

6-10-2020

Market potential: how we can compute it?

It is the **maximum sale that a product category could reach** in a specific area, in a well defined time horizon
To compute it you need number of potential customers, average quantity consumed and price per product

If you are asked to do an estimation about what is the usage of some product --> try to get information about population, how much they use the product

One matrix extremely useful is brand development index: we don't know how the brand perform within the market

Is an index used by company in order to understand how the brand perform, and if it needs more investments

The way in which is computed is the ratio between at the numerator something that has to do with the brand, and the denominator something that has to do with the category's sales in area

For example:

Amuchina

$BDI = \text{PERCENTAGE OF AMUCHINA TOTAL SALES IN AREA J} / \text{PERCENTAGE OF HAND SANITISER IN AREA J}$

If it is above one, means that amuchina is performing very well in area j

If it is below one it means that the numerator is not that large in respect with the denominator and amuchina is not doing very well

Example in the slides: BDI index

The best performing city: CHICAGO (140)
THE WORST : PORTLAND (65)

What does it mean **performing well**? --> that the **brand is strong** --> if the brand is strong the firm should keep the position

If a brand is **doing not so well**, it **doesn't** mean is **negative**: it **means** it has **space** for **improvement**. You need to apply to more customer, you need new customer :from a strategic point of view, it means a different strategy. The actions to acquire new customers are different from the strategies to keep the current customers.

Exercise based on breezes excel file:

In US an acquisition strategy would be appropriate. To acquire new customers. We need investment. If we look at Italy, we need investment to retail the position.

Low market potential, low BDI --> give up

High MP, low BDI -->keep trying, there is space for improvement ; not performing well at the moment but it is improvable

High BDI, low PM : 'should I stay or should I go?'

High PM, high PM: retention

Another concept very important when we are talking about market attractiveness is: **market share**

Market share: portion of the sales of your brand compared to those of the competitors
Portion of the market served by that brand

The smart doorbell camera market is a growing market -
 In 2018 amazon buys RING, a company that is active on doorbell camera market.

Amazon did it because it is a company of delivery, and it was interested in product that could improve the field.

This made grow the market share of course

Decomposition of market share in fast moving consumer goods

MARKET SHARE CAN BE DIVIDED INTO THREE: **penetration rate**, **share of requirement**, **heavy usage index**

It is more easy to analyse competition and to develop new strategies for the company

penetration rate: it is supposed to show the comparative acceptance of the brand within the category

Share of requirement: it is supposed to represent loyalty

heavy usage index: it is supposed to compare intensity in term of usage

Ex.

Giulia eats a lot of pasta, and she chooses Barilla as brand: high heavy Usage index, but also share of requirement

Loyalty: Total amount of Barilla pasta purchased by those consuming Barilla

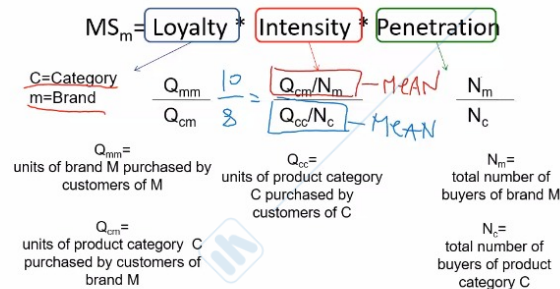
--> **unit of brand M purchased by consumers of M / total number of units of product category c purchased by customers of brand m**

Penetration: total number of buyers of brand M / total number of buyers of product of category C

Intensity:

$$\frac{\text{(unit of brand M purchased by consumers of M * total number of buyers of brand M)}}{\text{(units of product category purchased by customers of C * total number of buyers of product of category C)}}$$

Decomposition of Market Share In Fast Moving Consumers Goods



CHAPTER 4:

WHAT IS MARKET SEGMENTATION? --> is the process of subdividing a market into distinct subsets of customers. These segments are *internally homogenous* (individuals of the same group are very similar within the group but very different from individuals of other groups) and *externally heterogeneous*.

Heterogeneous means providing a specific product to each customer (like a personal trainer). Homogeneous is providing the same product to each customer (like water, but it is difficult to provide an example)

When is a segmentation schema useful to a company? Segmentation is a sort of compromise between two extremes.

What do we do once we have segmented the market? Is a question to which is difficult to answer.

Which variables could be used to segment the market? —> key phase

This is so crucial that in books you find some segmentation methods widely used

1. **Socio demographic segmentation**
2. **Geographic segmentation**
3. **Psychographic segmentation**
4. **Behavioural segmentation**
5. **Benefit segmentation**

1. The essence of this approach is that the variables are socio demographic information. (**age, nationality, race, social class**...all information that are useful if we adopt this type of segmentation). Why this segmentation is widely used? The truth is this information are easily to obtain; They are simple, not expensive.

The same product distinct by gender. Let's take the example of Gillette: two kind of razors, one black (Mach3) and one pink (Venus) but essentially they are the same product. The first one is more expensive. The purpose is to increase profit? So let's fix a higher price for the first. The other one is pink, so the thought of a woman could be 'it is thought for me' so more willingness to buy.

Different socio-demographic groups means different need and preferences : important statement.

Think about smartphones: does the gender influence the choice of the product? Females buy more iPhones than males? It is not so relevant. We have to use this approach if the belief is correct, only if it is the case in which different socio-demographic groups means different need and preferences

2. **Geographic segmentation** —> nation, countries, regions, climate...information about geography
Using the location could help to discover correlation about the habits of the customers in a specific place.
in principle you have to identify the right information that tell you believe are more strongly related to specific choice or behaviours
3. **Psychographic segmentation** has the purpose of retrieve information about people among different social class, personalities. This type of information are probably more predictable basing on the type of product you purchase. You create segments that differ depending on the life styles. In terms of PS we have a lot of example. The TV shows you watch can offer marketers key insight into your personality. The VALS segments —> the type of information are intrusive. Maybe they ask me about the political view, free time... to certain type of question certain people may not want to reply (for who privacy is a concern). Companies that are very good in creating psychographic segmentation: Facebook and Google. They are able to find the perfect match between type of advertising and kind of people because they know a lot about us. In fact, most of their profits comes from advertising, since they can find the right people and the right ads for them.
4. **Behavioural segmentation**: if you are loyal customer (repeat purchases), you are where you can get this type of information?
Why this segmentation is particularly relevant? They know how much you spend, how frequently you make purchases...implicitly they identify those customers that are more appropriate. How frequently you click like, how frequently you comment, you post photos...
5. **Benefit segmentation** —> products can be seen as bundle of attributes. If I have to describe a pen, I have to describe it in terms of color, band, style. Customers differ in terms of value of specific attributes; if I take a smartphone as an example —> **price** is important for some customers.
'I don't care about the brand, I want something that is cheap (low income)'
or on the other hand 'something expensive, to show my status (i'm rich)'

For example: **toothpastes** (white effect —> important for a bright smile, with crystals, anti-age, delicate taste —> for sensitivity)

It is gonna be very complicated to describe the nature of the segment if you have too many information, it is more difficult to create the groups internally homogeneous.

A priori segmentation design means that we know in advance how many segments we have in the market and the nature of every segment. We had pre existing criteria (for example : geographical area for Italy like south, north...)

example:

Variables available:

- gender
- Loyalty card — —> let's consider 2 variables:

gender and loyalty cards

—> 4 groups: gender F or M, loyalty card YES or No (group f, m, yes, no = 4 groups)

If we consider many more options, we end up with a lot of segments, so we need more complex methods. We need to describe each segment, in order with our focus of concern (like, the loyalty of the customer)

A posteriori segmentation means we don't know in advance the nature of each segment. I know what I'm interested in but not yet how I'm gonna find it

Profiling customer segments: we need to select a number of variables (like 10 variables) that we believe are relevant. In a sample of 100 variables, for instance, we select 10 relevant variables and we leave out the remaining 90.

Descriptor variables — —> profiling —> bases for segmentation

Example:

Toothbrush

- You have a data set (excel file) with a sample of 1000 of individuals

—> 10 columns about social demographical information (Age, gender, geographical area of residence)

—> 10 columns about behavioural information

Select the variables to create a segment: focus the attention on subset, your dataset, not columns: if you use all the information it's gonna be extremely difficult to create internally homogenous groups. You have to concentrate on the key purpose. Find only 3,4,5 variables to create the groups. Then you can use the other variables to describe the group.

You have two different groups, two types of toothbrush

- 1) brightness of teeth
- 2) Decay prevention

Five criteria for effective segmentation: they must be taken in consideration after the segmentation analysis

- 1) **Measurable:** the size, purchasing power, and profits of the segments can be measured
- 2) **Substantial:** the market segments are large or profitable enough serve
- 3) **Accessible:** the market segments can be effectively reached and served (for instance, you sell razors: your market of interest is Italy but there is p&g that sells Gillette—> there is a big player who is very strong, so it's difficult to enter that segment of the market. *Other examples more specific are: legal age for alcohol, foreign market with economic barriers.*)
- 4) **Differentiable**
- 5) **Actionable:** effective programs can be designed for attracting and serving the segment

When should we segment the market?

The market is mature — —> if the product is not a new product, we already have competitors there, it is not innovation, then marketing segmentation is needed

The market is intense

Q&A - OF THE END

The number of purchase occasions per week for groceries represents an excellent example of a variable that can be used in: BEHAVIOURAL SEGM. APPROACH

If you want to segment the market taking into consideration five variables each with 3 levels the best approach is: POSTERIORI SEGMENTATION DESIGN

A potential limitation of a Psychographic Segmentation approach is: IT INCREASES THE LIKELIHOOD OF NON-RESPONSE BIAS

2= brand name
3= safety
4= price

K= 4

Michelin is ranked very well in terms of quality and brand name, Goodyear in terms of safety

How the overall score is computed? By simply applying the multi attributed equation.

Which attributes do customers use to define a product?

How do we determine how much of each attribute a brand possesses? That means how we find X_{ijk} ?

Of course If the brand have all the same ranking, and what differs is only the price, the best score will be obtained from the brand best positioned (in our table, Bridgestone)

An attribut is **determinant** if it is **important** **but also** if it is **capable of differentiate** the brand

Differentiation means how much consumers' perception of attributes k varies among different brands - it is useful because it tells us how brand is perceived different from other brands on that attribute.

How can we measure differentiation? STANDARD DEVIATION

Dot design : $1,5 * 0,4 = 0,6$ (absolute determinance)

Black Friday : now is famous also in EU
before, it was more known in US
It was an idea of Walmart

Warner Bros competitors: Netflix, Pixar...

Absolute Determinance = differentiation * importance

MANUFACTURERS	ATTRIBUTES			
	Design	Battery	Graphic	Dimension
Apple	10	8	9	8
Toshiba	7	2	7	8
Dell	7	10	9	9
Huawei	9	2	9	10
Average	8.3	5.5	8.5	8.8
IMPORTANCE	40%	25%	20%	15%
DIFFERENTIATION*	1.50	4.12	1.00	0.96
DETERMINANCE (ABSOLUTE)**	0.60	1.03	0.20	0.14
DETERMINANCE (PERCENTAGE)	30%	52%	10%	7%

$$\frac{\sum (x_i - M)^2}{n-1}$$

$(10 - 8.3)^2 +$
 $(7 - 8.3)^2 +$
 $(7 - 8.3)^2 +$
 $(9 - 8.3)^2$

/ 4-1

AMAZON --> very interesting, because it is a competitor but it comes from a completely different market

And who are the competitors of amazon? Maybe Alibaba, considering the structure of the market.

But what competitors could worry Amazon?

Think about facebook... now you are able to purchase just by clicking on the image.

Amazon is a huge e-tailer, but certainly company as Facebook are starting to play in a new domain .

We, as a firm, need to keep an eye to what is happening in order to be sure we are observing all type of competitors

And then we have to study them, understand their strategies, and the end take a clear decision about what type of competitor we want to face

1. Identify the competitors (who are they)

2. Analyse competitors (what are their objectives...)

3. Select them and define a strategy

Who are **Coke** competitors?

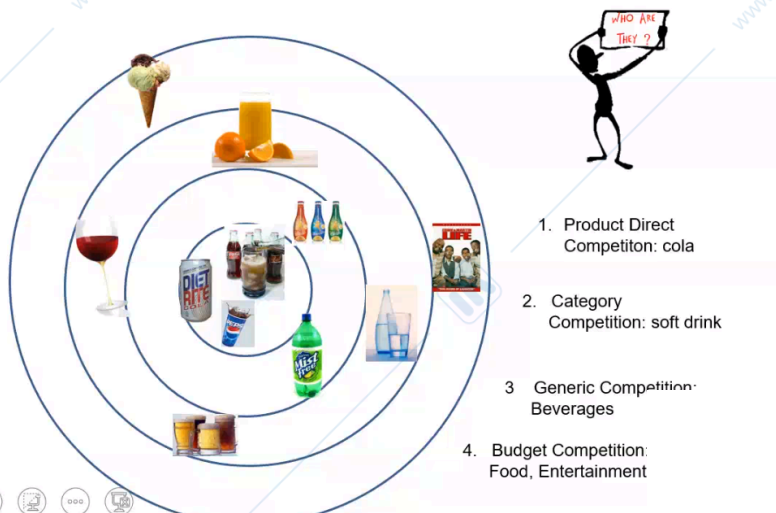
Coke --> **Water** (even if is a provocative competitor), **Beer** ??

Competitors is any company that aims to satisfy the same customer needs that you do

The essence is : what need are we talking about?

if the need is going out with friends, I don't care about beer or coke, that's fine with me. A competitor could be define as a company that is able to satisfy the same need

Budget competition: it comprises also a movie, or food, because we are considering the need 'going out with my friends', and that products have the same price



Cross-Elasticity

Milan to Rome round trip

easyJet	Alitalia
easyJet	Alitalia
€ 61	€ 107
FS	91,00 €
IC	49,50 €

$$e_{AB} = \frac{\text{percentage change in product A's sales}}{\text{percentage change in price of product B}}$$

$$e_{\text{Airline_Train}} = 0$$

A negative cross elasticity denotes two products that are complements

A positive cross elasticity denotes two substitute products

Of course **identifying competitors** is very important to define the market share, but also because failing in identifying competitors could result in a disaster for the firm

Let's say that we have identified competitors, then what you should do as we said before, it's pretty clear.

Study them is not easy because the competitor won't tell us his strategy

But ideally we should be able to identify the objective, core strategy, weaknesses and strengths, and then what to do with this information.

As a company you would like to obtain either market share or profitability.

Let's say that **market share** is your **goal** --> two actions that you would do in order to increase market share

- 1) reduce prices (of course there will be an immediate response), advertise more
- 2) Distribute more broadly, do more partnership

What is the problem of these strategies? They cost money



The two objectives are delicate to deal with.

It could cause: less satisfaction, poorer quality

COMPETITOR ANALYSIS:

1) strategy one: three days of discount — —> To expand the market

Division of the market for a mouthwash producer:

- 1) own customers
- 2) Competitors' customers
- 3) Customers in existing targeted segment
- 4) New segment (like children, very old people...)

example:

Apple advertising: They wanted to increase market share, and they wanted to attract competitor's customers (2)

Dettol advertising: they wanted to attract customers in existing targeted segments, maybe also their own (1), but they want to instruct people about not only how to use the product but also of the utilities the product could have.

They are trying to convince that the product is useful, those that are not currently using the product need it. They explain everything (at the beginning the brand is not even mentioned, just quickly) they only explain what is going on