THE MARKETING GAME!

An Introduction to TMG!

By

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BUSINESS ADMINISTRATION PROGRAM

OVERVIEW

- FOCUS ON STRATEGIC ISSUES
- FOCUS ON MARKETING PLANNING
- COMPETITIVE ENVIRONMENT
- RAPID FEEDBACK

Objectives Served by TMG!

- To develop skills in identifying marketing opportunities - encompass knowledge of and the ability to apply key marketing frameworks and tools for analyzing customers, competition, and marketing strengths and weaknesses.
- To develop insights about creative selection of target markets and making integrative strategy decisions concerning product, price, promotion, place and the needs of a target market.
- To develop skills in marketing analysis.
- To provide meaningful, practical experience in translating qualitative and quantitative analysis into conclusions about profitable marketing strategies and programs.

THE MARKETING GAME!

- Intense Competition - a Sports Metaphor.
- Sports have five essential elements: players, tools, grounds, scoring systems, and umpires.
- In Business:
  - The players are competitors
  - Marketing mix, factories and distribution systems are the tools
  - Markets are the grounds on which you play
  - Share prices and market shares are the scoring systems
  - Regulators are the umpires

Four to Tango

Submit Decisions on Time:

A1  A2  A3  A4

RESULTS

Balakrishnan
THE PROCESS

- Analyze Company Results
- Strategy, Planning and Budgeting
- Marketing Plan DECISIONS!!!
- Turn in Decision File:
  - Submit Electronically on Tuesday
  - Send Email
    - wi password, telephone # confirming submission
    - CC all group members
- THE MARKETING GAME! Simulation
- Company Reports Returned to Firms
  - Posted on my Web Server on Thursday

Mr. Walton’s Numbers

- “We had numbers to hit. Mr. Walton was a numbers man. If he called you at eight A.M. on Saturday, you better know your sales for the week, by day. And you by damn better know what your payroll [cost] was, by percentage sales.”
  - Larry English
  - “The Wal-Mart Effect” by Charles Fishman, 2006
- Your Role: It is 2 A.M. Do you know your numbers?
- My Role: “The Prez”

INDUSTRY ENVIRONMENT

- Market Growth
- Technological Environment
  - No Major Innovations Expected
  - Yearly Revision Cycle
- Competitive Environment
  - Type of Competition Depends on Firms Decisions

Six Key Product-Market Segments

- High-tech Managers
- Modern Students
- Concerned Parents
- Professional Creators
- Harried Assistants
- Home Users

Segments have different needs, preferences, situations, sizes, growth rates.

Past Sales By Market Segment

For Voice Recognition Device

- Assistants
- Managers
- Students
- Home
- Creators
- Parents

Graph showing sales trends for different market segments.
Dealers
Assistants
Harried
Professional
Concerned
Channel 2
Home
Dealers
Segments have different shopping preferences.

Product 2: Digital Vocal Communicator (DVC)

Key Product Features
- Number of Tasks (1-10)
- Similarity of Commands (1-10)
- Ability to Customize (1-10)

Expanded Marketing Responsibilities
- PRODUCT
  Features (Product Modifications)
- PRICE
  Wholesale Price in Each Channel
- PLACE
  Distribution Intensity in each Channel
- PROMOTION
  Advertising
  -$ Spending/ Type
  Number of Sales Reps in each Channel
  Percent Non-Selling Time
  Commission Rate
  -$ Spending per Channel
- CUSTOMER SERVICE
  $ Spending
- MARKET RESEARCH
  7 Reports May be Purchased
- PRODUCTION
  Number of Units

Product 1: Voice Recognition Device (VRD)

Three Attributes
- SC: Special Commands (5-20)
- EP: Error Protection (1-10)
- EL: Ease of Learning (1-10)

Types of Advertising
- Pioneering
- Direct Competitive
- Indirect Competitive
- Reminder
- Corporate (Institutional)

Types of Advertising

Quiz: BUDGET FOR FIRST PERIOD: ???
+ $984K

Budget Items
- R&D Product Modification Costs
- Sales Force Salaries, Severance Pay
- Advertising Expense
- Customer Service Expense
- Sales Promotion Expense
- Market Research Reports Expense
### Marketing Response Function

- **Sales**
- **Threshold Level**
- **Saturation Level**
- **Expenditures**

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### Computing Prices

**Computing Wholesale Prices from Desired Retail Prices**

- **Formula:** \( \text{Wholesale Price} = \text{Retail Price} \times (1 - \text{Markup}) \)

- **Example:**
  - Desired Retail Price: $190
  - Channel 1 Wholesale Price: $190 \times (1 - .30) = $133
  - Channel 2 Wholesale Price: $190 \times (1 - .35) = $123.50

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### A “Good” Wholesale Price

- Should cover the unit cost of the product (given its features)
- Result in a profit margin that will contribute to other expenses and profit
- 54° 40’ or Fight! The HP Way.
  - 1844 Slogan in Pacific NW.
- Result in a retail price that will appeal to target consumers

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### Computing Prices

**Computing Retail Prices from Wholesale Prices**

- **Formula:** \( \text{Expected Retail Price} = \frac{\text{Wholesale Price}}{1 - \% \text{Markup}} \)

- **Example:**
  - Wholesale price = $105
    - Channel 1: \( \frac{105}{1 - .50} = 210 \) = $210.00
    - Channel 2: \( \frac{105}{1 - .35} = 161.54 \) = $161.54

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### Retail Prices Charged Final Consumers

- The retail price set by a dealer depends on:
  1. The wholesale price in the dealer’s channel
  2. The customary markup used in the channel
  3. The portion of any sales promotion “deals” that the dealer passes along to consumers as a price reduction

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### Computing Costs of R & D for Product Modifications

<table>
<thead>
<tr>
<th>Feature</th>
<th>Cost to Decrease</th>
<th>Cost to Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Commands (5-20)</td>
<td>$0</td>
<td>$8,000 \times (change) x (change)</td>
</tr>
<tr>
<td>Error Protection (1-10)</td>
<td>$0</td>
<td>$5,000 \times (change) x (change)</td>
</tr>
<tr>
<td>Ease of Learning (1-10)</td>
<td>$3,000 \times change</td>
<td>$3,000 \times (change) x (change)</td>
</tr>
</tbody>
</table>
R&D for Product Modifications: Computing Costs

<table>
<thead>
<tr>
<th>Feature</th>
<th>Cost to Decrease</th>
<th>Cost to Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Commands (5-20)</td>
<td>$0</td>
<td>$5,000/2= $2,500</td>
</tr>
<tr>
<td>Error Rectifications (1-10)</td>
<td>$0</td>
<td>$5,000/2= $2,500</td>
</tr>
<tr>
<td>Ease of Learning (1-10)</td>
<td>$3,000/2= $1,500</td>
<td>$7,000/2= $3,500</td>
</tr>
</tbody>
</table>

**Example**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Last period's percentage</th>
<th>This period's percentage</th>
<th>Change</th>
<th>Cost to Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Commands</td>
<td>6</td>
<td>8</td>
<td>+2</td>
<td>$8,000/2= $4,000</td>
</tr>
<tr>
<td>Error Rectifications</td>
<td>4</td>
<td>3</td>
<td>-1</td>
<td>$0</td>
</tr>
<tr>
<td>Ease of Learning</td>
<td>3</td>
<td>5</td>
<td>+2</td>
<td>$3,000/2= $1,500</td>
</tr>
</tbody>
</table>

Total modification costs: $44,000

**Note:** R&D for product changes is more expensive if you have to make big changes in a short period of time.

Production Economies of Scale

If the president decides to invest in new equipment, unit production costs will decline as cumulative production increases.

Computing Costs of R&D for Product Modifications

**Example**

<table>
<thead>
<tr>
<th>Old Brand</th>
<th>New Brand</th>
<th>Change</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>8</td>
<td>+2</td>
<td>$8,000 x 2 x 2 = $32,000</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>-1</td>
<td>$0</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>+2</td>
<td>$3,000 x 2 x 2 = $12,000</td>
</tr>
</tbody>
</table>

Total cost: $44,000

Competitor Analysis

- Estimate Competitor’s Net Contribution
- Analyze Past Strategies / Likely Strategies
- Positioning and Target Segments

Submitting Marketing Plans

- Submitting marketing plans decisions
  - Policy on electronic file
- Each firm has a distinct industry and firm identification
  - Need to keep it straight!
- Passwords and the TMGPlan software
  - Remember password used to create Plan
  - It is case sensitive (upper and lower case make a difference) – email me with group membership.
  - Best to stick to one password!
DECISION FORM LEVEL 1

Industry: [Blank]
Firm: [Blank]
Period: [Blank]

Number of Sales Reps: Channel 1: [Blank] Channel 2: [Blank]
Distribution Intensity: [Blank]

Customer Service: [Blank]
Brand Name: [Blank]
Brand Features: [Blank]
Number of Special Commands (9-20): [Blank]
Error Protection (1-10): [Blank]
Ease of Learning (1-10): [Blank]
Production Order Quantity: [Blank]

Advertising Dollars: [Blank]
Wholesale Price: [Blank]
Marketing Research Reports (%) Channel 1: 1 2 3 4 5 6
Check here if exceptional items are noted on back of form: [Blank]

BUDGET PLANNING FORM 2

Expenses:
7. Advertising: [Blank]
8. Sales Force Salary: [Blank]
9. Sales Force Fringe Costs: [Blank]
10. Sales Force Commission: [Blank]
11. Customer Service: [Blank]
12. Sales Promotion: [Blank]
13. R & D for Product Modification: [Blank]
14. Marketing Research: [Blank]
15. TOTAL EXPENSES (sum of #7 - #14): [Blank]
16. Net Contribution to Profit or Loss (#6 - #15): [Blank]
17. Total Spending against Budget (#15 - #10): [Blank]

Product Features & Prices Report

Multimedia Software Special Commands Error Protection Ease of Learning Retail Price Channel 1 Retail Price Channel 2
Firm 1 8 3 3 $190.00 $146.15
Firm 2 8 3 3 $190.00 $146.15
Firm 3 8 3 3 $190.00 $146.15
Firm 4 8 3 3 $190.00 $146.15

BUDGET PLANNING FORM 1

Financial Summary / Pro Forma

<table>
<thead>
<tr>
<th>Industry</th>
<th>Firm</th>
<th>Period</th>
<th>Brandname</th>
<th>Channel 1</th>
<th>Channel 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Estimated Units Sold:</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
</tr>
<tr>
<td>2. Wholesale Price:</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
</tr>
<tr>
<td>3. Base Unit Cost:</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
</tr>
<tr>
<td>4. Gross Sales (P1 x P2):</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
</tr>
<tr>
<td>5. Cost of Goods Sold (P3 x P3):</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
</tr>
<tr>
<td>6. Gross Margin (P4 - P5):</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
<td>[Blank]</td>
</tr>
</tbody>
</table>

Industry Sales Report

<table>
<thead>
<tr>
<th>Brand</th>
<th>Unit Sales</th>
<th>Market Share (Units)</th>
<th>$ Sales (retail)</th>
<th>Market Share ($ Sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>25,151</td>
<td>0.250</td>
<td>$4,292,964</td>
<td>0.250</td>
</tr>
<tr>
<td>Firm 2</td>
<td>25,151</td>
<td>0.250</td>
<td>$4,292,964</td>
<td>0.250</td>
</tr>
<tr>
<td>Firm 3</td>
<td>25,151</td>
<td>0.250</td>
<td>$4,292,964</td>
<td>0.250</td>
</tr>
<tr>
<td>Firm 4</td>
<td>25,151</td>
<td>0.250</td>
<td>$4,292,964</td>
<td>0.250</td>
</tr>
<tr>
<td>Total</td>
<td>100,604</td>
<td></td>
<td>$17,121,854</td>
<td></td>
</tr>
</tbody>
</table>

Channel | Unit Sales | $ Sales
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>56,296</td>
<td>$10,696,240</td>
</tr>
<tr>
<td>2</td>
<td>44,308</td>
<td>$6,475,614</td>
</tr>
</tbody>
</table>

Market Activity Report - Level 2 -

<table>
<thead>
<tr>
<th>Adv. Dollars</th>
<th>Adv. Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>$250,000</td>
</tr>
<tr>
<td>Firm 3</td>
<td>$250,000</td>
</tr>
</tbody>
</table>

Sales Promotion

| Channel | $0 | $0 | $0 | $0 |

No. Sales Reps

| Channel | 10 | 10 | 10 |

Commission

| 5% | 5% |

Customer Service

| $92,500 | $92,500 | $92,500 | $92,500 |
### Consumer Preference Study

<table>
<thead>
<tr>
<th>Segment</th>
<th>Special Commands</th>
<th>Error Protection</th>
<th>Ease of Learning</th>
<th>Price Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students</td>
<td>10-13</td>
<td>2-4</td>
<td>1-3</td>
<td>low</td>
</tr>
<tr>
<td>Home</td>
<td>7-10</td>
<td>2-4</td>
<td>6-8</td>
<td>low</td>
</tr>
<tr>
<td>Assistants</td>
<td>10-13</td>
<td>6-8</td>
<td>6-8</td>
<td>high</td>
</tr>
<tr>
<td>Managers</td>
<td>13-15</td>
<td>2-4</td>
<td>4-6</td>
<td>high</td>
</tr>
<tr>
<td>Parents</td>
<td>5-8</td>
<td>2-4</td>
<td>7-9</td>
<td>low</td>
</tr>
</tbody>
</table>

What kind of product would a segment prefer? What reference price seems typical for the segment? How are segments similar and different?

### Report 3: Average Customer Preference

<table>
<thead>
<tr>
<th>Segment</th>
<th>Special Commands</th>
<th>Error Protection</th>
<th>Ease of Learning</th>
<th>Approximate Price Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students</td>
<td>9.1</td>
<td>3.0</td>
<td>2.7</td>
<td>$129.00 – $159.00</td>
</tr>
<tr>
<td>Home</td>
<td>8.3</td>
<td>4.3</td>
<td>7.2</td>
<td>$140.00 – $177.50</td>
</tr>
<tr>
<td>Assistants</td>
<td>12.4</td>
<td>6.0</td>
<td>8.9</td>
<td>$206.00 – $266.00</td>
</tr>
<tr>
<td>Managers</td>
<td>15.7</td>
<td>6.1</td>
<td>3.7</td>
<td>$266.00 – $321.00</td>
</tr>
<tr>
<td>Parents</td>
<td>4.7</td>
<td>3.3</td>
<td>8.9</td>
<td>$151.43 – $194.29</td>
</tr>
</tbody>
</table>

### Marketing Effectiveness Report

<table>
<thead>
<tr>
<th>Channel</th>
<th>Index</th>
<th># of Competitors with Lower Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Channel 1</td>
<td>0.260</td>
<td>1</td>
</tr>
<tr>
<td>Channel 2</td>
<td>0.200</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Channel 1</th>
<th># of Competitors with Lower Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Channel 2</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Channel</th>
<th>Sales Rep Workload</th>
<th>Dealer Satisfaction</th>
<th>Channel Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Channel 1</td>
<td>1.000</td>
<td>0.000</td>
<td>4.000</td>
</tr>
<tr>
<td>Channel 2</td>
<td>0.000</td>
<td>0.000</td>
<td>3.000</td>
</tr>
</tbody>
</table>

### Detailed Sales Analysis

<table>
<thead>
<tr>
<th>Segment</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>896</td>
<td>1,109</td>
<td>5,602</td>
<td>1,808</td>
<td>4,363</td>
<td></td>
</tr>
<tr>
<td>Firm 2</td>
<td>5,269</td>
<td>3,337</td>
<td>1,396</td>
<td>1,196</td>
<td>1,865</td>
<td></td>
</tr>
</tbody>
</table>

Unit Sales by segment and Channel Are you reaching your target?
Customer Shopping Habits

<table>
<thead>
<tr>
<th>Segment</th>
<th>Percent of Shopping in Channel 1</th>
<th>Percent of Shopping in Channel 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Home</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Assistants</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Artists</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Managers</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Parents</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

- Where are our customers shopping?
- How do we deploy our Salesforce?

Example: Product Positioning Report

*Distances* (excluding price) to Segment Ideal or Preferred Product
(Lower numbers are closer to ideal than higher numbers)

<table>
<thead>
<tr>
<th>Brand</th>
<th>Students</th>
<th>Home</th>
<th>Assistants</th>
<th>Artists</th>
<th>Managers</th>
<th>Parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEDIA MATE</td>
<td>1.8</td>
<td>6.4</td>
<td>18.7</td>
<td>11.9</td>
<td>22.6</td>
<td>14.8</td>
</tr>
<tr>
<td>BRITWRITE</td>
<td>1.4</td>
<td>7.3</td>
<td>13.3</td>
<td>8.9</td>
<td>15.4</td>
<td>15.1</td>
</tr>
<tr>
<td>BUSHI</td>
<td>1.4</td>
<td>7.3</td>
<td>13.3</td>
<td>8.9</td>
<td>15.4</td>
<td>15.1</td>
</tr>
<tr>
<td>MEDIA MAGI</td>
<td>2.0</td>
<td>6.9</td>
<td>14.7</td>
<td>12.0</td>
<td>20.5</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Product Positioning Report

<table>
<thead>
<tr>
<th>Segment</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
</table>

Which brands are closest to which segments?

Which segments have no close brands?

Soft Drinks

![Graph showing market share over time for different brands.](image)

Average Beer Prices over Time for Each Brand

![Graph showing average beer prices over time for different brands.](image)
Suggestions, Guidelines

• Develop a spreadsheet tracker
• Make sure of your submission
  - No Redo’s
• Failure is a good teacher
• Business Law and Ethics
• LBE to win
  - Live, Breath, Eat

Four to Tango

Submit Decisions on Time:

A1  A2  A3  A4

SIMULATION

RESULTS

Broad Objectives

- To Develop the business
  - Mission/Vision Statement
- Grow and run the business:
  - Adapt to changes in the environment by monitoring:
    - changes in customer needs
    - changes in competition
    - changes in the company’s own skills / resources
  - looking for Opportunities & Threats that arise from these changes
  - Initiate Tactical actions that “fit” the company’s offering to these opportunities / threats.