

Final Exam Review

A couple of things

- Send the the presentation to proserpi@marshall.usc.edu by midnight of **Tuesday, Dec 3**
 - **(Peer evaluations:** send them to me digitally by **midnight, Dec 3)**
- Paper due by midnight, **Dec 10**
- Course evaluation
 - You should have received an email with a personalized link to complete them
- Final exam:
 - 14846 – Dec 11, 4:30pm – 6:30pm, JFF 322
 - 14848 – Dec 11, 7pm – 9pm, JFF 322
 - 14851 - Dec 16, 8am – 10am, JFF 316

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 and a calculator

Services: the intangible product (CH 13)

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



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

How can firms
provide a good service?

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)



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

Service Recovery Paradox*

(CH 13)

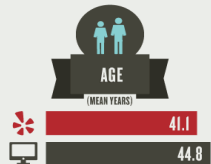
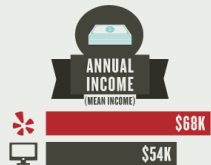
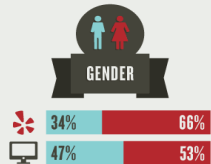
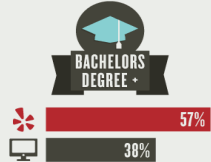
"A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place" -- Etzel, M. and Silverman, B. (1981).

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

yelp **DRIVES LOCAL PURCHASES**

WHO USES YELP?

YELP USERS
ONLINE USERS

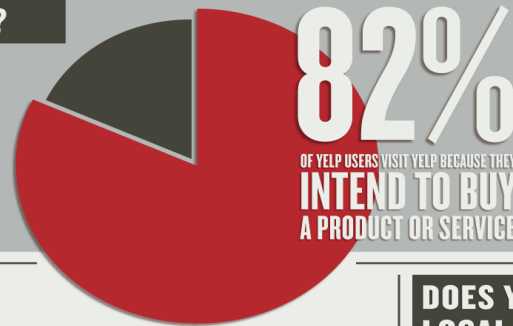


METHODOLOGY

The Yelp Consumer Survey was fielded in the U.S. between March 29 and April 15, 2013 using Nielsen's online panel. A total of 1,415 responses were collected.

WHY DO PEOPLE USE YELP?

When you visit Yelp, do you typically visit because you intend to buy a product or service and are trying to inform your decision?



WHAT DO YELP USERS SEARCH FOR?

For which of the following activities do you use Yelp when looking for locations for a purchase?



HOW DO YELP USERS CHOOSE A LOCAL BUSINESS?

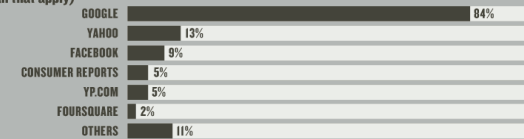
Please rank the following factors you might consider when researching a local business on Yelp based on their importance to you.*



*Percentages above indicate the percentage of respondents that selected each factor as the most important when researching a local business.

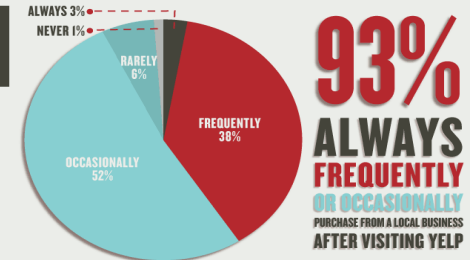
IF NOT YELP, WHO?

If Yelp is typically not the first site you go to... Which site(s) do you tend to go to first? (Select all that apply)



DOES YELP LEAD TO LOCAL PURCHASES?

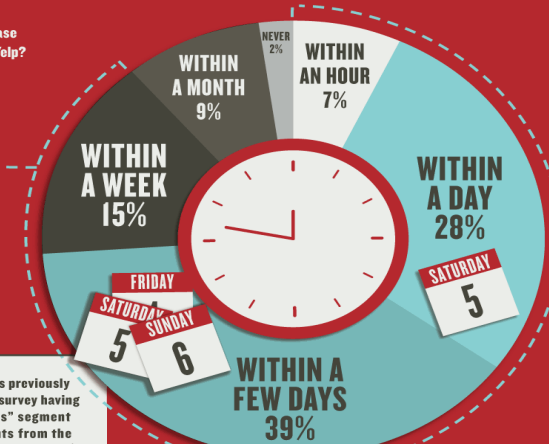
How often does visiting Yelp lead you to purchase from a local business?



WHEN DO YELP USERS BUY?

How long after you visit Yelp do you typically make a purchase from a business you found on Yelp?

89% MAKE A PURCHASE WITHIN A WEEK



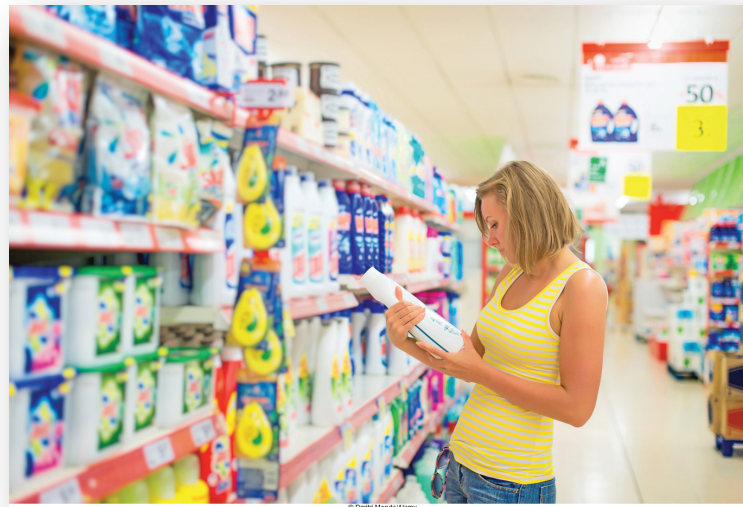
Qualified respondents participated in household purchase decisions and used the internet when searching for information on local businesses or services. The final sample consists of two main groups:

1) Online Rep Sample - Consists of 1,006 responses weighted to represent the population of internet users that search online for information on local businesses or services.

2) Yelp Sample - Consists of 409 responses from panelists previously identified as having visited Yelp, who also indicated in the survey having visited Yelp. In the following analysis, the "Yelp Visitors" segment consists of respondents from this group and respondents from the Online Rep Sample that indicated having visited Yelp (106 respondents). The total size of the Yelp sample was 515 respondents.

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)

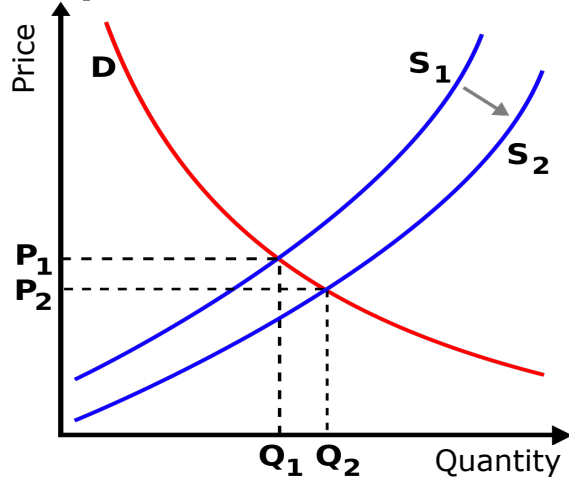


Price is affected by many factors (5 C's)

- 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



$$P_1 = \$10 \quad P_2 = \$5$$

$$Q_1 = 0.5M \quad Q_2 = 0.75M$$

- 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** = $\frac{\text{Pct. Change in Quantity}}{\text{Pct. Change in Price}} = -1$

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

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
 $P \times Q = \text{fixed costs} + \text{variable costs}$
 $P \times Q = \text{fixed costs} + \text{variable costs per unit} \times Q$
- We want to find Q (**break-even units**):

$$Q = \frac{\text{Fixed costs}}{P - \text{variable cost per unit}}$$

Contribution per unit

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



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



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



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

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

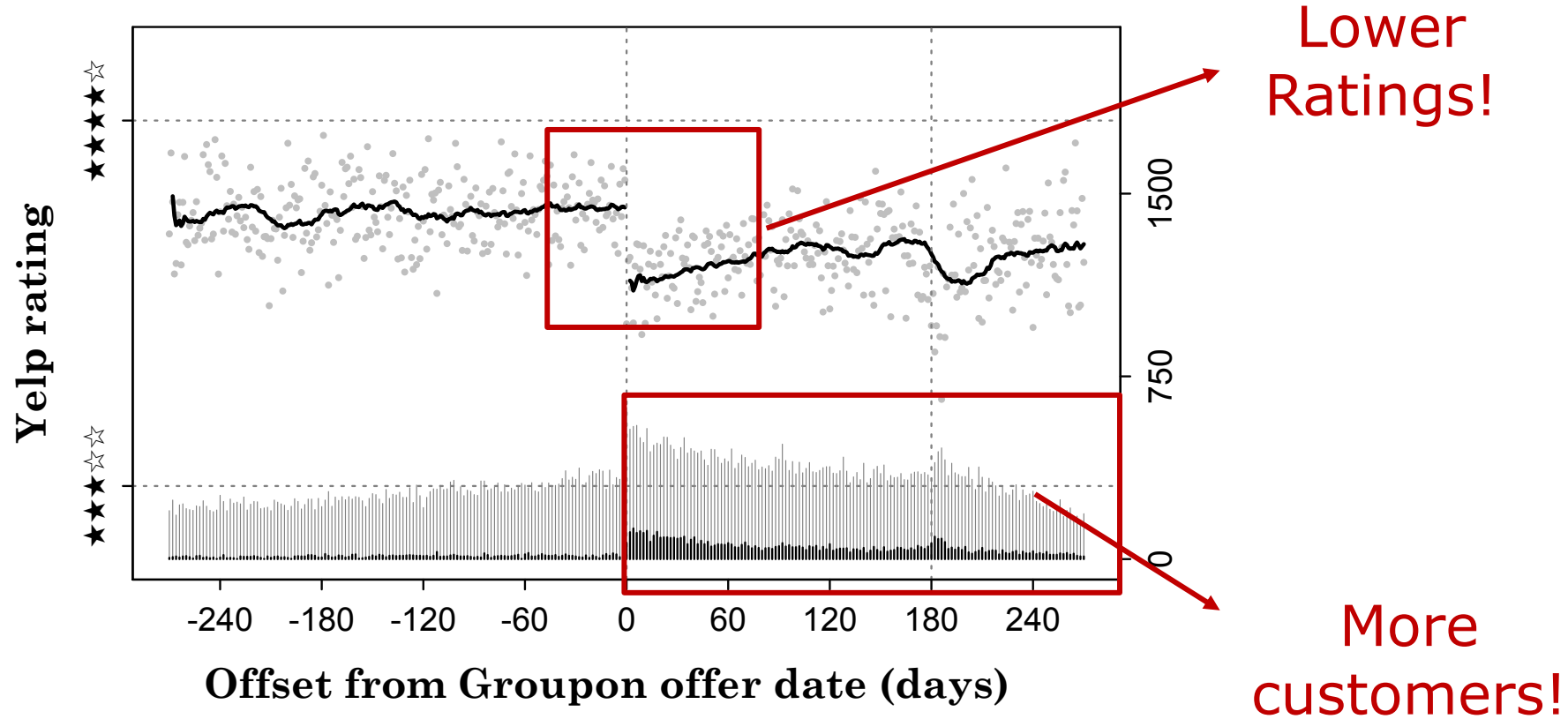
Two strategies:

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.



(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

- 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** 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

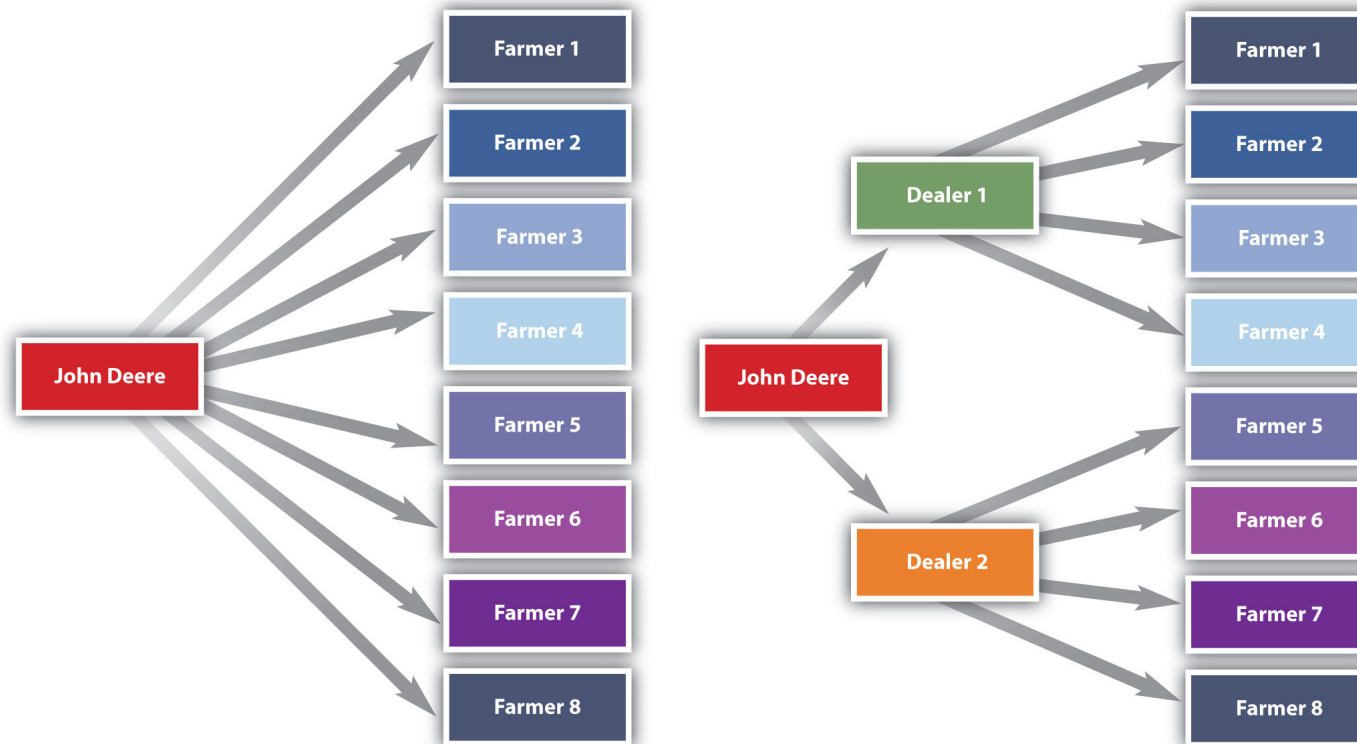
Sell

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!

Streamline the number of transactions an organization must make

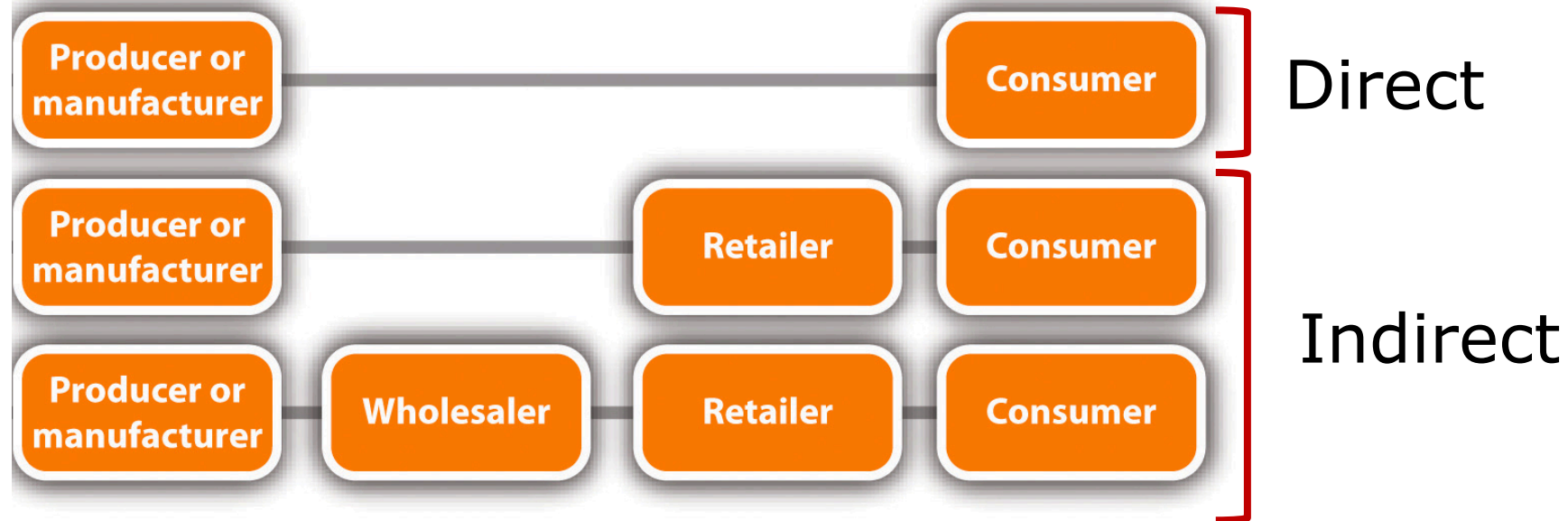


- **Increase value** for consumers
 - Costco offers very competitive prices by cutting deals with manufacturers
- **Retailers are more efficient and effective**
 - Lower inventory
 - Have what you need in stock → sales increase

- 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

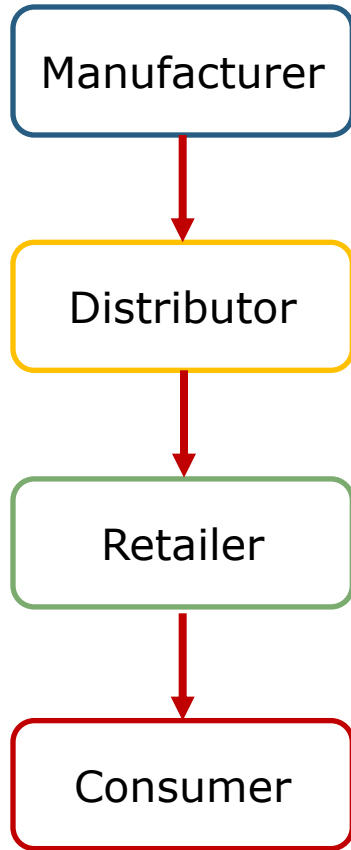
Depending on the entities participating in the channel we have:

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



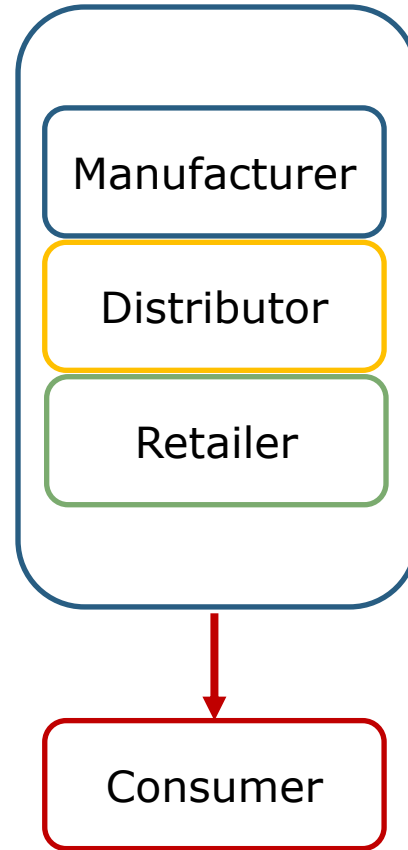
More types marketing channels (CH 15)

Conventional



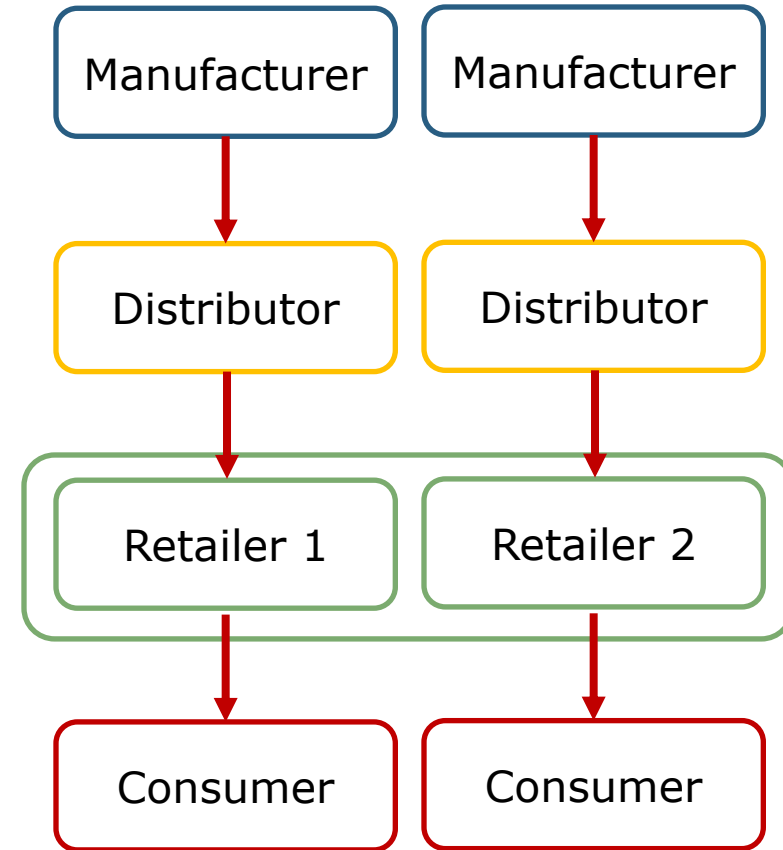
Every entity has its own goals

Vertical



Entities act as unified system

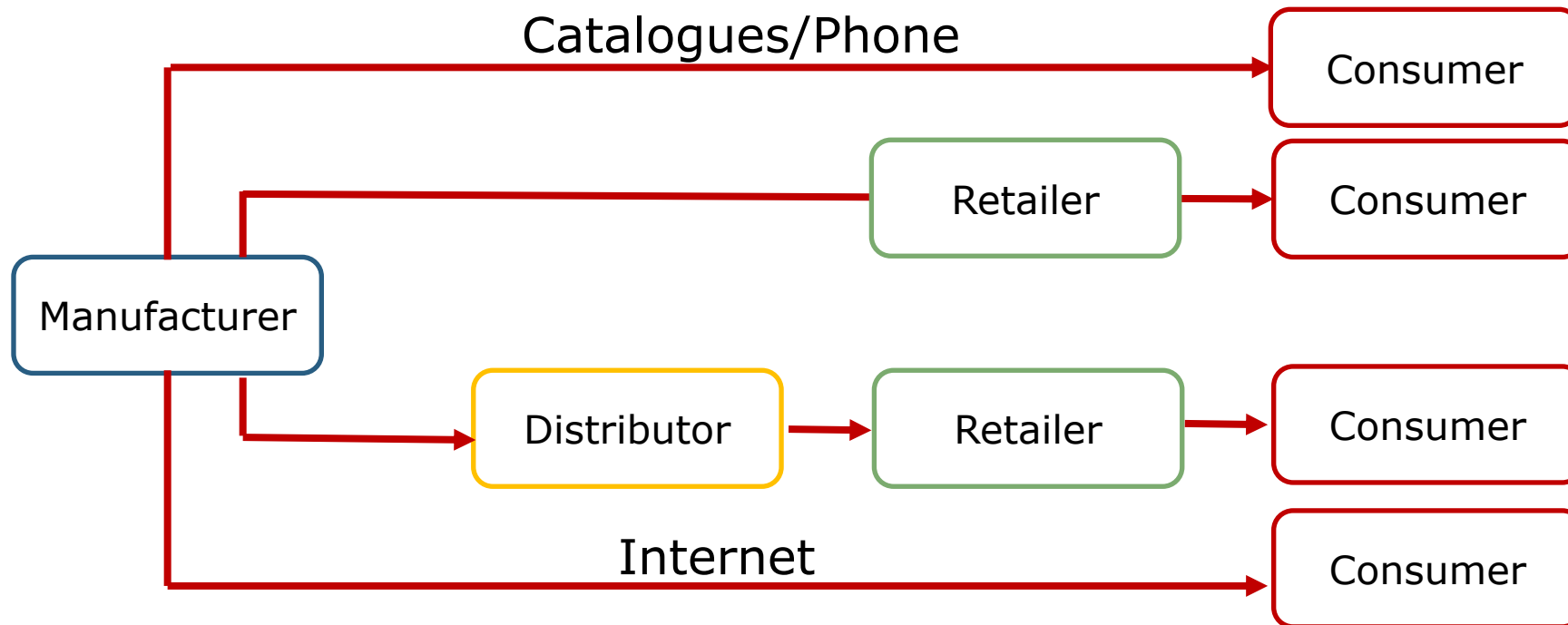
Horizontal



2+ firms join at one level of the supply chain

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

- Staples, Macy's, etc.



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



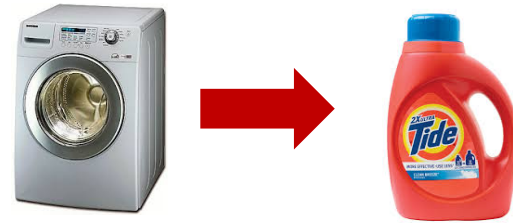
Which factors do manufacturers consider to establish relationship with retailers?

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

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

Retailers add value using the four Ps

2. Price

- It sets the image and perception of consumers



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.



Retailers add value using the four Ps

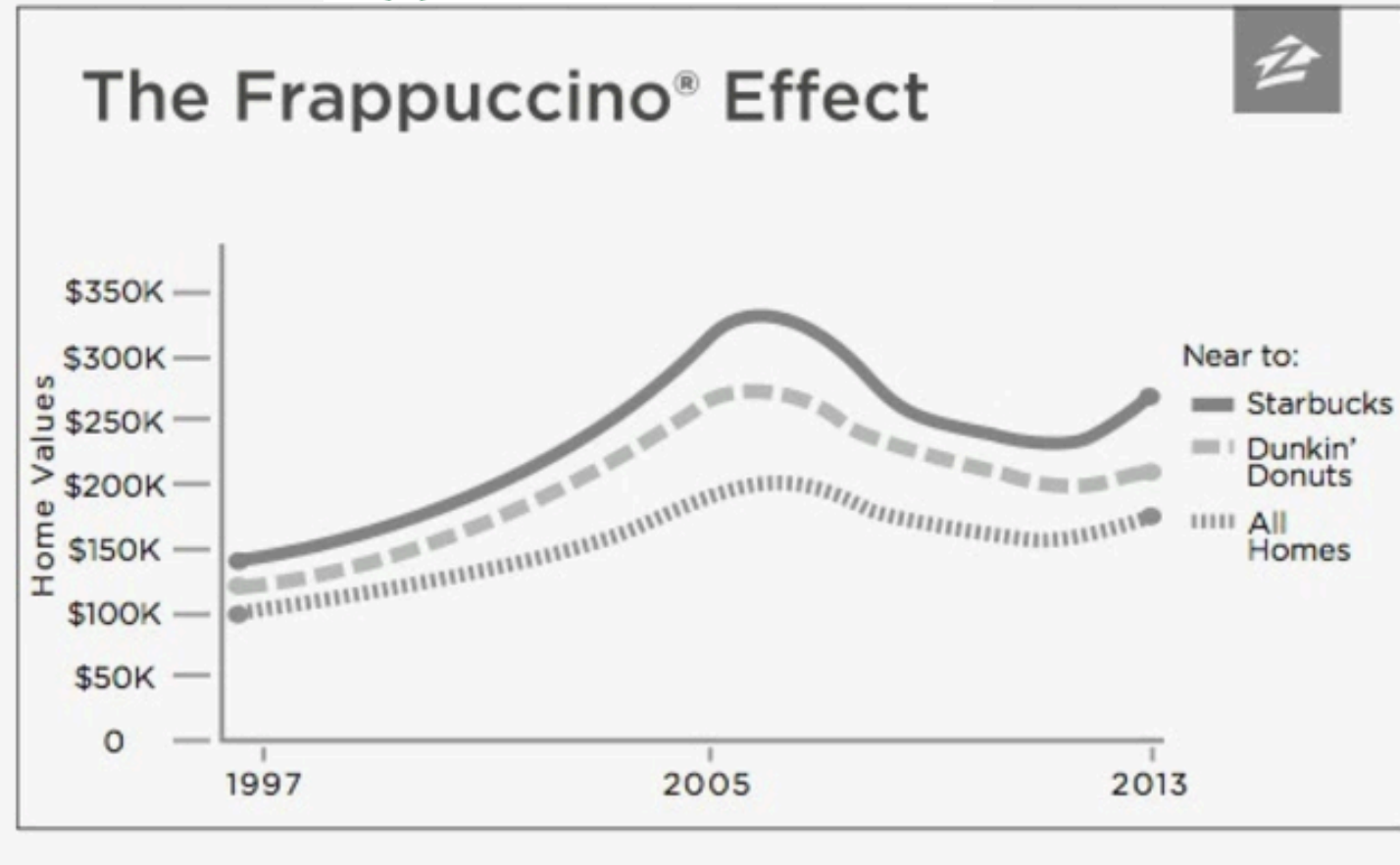
4. Location, location, location

- 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®



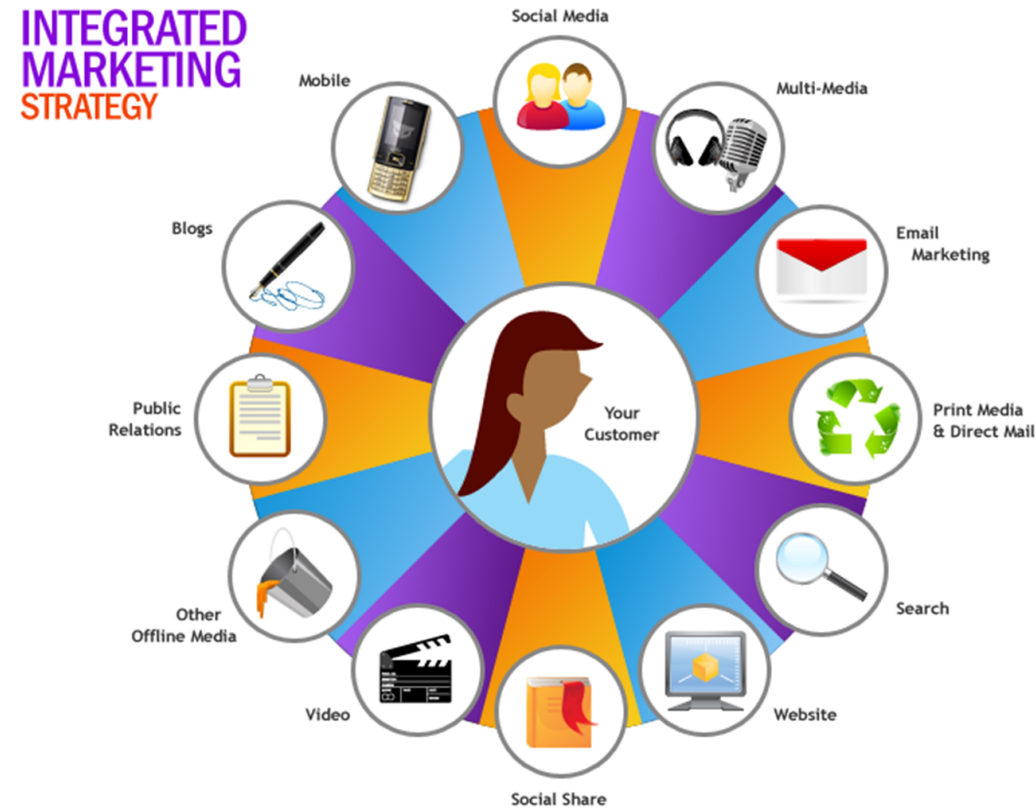
Full article available at: <http://qz.com/334269/what-starbucks-has-done-to-american-home-values/>

What are the challenges associated with having multiple retail channels?

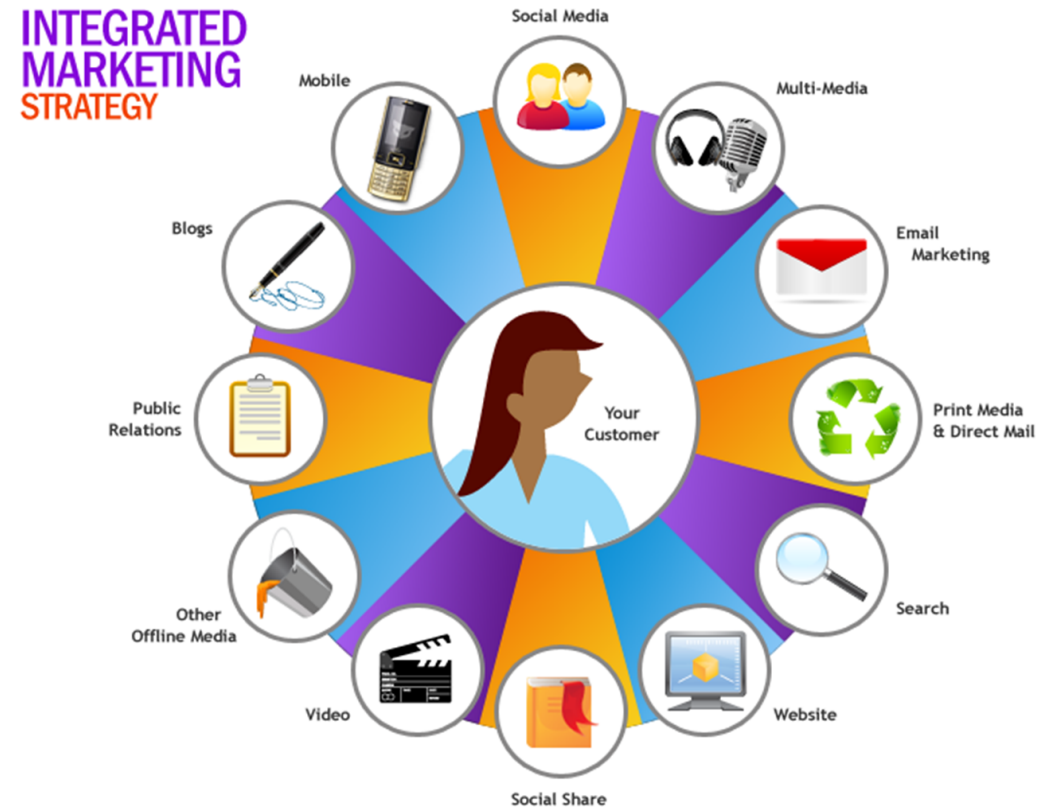
- Consumers desire a **seamless** experience when interacting with multichannel retailers

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

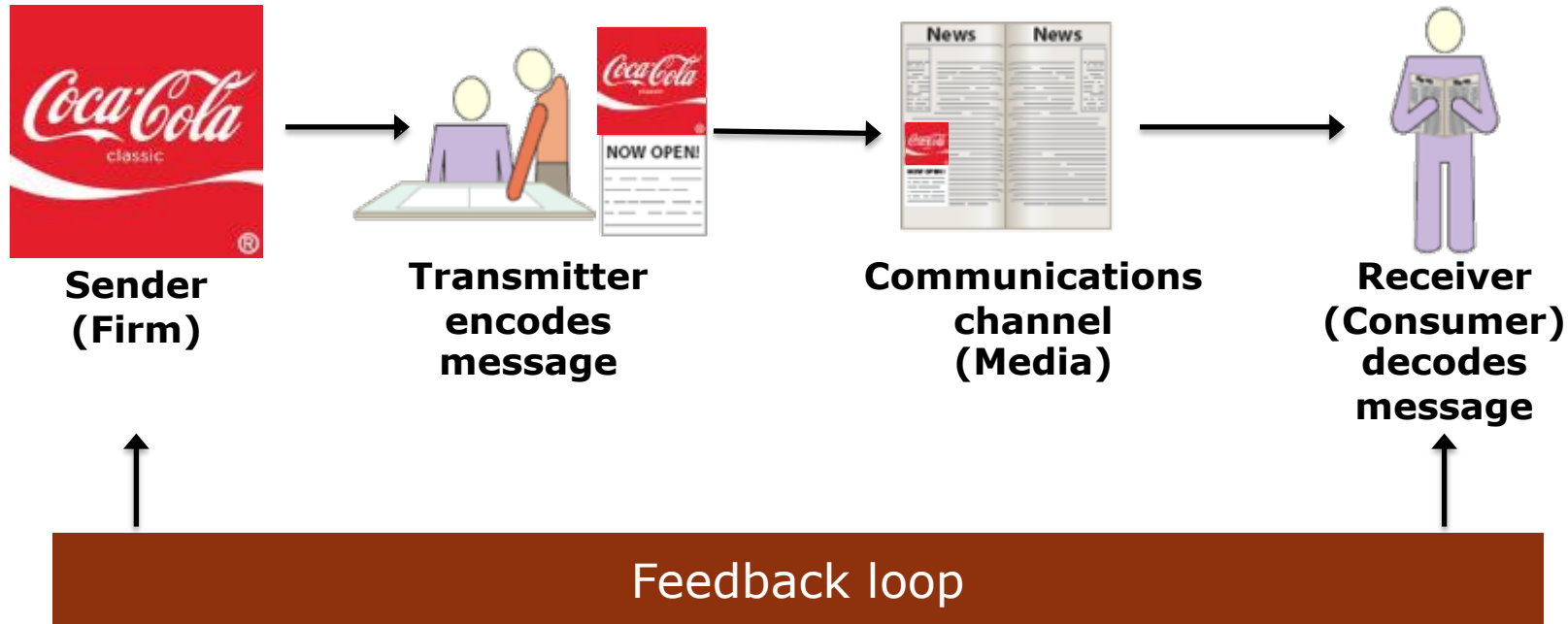
- Represents the fourth P: **Promotion**
- Encompasses several communications strategies



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

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

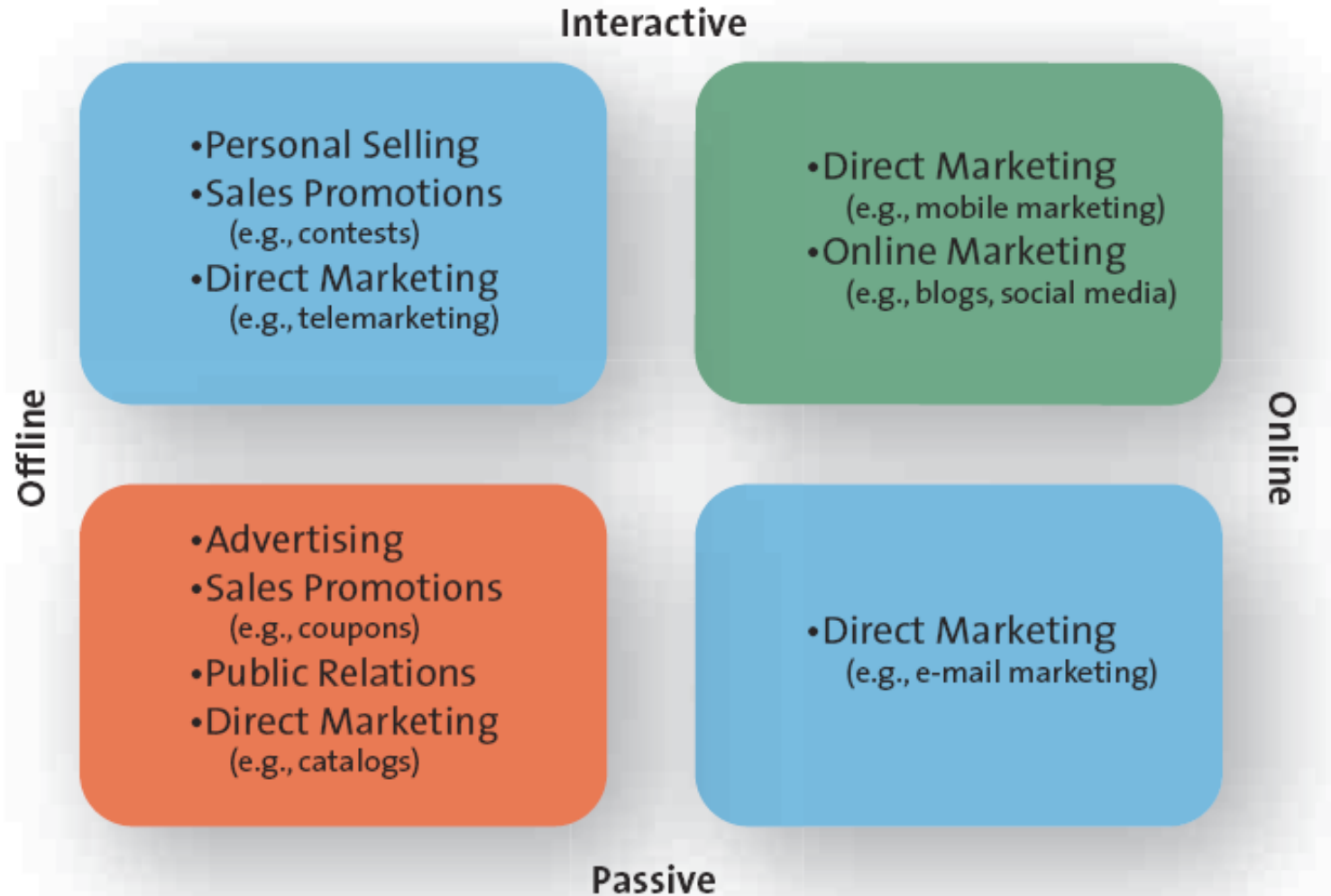
The advertisement convinces consumers that they want the product or service

Desire

Leads consumers toward taking action by purchasing the product or service

Action

IMC Elements (CH 17)

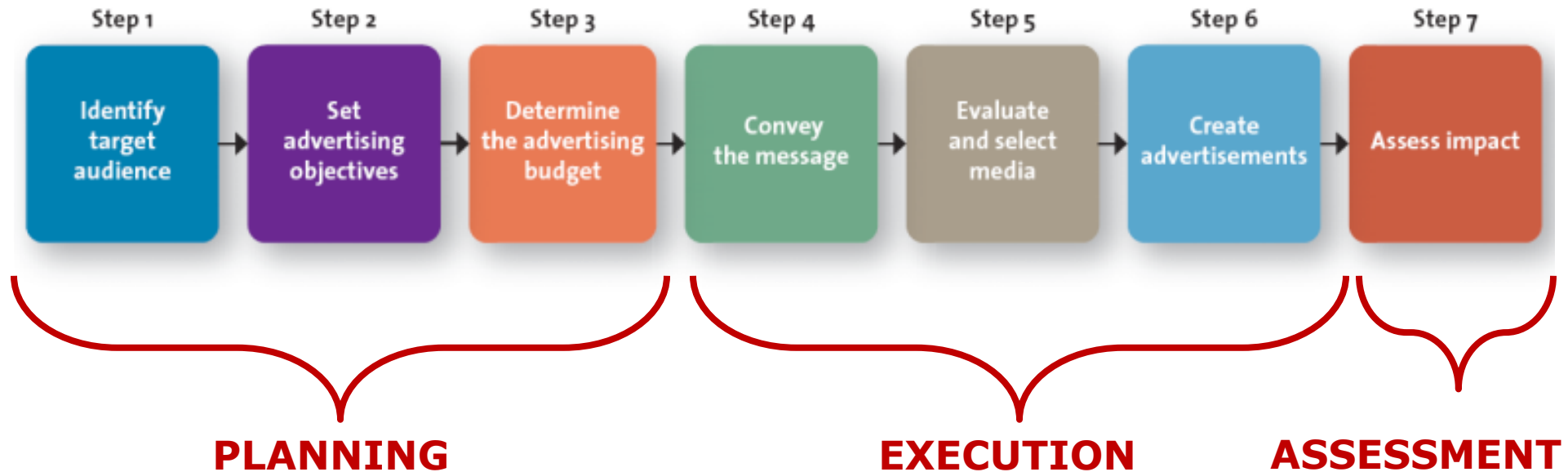


- How can we measure the success of a marketing communication strategy?
 - Traditional media
 - **Frequency** of exposure
 - **Reach** (% target population exposed)
 - **Gross Rating Points** (GRP): how many people within an intended audience might have seen their ads
 - E.g., 7 Ads in a TV channel,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

Advertising

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

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



- **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

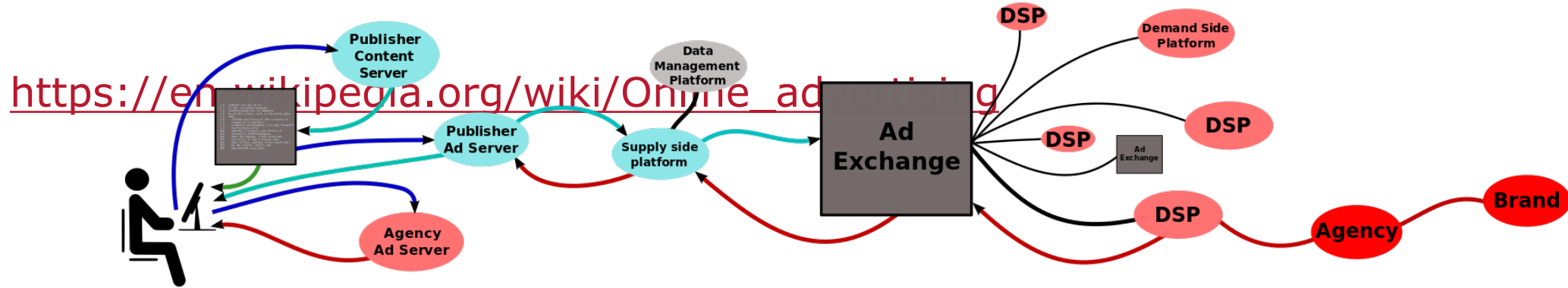
- **Media planning**
 - Combination of media used (**media mix**) and frequency of Ads
- **Mass** media (large audience) vs **niche** media (more targeted)

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

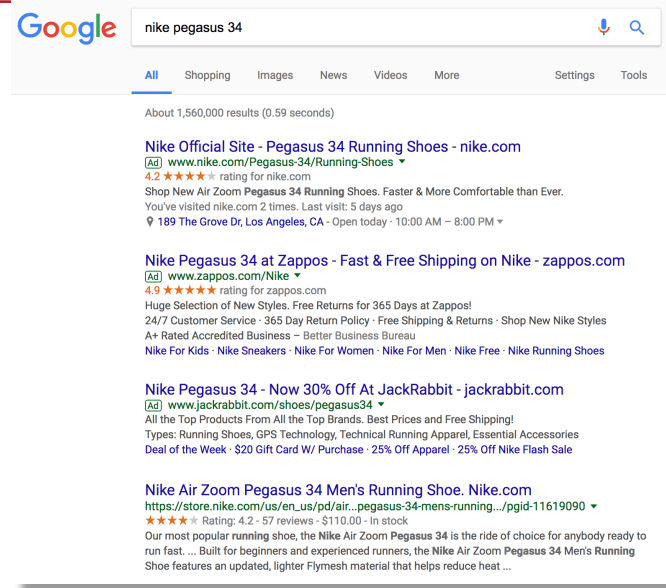
Experimental and Survey

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



- **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

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



What type of auction does Google use?

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)**
 - $$\frac{\text{Gross Margin} - \text{Expenditures}}{\text{Expenditures}} \times 100$$

Good luck with the
presentation and the
final!!!