Session 2

Marketing Management
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Agenda

- Basic Quantitative Tools
- Strategic Marketing Framework (Chap. 2)
- Market Structure Analysis (Chap. 6)

Example

<table>
<thead>
<tr>
<th>Price ($)</th>
<th>Sales Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.50</td>
<td>600</td>
</tr>
<tr>
<td>6.00</td>
<td>700</td>
</tr>
<tr>
<td>5.00</td>
<td>1,000</td>
</tr>
</tbody>
</table>
Manager’s Problem?

- What is the best price to charge?
- Is the given information enough?

Costs

- Total Cost (TC) = Fixed Cost (F) + Total Variable Cost
  
  \[ TC = F + c \cdot Q \]
**Related Jargon**

- Unit Contribution/Margin = $(P - c)$
- Total Contribution = $(P - c)Q = \text{Total Revenue} - \text{Total Costs}$

**Profit Comparisons**

- Assume, $c = $4
- Price = $5
  - Total Contribution = \((5 - 4)\times1000 = $1,000\)
- Price = $6
  - Total Contribution = \((6 - 4)\times700 = $1,400\)
- Price = $7.5
  - Total Contribution = \((7.5 - 4)\times600 = $2,100\)

**What is the Best Price?**

- Optimal price – $7.5
- What about fixed costs?
- Compute the optimal price if $c = 1$
Margin Calculations: Channel of Distribution

<table>
<thead>
<tr>
<th>Channel</th>
<th>Price (p)</th>
<th>Cost (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td>7.5</td>
<td>4</td>
</tr>
<tr>
<td>W</td>
<td>8.7</td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Margin Calculations

- Percentage Margin (I) = \( \frac{P - c}{P} \)
- Percentage Margin (II) = \( \frac{P - c}{c} \)

- Retailer's % Margin (I) = \( \frac{10 - 8.7}{10} = 13\% \)
- Retailer's % Margin (II) = \( \frac{10 - 8.7}{8.7} = 15\% \)

- Compute % margins for W and M

Break-Even Volume (BEV)

- What is the volume required to cover costs at a given price?
- Total Revenue = Total Costs
- \( P \times \text{BEV} = (F + c \times \text{BEV}) \)
- \( \text{BEV} = \frac{F}{P - c} \)

- Suppose \( F = 2000, P = 7.5, c = 4 \)
- \( \text{BEV} = 2000/3.5 = 571.43 \text{ or } 572 \text{ units} \)

- Compute the BEV when \( P = 5 \) and \$6
### Break-Even Analysis: Applications

<table>
<thead>
<tr>
<th>Price</th>
<th>BEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5</td>
<td>2000</td>
</tr>
<tr>
<td>$8</td>
<td>500</td>
</tr>
<tr>
<td>$10</td>
<td>333.33</td>
</tr>
</tbody>
</table>

- Which scenario is most plausible?
- Need not be profit maximizing!

### Break-Even Analysis: Profit Goals

- Suppose the firm wants to make $1000 over fixed costs each period
- Analysis can be modified by replacing $F$ with $F + 1000$

<table>
<thead>
<tr>
<th>Price</th>
<th>BEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5</td>
<td>3000</td>
</tr>
<tr>
<td>$8</td>
<td>$750</td>
</tr>
</tbody>
</table>

### Break-Even Analysis: Cost Reducing Investments

- Suppose you estimate that you could sell 550 units at $8 – is the investment worth it?

<table>
<thead>
<tr>
<th>Price</th>
<th>BEV (F=2000, c=4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>2000</td>
</tr>
<tr>
<td>8</td>
<td>500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Price</th>
<th>BEV (F=3000, c=2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>1000</td>
</tr>
<tr>
<td>8</td>
<td>500</td>
</tr>
</tbody>
</table>
A Strategic Marketing Framework

- Objectives
- Options (potential customer segments)
- Customer targets
- Competitors
- Given above product features
- Core strategy – differential advantage, product’s (perceived) position, value proposition
- Supporting marketing mix (price, distribution, promotion)

Marketing Strategy: Decision Sequence

- Stage 1: Target Customer Segments
- Stage 2: Product Positioning
  - Stage 3: Distribution
  - Stage 4: Price, Promotion

Objectives

- Market share increase
- Profit maximization
- Other (ROI, stock price)
Strategic Options

- Which customer segments to target?
- How many customer segments to target?
- Go after current customers (own and competitors’) – market penetration strategy
- Go after untapped customers – market development strategy

Strategic Options

- Market penetration
  - Less expensive to serve (own) current customers
  - In mature markets growth may come only by stealing competitors' customers – risky and potentially costly (price wars)
- Market development
  - Find new customer segments/usage occasions
- Option chosen influences competitors that will need to be considered

Product

- Must be made given segmentation decision, customers’ preferences and strategic option chosen (competitors)
- Cost of producing variants depend on the product (manufacturing process)
  - Cars vs. health club
Differential Advantage

- Characteristics
  - Customers must notice the enhanced value
  - Customers must value it
  - Must be sustainable (hard to copy)

Competitive Advantage

- Cost based advantage
  - Economies of scale; Learning by doing – experience curve effects

- Quality based advantage
  - Offering a superior alternative (Deere)

Competitive Advantage

- Perceived quality (brand) advantage
  - Perception is reality – “brand name products are superior to generics”
  - Brand equity – value premium that customers are willing to pay over a functionally similar offering
  - Perceptual maps – help understand how customers perceive the product offering
**Product Positioning**

- Communicate the key differential advantages to the target consumers
  - What (product attributes) influences brand choice?
  - How does the brand compare vis-à-vis competition on these attributes?
- Often an iterative process

**Strategies and PLC**

- Product Life Cycle
  - Introduction
  - Growth
  - Maturity
  - Decline
- Influences the options available to consumers, intensity of competition, category growth – why care?

**Product Line Strategy**

- Product Line
  - Portfolio of closely related products to target different customer segments
    - Dell laptops, Kellogg cereal
  - Branding
    - Umbrella branding – same brand name
    - Unrelated brand names
  - Cannibalization issues
Market Structure Analysis

Why?
- Enables the manager to understand who the competition is?
- Misidentification can have serious ramifications – see discussion on marketing myopia

Defining the Competition

Firm’s view
- Housewares
  - Food preparation
    - Coffee makers
      - Drip coffee makers/percolators
      - Product features and then brands

Customer view
- Household Appliances
  - Water purifiers/Juicers
    - Cappuccino makers/Espresso/percolators
  - Drip coffee makers

- Cereals compete not only with other cereals but also with eggs and other breakfast items
- P&G has 51% of the laundry detergent market but 20% of the clothes cleaning market
## Competitor Analysis

- Objectives of competitors
- Current marketing strategies
- Strengths and weaknesses
- Analysis of one’s own strengths and weaknesses (SWOT)

## Objectives

- Market share growth
- Profit growth
  
  Helps understand where they are headed – will influence their marketing mix

## Competitor Strategies

- Who are they targeting?
  - Industrial products – sales literature
  - Consumer products – media advertising
- Product
  - Sales literature (not hard to obtain)
- Core strategies and marketing mix
  - Marketing communications
  - Differentiating strategy
Competitor Strengths and Weaknesses

- Ability to design new products
- Ability to produce (manufacturing capability, plant capacity)
- Ability to market – distribution infrastructure
- Financial capability
- Ability to manage

Self Assessment

- SWOT vis-à-vis competition
- Strengths
  - Sustainable
- Weaknesses
  - Are we stuck with it?
- Opportunities
  - Exploiting trends, changes in customer preferences, market growth
- Threats
  - Technologically superior offering by a competitor, entry

Primary and Secondary Sources of Information

- Refer text – pgs. 157-158
**Expected Action/Reaction**

- Use the information gathered/analyzed to assess expected action
- Competitor may reveal the strategy publicly (AA in 1990 – Value Pricing)
- Simulate – what if scenarios and identify the most plausible action

**Game Theory & Competitive Strategy**

- Elements of a Game
  - Number of players
  - Decision variables/space
  - Relationship between decisions and pay-offs
- Prisoner's Dilemma game
  - Everybody is worse-off
- Manufacturer-Retailer game (Leader-Follower game)
  - Inefficient decisions are made as each party acts in their self-interest