Final Exam Review
A couple of things

• Paper and peer evaluations due Nov 14 via blackboard assignments

• Course evaluation
  – You should have received an email with a personalized link to complete them

• Final exam is Friday Nov 20 at 11 am (8 pm for asynchronous students)
Final: what you need to know

**Chapters 1-18 excluding chapter 8** (lectures, discussions, cases, etc.) may appear on the exam

- You will need a calculator
- The exam is closed notes and books and we will use Respondus LockDown browser
- Format
  - Multiple choice, 50 question, 0.7 point each question
    - Correct answer: +0.7 points
    - No answer: 0 points
    - Wrong answer: -0.7 points
Your grade

• So far your only grade in the second midterm grade which is 25% of the total grade

• Participation (7.5%) will take into account many things including
  – your class participation (very different from attendance)
  – Homework and assignments
  – Discussion exercises and cases
• I will give you permissions to share so you can control your slides
• You will have 12 mins + 3 Q&A (from other students and myself)
• You need to describe the marketing strategies and concepts you adopted

• Include a timeline of the product development, basically an overview of how you have developed the project over the semester
  – You can write a paragraph or two or use a table if you prefer
  – This should include how you split the various tasks among the group members, i.e., I want to know who did what
Product, branding, and packaging decisions (CH 11)

CONVENIENCE PRODUCTS
BUY FREQUENTLY AND IMMEDIATELY
- Low priced
- Many purchase locations
- Includes:
  • Staple goods
  • Impulse goods
  • Emergency goods

SHOPPING PRODUCTS
BUY LESS FREQUENTLY
- Gather product information
- Fewer purchase locations
- Compare for:
  • Suitability & quality
  • Price & Style

SPECIALTY PRODUCTS
SPECIAL PURCHASE EFFORTS
- Unique characteristics
- Brand identification
- Few purchase locations

UNSought PRODUCTS
NEW INNOVATIONS
- Products consumers don’t want to think about
- Require much advertising and personal selling
# Product Mix & Product Line Decisions

## Abbreviated List of BMW Product Mix

<table>
<thead>
<tr>
<th>Product Lines</th>
<th>BMW</th>
<th>MINI</th>
<th>Rolls-Royce</th>
<th>Motorrad</th>
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</thead>
<tbody>
<tr>
<td>2 Series</td>
<td>2 Series</td>
<td>Clubman</td>
<td>Ghost</td>
<td>C Series</td>
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<tr>
<td>3 Series</td>
<td>3 Series</td>
<td>Convertible</td>
<td>Phantom</td>
<td>F Series</td>
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<tr>
<td>4 Series</td>
<td>4 Series</td>
<td>Countryman</td>
<td>Wraith</td>
<td>G Series</td>
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<td>5 Series</td>
<td>5 Series</td>
<td>Coupe</td>
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<td>K Series</td>
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<td>6 Series</td>
<td>6 Series</td>
<td>Hardtop</td>
<td></td>
<td>R Series</td>
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<tr>
<td>7 Series</td>
<td>7 Series</td>
<td>John Cooper</td>
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<td>S Series</td>
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<td>Z4 Series</td>
<td>Z4 Series</td>
<td>Paceman</td>
<td></td>
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<tr>
<td>M Series</td>
<td>M Series</td>
<td>Roadster</td>
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<td>BMW i</td>
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<td>Hybrid</td>
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</table>

### Product mix breadth
(number of product lines)

### Product mix depth
(number of products within a product line)
Creating a brand image involves: name, logo symbols, characters, slogans, jingles, and even distinctive packaging. **Brand Mantra** is also important!

Offers a quick, simple, and clear definition on what a company stands for how it is different from its competitors, e.g.

- **Nike**: Authentic Athletic Performance
- **Disney**: Fun Family Entertainment
- **Ritz-Carlton**: Ladies & Gentlemen Serving Ladies & Gentlemen
- **BMW**: Ultimate Driving Machine

Images, feelings:
Value of Branding for the Customer and the Marketer

“We valued the brands based on their financial metrics. Our first step was to determine earnings before interest and taxes for each brand...”

- Forbes.com

http://www.forbes.com/powerful-brands/

The above is an interesting article about the world’s most powerful brands, and the metrics and methodology used to identify them.
Brand Equity

The commercial value of a brand that derives from consumer perception of the brand name of a particular product or service, rather than from the product or service itself.

- How well known is this brand?
- What does this brand represent for consumers?
- How much of a premium are consumers willing to pay for my brand vs. a similar but generic (not branded) product?
Firm change a brand’s focus to target a new market or realign the brand values with the current market preferences

- Uber 2016
  - [https://www.youtube.com/watch?v=axjXNEordH8](https://www.youtube.com/watch?v=axjXNEordH8)
- Uber 2018
  - [https://youtu.be/k9dzpRzSdnA](https://youtu.be/k9dzpRzSdnA)
Often overlooked as a marketing tool, packaging helps determine the success of a product.

FUNCTIONS: Preserve, protect, inform, promote, etc.
Developing New Products & Services (CH 12)

Creating or maintaining a sustainable competitive advantage!!!

Walmart asks suppliers for info about all their products

Products that rely on fashion trends (apparel, arts, books, videogames) have a short life cycle

Healthier and greener consumers

Everyone that wanted to product got it so no more growth

Multiple products can better withstand shocks like changes in consumer preferences

Why do firms create new products?

Changing customer needs

Improving business relationships

Market saturation

Fashion cycles

Managing risk through diversity

USC Marshall School of Business
**Diffusion of innovation**

- Those that stand in line for a new product. Spread positive word of mouth.
- Wait for a review, less risk. Spread positive word of mouth.
- Vital for profits. Avoid risks by waiting.
- They don’t like changes and avoid them.
- Product reached full market potential. Sales level off or start to decline.

**Graph Description**

- Number of users
- Time of adoption of the innovation

- Innovators: 2.5%
- Early adopters: 13.5%
- Early majority: 34%
- Late majority: 34%
- Laggards: 16%
How Firms Develop New Products

**Idea generation**
Development of viable new product ideas.

**Concept testing**
Testing the new product idea among a set of potential customers.

**Product development**
Development of prototypes and/or the product.

**Market testing**
Testing the actual products in a few test markets.

**Product launch**
Full-scale commercialization of the product.

**Evaluation of results**
Analysis of the performance of the new product and making appropriate modifications.

R&D, licensing, brainstorming, etc.

**Concept** is a brief written description of the product

Prototype is created
- **Alpha testing**
  - Within the firm
- **Beta testing**
  - Uses potential customers

Premarket vs test marketing

Convey characteristics and **KEY BENEFITS**
- **Satisfaction of technical requirements**
- **Customer acceptance**
- **Satisfaction of the firm’s financial requirements**
**Service**: intangible offering that involves an effort and performance that cannot be physically possessed.

*Services: the intangible product (CH 13)*
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
"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
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 = \( \frac{Q_2 - Q_1}{Q_1} \times 100 = \frac{0.75 - 0.5}{0.5} \times 100 = 50\% \)
- Pct. change P = \( \frac{P_2 - P_1}{P_1} \times 100 = \frac{5 - 10}{10} \times 100 = -50\% \)
- 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):

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

\( \text{Contribution per unit} \)
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)

<table>
<thead>
<tr>
<th>Fewer firms</th>
<th>Less price competition</th>
<th>More price competition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Monopoly</td>
<td>Oligopoly</td>
</tr>
<tr>
<td>More firms</td>
<td>Monopolistic competition</td>
<td>Pure competition</td>
</tr>
</tbody>
</table>
• 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.
The Groupon Effect on Yelp Ratings (CH 14)

A review on Yelp.com consists of a star rating, and some free text. The star rating takes on a value from \{1, 2, 3, 4, 5\}. For each Groupon business, we associate an offer date that corresponds to the date they initiate a Groupon offer. Then, for every review of a Groupon business, we associate an integer offset with that review reflecting how many days after (or before) the offer date the review was posted. For example, a review posted on March 7th for a business that subsequently initiates a Groupon offer on March 13th would have an offset of -6.

4. REVIEW OF THE GROUPON EFFECT

We begin by reviewing evidence and providing new evidence for the finding that Groupon offers coincide with substantially lower ratings for Groupon businesses than other reviews, and that this is caused by Groupon users. The most telling evidence comes from comparing mean ratings from Groupon reviews and non-Groupon reviews for our seed set: Groupon reviews have a mean score of 3.27 stars, while non-Groupon reviews have a mean of 3.73 stars. This discrepancy is somewhat larger than what we initially reported in [Byers et al. 2012] on a smaller data set. We can gain more insight into the effects of Groupon offers via some simple visualizations.

Discontinuities at the Groupon offer date:

In Figure 1a, the top scatterplot and trend line capture the relationship between the average Yelp rating and the offset for reviews of Groupon businesses. Each point records the average rating of all reviews with a given offset across all Groupon businesses, using the Yelp star rating as depicted on the left side of the y-axis. The discontinuities seen at offset zero coincide with the Groupon offer date. The trend lines are computed as a 30-day moving average across offsets, with the average resetting at offset zero to highlight the different behavior at the Groupon date. (From offset 0, only \(k+1\) days are averaged at offset \(k\), and similarly at the left end of the plot.) The histograms at bottom reflect the daily review volume for each given offset, using the scale on the right side of the y-axis for the number of reviews. The smaller histograms with darker shading reflect the volume of Groupon reviews (i.e. those mentioning Groupon specifically). Again, there are striking discontinuities at offset zero as review volumes surge subsequent to the Groupon offer. Note that Groupon reviews account for only about half of the increase, suggesting there exist Groupon users who do not mention Groupon in their review. Finally, observe the gradual increase in review volume prior to offset zero: this is consistent with the rapid
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 (CH 14)

• 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
Some of the activities include:
• Making the actual product
• Research & Development
• Supply chain management (efficiency, savings)

This level in the supply chain may (or may not) include a wholesaler like Costco

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.

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
- Manufacturer
  - Distributor
    - Retailer
      - Consumer

Every entity has its own goals

Vertical
- Manufacturer
  - Distributor
    - Retailer
      - Consumer

Entities act as unified system

Horizontal
- Manufacturer
  - Distributor
    - Retailer 1
- Manufacturer
  - Distributor
    - Retailer 2

2+ firms join at one level of the supply chain
Offline and online channels are two different channels that many companies 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
Retail strategy: Promotion (CH 16)

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)

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)

- **Interactive**
  - Personal Selling
  - Sales Promotions (e.g., contests)
  - Direct Marketing (e.g., telemarketing)
  - Direct Marketing (e.g., mobile marketing)
  - Online Marketing (e.g., blogs, social media)

- **Offline**
  - Advertising
  - Sales Promotions (e.g., coupons)
  - Public Relations
  - Direct Marketing (e.g., catalogs)

- **Passive**
  - Direct Marketing (e.g., e-mail marketing)
• 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)

PLANNING

Step 1: Identify target audience
Step 2: Set advertising objectives
Step 3: Determine the advertising budget
Step 4: Convey the message

EXECUTION

Step 5: Evaluate and select media
Step 6: Create advertisements

ASSESSMENT

Step 7: Assess impact
Step 1: Identify Target Audience (CH 18)

Three steps:
1. Conduct research
2. Set the tone
3. Select the media
Step 2: Set Advertising Objectives (CH 18)

• **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
Step 5: Evaluate/Select Media (CH 18)

- 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
Online Advertising (CH 18)

- **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
What type of auction does Google use?
Google AdWords (CH 18)

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)**
  - \[
    \text{Gross Margin} - \frac{\text{Expenses}}{\text{Expenditures}} \times 100
  \]
Good luck with the presentation and the final!!!