics and benefits that buyers perceive they will obtain by purchasing it, based on their perceived needs, wants and expectations. Characteristics include the physical or functional features such as size, color, design, and ingredients. Benefits (the non-physical/non-functional features) encompass aspects such as convenience, comfort, and prestige. A service is the non-physical equivalent of a product. Services are intangible, highly perishable and normally labor intensive. They are often "customized" and commonly require a high degree of interaction between the customer and the provider.

Firms are faced with a variety of decisions regarding their products/services starting with its product/service mix: how many lines to offer (width), how many products to offer in each line (length) and how many versions of each product to have in each line (depth). In addition, products/services have to be managed through a life cycle; this requires decisions on whether to develop new products/services, whether to delete, reposition or otherwise improve existing products/services.

For the introduction of new products/services, firms start by identifying an opportunity and designing and testing the product/service. If test results are satisfactory, the firm introduces the product /service and manages it along its lifecycle. New products fall into three main categories: real innovations, adaptive replacements and me-too imitative products.

For more information see Marketing Module 5: Product.

5.2 Price

Price is the dollar amount asked for a sales unit of a firm's product/service. It is the only element of the marketing mix that generates revenue and therefore, has a significant impact over a firm's profitability. Price affects a firm's competitive position, its share of market and its marketing program. Therefore, in deciding about its pricing policy, a firm first needs to decide where it wants to position its product/service and define its own objectives: is it to cover costs and make a profit? Is it to undercut the competition? Or is it just to obtain a specific return on investment?

Furthermore, when making pricing decisions the firm needs to take into account and analyze the following aspects: the size and characteristics of the demand, the price sensitivity of the firm's potential and actual customers (price elasticity of demand), the firm's costs (production, distribution and communications), the characteristics of the competition (costs, prices and offers) and the prices of product/service substitutes, if any. Costs set the lower boundary on price and market demand sets the upper boundary. Competitors' prices and the prices of substitutes serve as guiding points.

However, when deciding about prices(s) a firm needs to strive for a "balance" between a preferred price and the maximum price that the target customers are willing to pay. The later is a function of the customer's perceived value of the firm's product/service in a particular competitive context, and, to a large extent, it is determined by the combination of the other 3 P's in the firm's marketing mix (product, place/channel, and promotion.)

The most common pricing strategies used by firms include: skimming pricing, penetration pricing, premium pricing and economy pricing. To calculate their prices, firms typically use one of the following pricing methods: cost & profit pricing, gross margin pricing, markup pricing, break-even point pricing, profit goal pricing or sales volume pricing. *For a description of these pricing strategies and methods see Marketing Module 6: Price*

Firms need to be alert to any changes that might affect the price for their product/service in a particular market. Examples of such changes include, but are not limited to: the costs of supplies and materials and new technologies that may speed up processes or make them cheaper or more expensive.

For more information see Marketing Module 6: Price.

5.3 Place/Channels of Distribution

Distribution is the process of making a firm's product/service available for consumption by the target customer. The way a product is distributed is important because it has an impact on customer's perception about the product. The distribution strategies of a firm should match the characteristics of its product/service, its business plan and the needs of its target market.

Marketing channel design and marketing channel management constitute the two most important decisions a firm must make regarding this element of its marketing mix. Channel design encompasses the issues of "length" and "breadth." Channel length refers to whether the distribution will be “direct”, “indirect” or both. In direct distribution there is no independent party between the firm and its customers. In indirect distribution there is a third party (e.g. wholesalers and/or retailers). However, as more firms are simultaneously serving different target markets, each with different distribution requirements, the use of “dual distribution” has become more widespread as a way to reach each market segment more efficiently and effectively. Channel breadth refers to how intensely or selectively the firm wants to distribute its product. Intense distribution is justified when the firm is aiming for maximal customer convenience (such as a basic product/service). Selective distribution is justified for products/services for which the customer is willing to travel and search for them, the costs of stocking the product are high and the degree of market development needed to sell the product/service is high (e.g., high end cars).

Channel management relates to the policies and procedures that will be adopted in order for all members involved in the distribution channel to perform the required functions. Because conflict between members of the distribution channel is common, good communications, trust and understanding among all members, along with attention to proper design of contracts are the keys to the effective functioning of the channel.

When deciding about the best distribution system for its product/service, a firm has to take into account the functions needed for optimal distribution. These are a function of the product/service, the firm, the price and the customer. The key distribution functions include: order processing, inventory management, transportation and warehousing. Designing a distribution system typically involves a trade-off between the desired level of service and the cost of providing that service. Three crucial aspects firms need to address when deciding about their distribution system are: which channels and intermediaries will provide the best coverage for their target market, which channels and intermediaries will best satisfy their customers' buying requirements, and which channels and intermediaries will be the most profitable.

For more information see Marketing Module 7: Placement/Distribution.

5.4 Promotion

Promotion refers to the mix of promotional elements a firm uses to communicate with its current or potential customers. The main objectives of the promotional effort are to make customers aware of the firm's product/service and its features, to entice them to try it, and to motivate them to purchase and re-purchase it. Promotion is fundamental to the success of a firm because, without a promotional effort, potential customers won't know about the existence and benefits of the firm's product/service and, therefore, won't buy it. Not even the best product or service sells without some promotional effort!

Promotional efforts can be based on a “push” or a “pull” strategy. With a “push” strategy a firm promotes the product to wholesalers, the wholesalers promote it to retailers and retailers promote it to the end consumer. In a “pull” strategy the promotional efforts are directed to the end consumers in such a way that they will demand the product/service from the intermediaries (typically retailers) thereby “pulling” the product/service through the distribution system.

Key aspects a firm must address for the development of a promotional campaign start by defining who its target audience is, what are the promotion objectives, how much money is available to execute the campaign, what promotional elements to use, where and when to run the campaign, and finally, how it will be evaluated.

An effective marketing promotion strategy requires the use of a combination of “non personal” and “personal” communication elements. The most commonly used “non personal” elements include advertising, sales promotion and public relations while personal selling and direct marketing are the most commonly used “personal” elements. These elements serve different specific purposes but when combined in a promotional mix they produce a synergy that increases the effectiveness of any of them used individually.

For more information see Marketing Module 8: Promotion.

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Roger Kerin, Eric Berkowitz, Steven Hartley and William Rudelius. "Marketing". 7th Ed. (New York, NY: Mc Graw Hill, 2003), Chapters 13, 15, 16, 17 &18.

Supplement No. 1 – Examples of Product Positioning Statements

“To young active soft-drink consumers who have little time for sleep, Mountain Dew is the soft drink that gives you more energy than any other brand because it has the highest level of caffeine. With Mountain Dew you can stay alert and keep going even when you haven’t been able to get a good night’s sleep”

“For homemakers, Dow Bathroom Products are the easy way to get a great clean shine for your tub, tile and toilet. That’s because only Dow Bathroom Products contain scrubbing bubbles that cut through dirt and grime clean to the shine!”

“For consumers ages 16-35, Crest Whitestrips whiten teeth five times better than the leading paint-on whitening gel. That’s because Crest’s gel-coated strips hold the peroxide on teeth longer, to whiten stains below the tooth surface.”

“For “Green” consumers seeking healthy foods free from pesticides, chemical or preservatives, Seeds of Change frozen entrée’s taste great. 100% of our ingredients are grown organically and are not only healthy for you, but also our planet.”

“For females who cook meat, Saran Disposable Cutting Sheets are the solution to your worries about meat juice germs. That’s because you can cut your meat right on Saran Cutting Sheets, and they’ll soak up the juicy mess. Just toss the sheet away and your worries are gone with it!”