

DIGITAL MARKETING STRATEGY

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Digital Marketing Strategy
COURSE CODE –MKT711

Lecture 1





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DIGITAL MARKETING STRATEGY

What we will cover in this chapter

- What is digital marketing?
- The 4ps of marketing
- Porters five forces
- Brand or perceptual positioning map
- Customer lifetime value
- Segmentation
- Boston Consulting Group matrix

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What is a marketing strategy?

A marketing strategy is a plan for reaching a specific marketing-related goal (or goals) in a focused and achievable way. It takes into consideration what your business is currently doing well and what you're missing in regards to the objective you set, then developing tactics to help you meet your goal.



What is a digital marketing strategy?

- A digital marketing strategy is a plan for how your company will establish an Internet presence through various online channels. The goal of a marketing strategy is to increase your online visibility to reach more members of your target audience and encourage them to become paying customers.
- A digital marketing strategy is a plan for using online channels to establish an internet presence and achieve specific marketing objectives. These channels can include organic search, social media, paid ads, and other web-based mediums such as your website. Ultimately, the goal is to boost your business's visibility and attract new customers.

A strong digital marketing strategy helps your business achieve specific digital goals through carefully selected mediums.



The 4 Ps of marketing

- **Product**
- **Price**
- **Place**
- **Promotion**
- **"The Concept of the Marketing Mix"**
demonstrated the ways that
companies could use advertising
tactics to engage their consumers.



***P**roduct This may be a physical product or it may be your service proposition. The key here is that something is developed that people actually want to buy. Some businesses begin with a product and then try to force that on an audience. If there is no demand for your product and no one is interested then you will not be able to create demand.*

WHAT DOES THIS MEAN IN DIGITAL MARKETING?



The key considerations here from a digital perspective are around whether your product can/will sell online. What channels are open to you for your product or proposition? Are there opportunities to make it flexible to be more appropriate for the online or mobile audiences? Does it provide real value for the consumer and is it differentiated from your competitor offerings? Is it being updated, serviced, maintained effectively to keep it strong? Are there features of it that can be added or should be excluded for the digital customer and is it fair to do this? An example might be a music album. Three people buy an album. John buys a CD, Maria downloads the album and Robin streams it. All are different consumer behavior's and each person will use your music in a different way. Understanding the different motivations and usage habits for these products is vital to getting your marketing right in the digital age.



Price Pricing is the second P and one that can be more of a science than an art. Understanding price elasticity and competitive positioning are angles to consider but we won't go into the economics of this here - the key factor is whether you are asking for a price that people are willing to pay. The 'willing to pay' element of that does of course have many factors behind it such as your brand value, online reviews, product quality and others but there are also numerous tactics that can be employed here

WHAT DOES THIS MEAN IN DIGITAL MARKETING?



Discounts and offers are certainly not new to digital marketing but the concept of fast price comparison and the introduction of cashback and voucher sites have certainly changed consumer behavior's. Businesses can take advantage of this through affiliate marketing programs . **Affiliate marketing** is where you promote your products through a third-party website in exchange for paying a commission or fee to the website when an action is taken. This is very common in the comparison, voucher and cashback space as it is very easy to directly track sales and therefore attribute value to the relationship. Commissions are often paid on sales but can be paid on click- through or other actions. There is also an expectation in some sectors that prices should be lower online as there are no overheads. It is considered by many that selling online should be cheaper than selling from a retail outlet. One counter to this of course is that there is no need to post products from your retail.: outlet. Deciding how this fits with your business strategy is key. Another factor to keep in mind is that it costs less to keep a customer than to acquire a new one so retention, CRM and lifetime value are a vital part of your strategy.



Place Location, Building your shop in the wrong place decreases footfall and ultimately means fewer sales. Having your shop in the right place but not having the stock in the shop is even worse. Having your product in the shop in the right location but then not displaying it correctly - so people cannot find it - is also a factor of 'place'.

What does this mean for digital marketing?

All of these apply to digital marketing. You may not have a physical shop but your online shop must be easy to find - this relates back to SEO, paid search and most other digital acquisition channels. Once someone arrives is it easy to navigate and find the information and products that they want? Do you have the items in stock and is your site working correctly to dispatch them? Ultimately, if people cannot find what they are looking for then you can expect them to go elsewhere. If this happens online then you can expect them to go elsewhere much faster as speed is much more of an expectation online.



Promotion is what most people think of when they hear the word marketing. Your TV campaign, your press advertising, your display banners. This is often the first time that people will have any relationship with your brand and sometimes, certainly in below-the-line marketing, this can be a personal relationship. As we all know, first impressions are very important so getting your promotion right is vital



These days promotion has moved far beyond simple advertising and into dialogue. **Smart marketing** is much more than shouting about your product and much more about taking customers on a journey. That journey does not end at purchase either. There are many standard approaches to good-quality promotion, including being single-minded, insight-driven, integrated, communicating the features and benefits, creating a clear call to action and many others. All of these apply to the digital acquisition channels.



What does this mean for digital marketing?



One of the challenges with the digital space is that we often have limited space or time to communicate the product promotion. Where a TV advert or press advertisement may have 30 seconds to get a point across, digital will often have 100 characters or less than one second. This therefore creates a real need for impact messaging and, more importantly than anything else, a test-and-learn philosophy. No matter how much you know (or think you know) about your consumers you cannot predict every possible outcome and so being in a constant and evolving test cycle is vital to a culture of continuous improvement - something that is a key value of effective marketing.



Porter's Five Forces analysis.: the five forces analysis model by Michael Porter. This is used to analyze the level of competition within an industry by utilizing industrial organization economics. The purpose is effectively ascertain the competitive landscape and potential profitability of an industry. Any changes to these forces can directly affect an industry and the companies within it and so it is important to understand them and react to them in order to retain or gain competitive advantage. Michael Porter goes into a greater level of detail than we have space for here in his book *Competitive Advantage*, which has been used by students and businesses alike for many years in order to understand competition. Porter's five forces are as follows

- Horizontal competition:1 The threat of substitute products or services. The threat of established rivals.3 The threat of new entrants.
- Vertical competition:4 The bargaining power of suppliers.5The bargaining power of customers.





Threat of new entrants

This threat is fairly obvious. A new entrant to a market can be direct competition and therefore threaten the success of an established business. There are many examples of this from the digital age, not least Google, Amazon, eBay and Twitter. Google entered the search market and quickly became the leader above many established players due to the accuracy and speed of the results. Amazon grew quickly, defeating more established players through excellent customer focus and introducing innovations in personalization that gave them a distinct advantage. Although eBay was not the first auction site it was very simple and easy to use. Finally, Twitter entered the social media space with a new micro-blogging approach that created a very simple method of sharing new thoughts and insights. It has been relatively easy for online-only businesses to enter many markets in the last 10 to 15 years. Many of the old barriers, especially capital, have been removed.



Threat of new entrants

Some of the factors that can dictate the threat of a new entrant are

- Barriers to entry: for example patents, regulation. High entry barriers are attractive to established businesses as they stop new businesses entering easily. Also low exit barriers help businesses to leave the industry, which is also attractive. In other words, it is easy for your established competition to leave but difficult for new competition to enter.
- Economies of scale: new entrants are highly likely to be smaller than established businesses and so may not be able to profitably compete on pricing.
- Brand equity: established businesses have brand equity - a level of trust that comes with being a recognized brand. Although it is true that new entrants do not have this, it can be quickly established with significant above-the-line marketing spend.
- Industry profitability: if the industry is generally highly profitable then it is likely to attract a large volume of new entrants and vice versa.
- Government policy: there might be government policy in place that limits the ease with which new entrants can join specific industries.

There are many other factors such as location, expected retaliation, technology and distribution and these should all be thoroughly researched and understood in order for strategy to be robust.



Threat of new entrants

What does this mean for digital marketing?



Specifically for digital marketing it is certainly true that new entrants are common to most markets and disruption is commonplace in the 21st century. Factors such as location, economies of scale, brand equity and technology are far less relevant for entering many industries now, for example technology businesses. Technology businesses have grown at pace in recent years and have attracted a great deal of investment as businesses look to disrupt the existing industries. In 2014 for example, funds worth US\$1.4 billion were launched by London-based venture capital firms in just six months (London and Partners, 2014). Many of the businesses being invested in offer digital solutions such as marketing automation, analytics and social media. This results in the digital marketing industry being in a constant state of flux - and ensuring you keep pace with these changes is important. Attending events, maintaining strong relationships with agencies and tech companies and reading the tech news are all important ways of doing this.



Bargaining power of suppliers

Suppliers of products or services to companies are another factor in the competitive nature of an industry. The bargaining power of suppliers directly affects the ability for companies to make a profit and therefore compete. Strong suppliers are able to control pricing and product quality, which lessens a company's ability to make profit. Weak suppliers on the other hand can be controlled or influenced more by the buyer and so the buyer can retain competitive advantage.

Some of the factors that can lead to high bargaining power for suppliers and therefore increased competition are:

- Few suppliers: if there are fewer suppliers than buyers then suppliers retain more bargaining opportunity.
- Buyer switching costs: if changing supplier is expensive then the advantage again lies with the buyer.
- Forward integration: if the supplier is able to produce the product or service themselves then again they are in a position of strength.



What does this mean for digital marketing?

If you are running an e-commerce operation with physical products then you may be working with a wholesaler for the supply of your goods. It is possible that your supplier may be one of very few or the only supplier of the goods that you are retailing to your customers. In this situation the wholesaler has strong bargaining power as you have limited options. This can lead to an increase in costs and therefore your profit margin. This may in turn lead to a necessity to increase prices, which may result in a decline in sales. Should more wholesalers enter the market then the competition for you wholesaler increases, which passes some of the bargaining power back to you. Another option is to look at producing least some of the products yourself in order to remove further power from the wholesaler.



Bargaining power of buyers

Bargaining power of buyers The bargaining power of buyers is the final force and is simply the ability of consumers to put pressure on companies to lower prices, change their products or improve customer service. Businesses can take a number of actions to reduce buyer power: for example, engagement strategies and loyalty programs. Some of the factors that influence buyer bargaining power are:

- **Buyer concentration:** if there are few consumers and many companies then the buyer effectively has their choice of company.
- **Switching costs:** as with most of the other forces, switching costs are a factor. If it is easy for a buyer to switch then they retain the bargaining power.
- **Backward integration:** if buyers can produce the products themselves then they again retain the power.



What does this mean for digital marketing?

One of the best examples of how buyer bargaining power has changed in the digital age is the increased use of social media and review sites to openly rate and discuss products, pricing and customer service provided by businesses. Many consumers will include reviews within their decision-making process and will not buy products that match their requirements if the reviews from their peers are negative. This has even extended to search engines with star ratings, openly displayed within results for searches such as restaurants and products, which can increase or decrease click-through rates as a result.



Threat of substitute products

This first force is the existence of another similar product in another industry. An example for the digital age might be landline phones versus mobile phones or, more specifically, mobile phones versus smartphones. Were a new smartphone to be launched that charges via a pod in the home and that has specific benefits for home use, it may attract customers who have always been landline users and so this is a substitute product threat to landline providers.



Threat of substitute products

There are a number of factors to consider when determining if a product is a substitute threat according to this definition. Those factors are:

- Switching cost: if the switching cost is low then there is a high threat.
- Pricing: if the other product or service is relatively low in price then again the threat is high.
- Product quality: if the potential substitute product or service is of superior quality then the threat is high.
- Product performance: if the other product is superior in performance then the threat is again high.

What does this mean for digital marketing? This threat is ever present in the digital age as companies continue to innovate. Tablets have threatened the laptop market and phablets have in turn threatened the tablet market.



Intensity of competitive rivalry

Competitive rivalry is one of the more commonly understood competitive factors and is sometimes considered the most dangerous. The distinct features and behaviors of your competition directly affect your ability to gain competitive advantage. Alongside digital transformation there are many other factors, including

- The competitors themselves: the number of competitors and their relative strength are key factors. If your industry has no industry leaders the playing field is fairly level and so competitor rivalry is increased.
- High exit barriers: if it is difficult to get out then more businesses will stay in, even if they are only breaking even or even losing money. Competition therefore remains high.
- Slow industry growth: if an industry is growing fast then all players can grow through acquisition without necessarily directly affecting the competition.



All those new customers can be shared out. If growth is slow then there are no more customers but just as many companies, **so to grow you need to acquire customers from your rivals.**

In markets where competitive rivalry is high, we move towards 'perfect competition' or in other words a situation where everyone competes at an even level with no price makers', only 'price takers'. Price makers have the power to influence the price they charge, whereas price takers have no effect on the market.



What does this mean for digital marketing?

There are many factors to take into consideration here and the recent trend towards modernization in the form of digital transformation is one of these. Moving your business into the digital age can be a slow and expensive process for established businesses. This can certainly create a change in the competitive landscape as younger businesses are more agile. On the other hand it is equally true that the larger businesses, which of course tend to be the more established (although not necessarily), can potentially invest money and source into creating something at scale with advanced technology that may be less available to less established businesses. Digital transformation can gain you competitive vantage and therefore reduce rivalry.

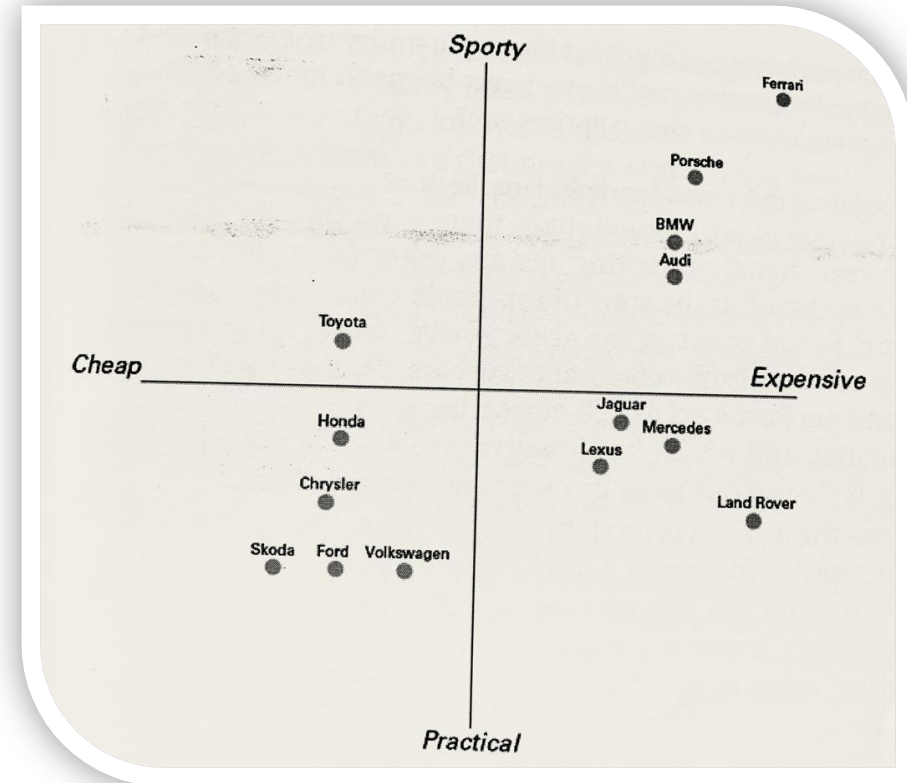


Threat of new entrants	Bargaining power of suppliers	Bargaining power of buyers	Threat of substitute products or services	Rivalry among existing competitors
- Barriers to entry - Economies of scale - Brand loyalty - Capital requirements - Cumulative experience - Government policies - Access to distribution channels - Switching costs	- Number of suppliers - Size of suppliers - Uniqueness of each supplier's product or service - Focal company's ability to substitute - Switching costs	- Number of customers - Size of each customer order - Differences between competitors - Price sensitivity - Buyer's ability to substitute - Buyer's information availability - Switching costs	- Number of substitute products available - Buyer propensity to substitute - Relative price performance of substitute - Perceived level of product differentiation - Switching costs	- Number of competitors - Diversity of competitors - Industry concentration - Industry growth - Quality differences - Brand loyalty - Barriers to exit - Switching costs

Brand or perceptual positioning Map

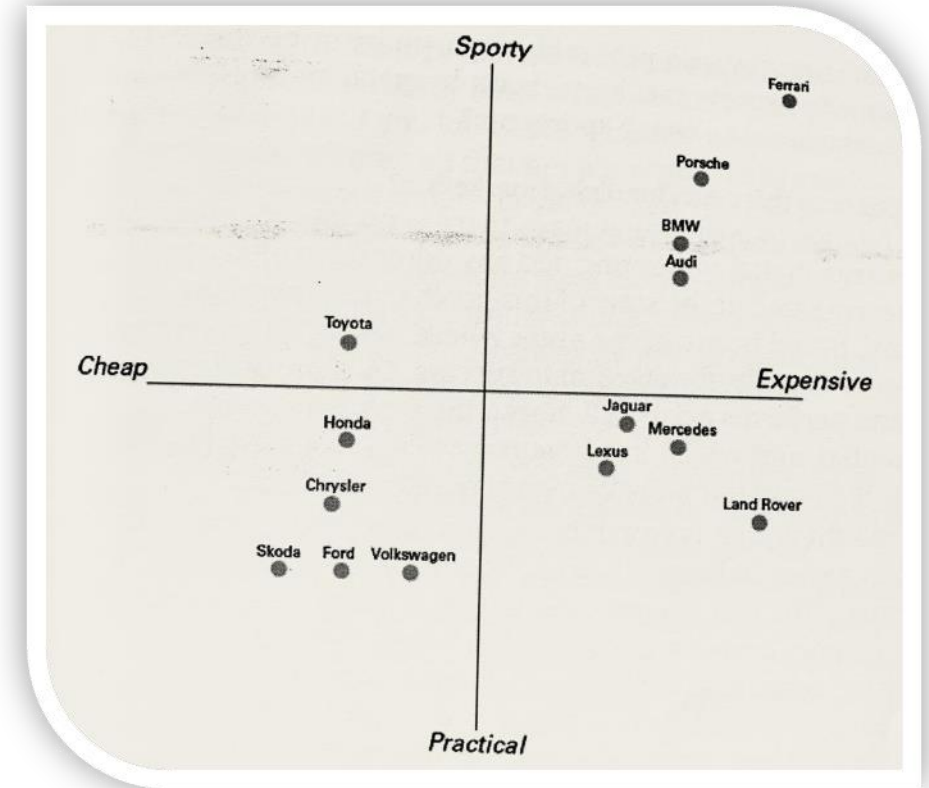
It is useful to use a brand positioning map to develop your market positioning strategy for your products or services. These maps are not, however, built from your views of your marketplace but from the perceptions of consumers and so are sometimes called **perceptual maps**. These maps give a clear view, albeit a little subjective, of where your brand or products sit versus your competitors, thus highlighting any gaps in the market and demonstrating where there are areas of intense competition. Most perceptual maps are drawn with two axes, X and Y.

They intersect each other in the center and so form a cross. This is not the only way to draw a positioning map but it is by far the most common. What you choose to place on the axes is up to you and you therefore need to consider the variables in your industry and what is the goal of your research. If we were to draw a map of automotive brands using the scales of practicality and affordability (see Figure) we can see quite clearly where the direct competition lies in terms of perception and where there may be gaps in the market. This is also useful to determine where your brand is perceived to be and can help you to construct your strategy for moving your brand to where you want it to be.



**BRAND OR PERCEPTUAL
POSITIONING MAP**

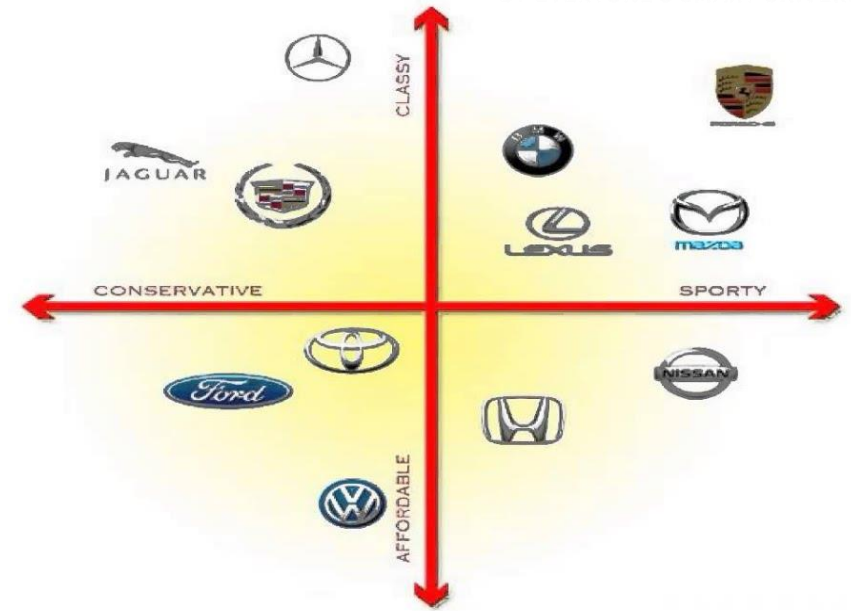
As well as reviewing where your business or brand is positioned today, perceptual maps can also help you to identify opportunities for launching new brands. If the map of the automotive industry shown in Figure were to be the output of actual research, you could decide that launching a brand that stands for sports and performance but is in the mid-price range would have little competition and so might be an opportunity. On the other hand you need to combine this thinking with the size of the market. For example, in Figure 1.2 no brands are perceived to be very sporty and very cheap so there is a gap there, but is this because that is not a profitable opportunity or because when people buy sporty cars they expect to spend money and would not trust a cheap sports car?



**BRAND OR PERCEPTUAL
POSITIONING MAP**

What does this mean for digital marketing?

in relation to positioning maps there is no specific difference between digital marketing and any other form of marketing. As mentioned at the start of this book, marketing is the key word. Brand is one of the areas where having an integrated approach is absolutely vital to success. Considering how your brand performs across all marketing considerations is essential, and whilst it is important to include digital within this, it should not have its own separate approach. One thing that is worth bearing in mind here is that it is much easier to launch a brand today than it was in the 20th century. You can fire up your laptop at home, design a logo in Photoshop, create a website using WordPress, create a Twitter account and build an AdWords account all in one evening. You then have a brand and it is being seen by thousands and potentially millions of people almost immediately. Whilst I would never discourage someone from launching their business or moving fast to do so, I would encourage some thought around your customer perception and competitors and this is where perceptual mapping fits in. Customer lifetime "



Summary

A perceptual map is a chart used to illustrate where a product or brand and its competitors are positioned according to consumer perception. Learn how your brand can unlock industry insights through perceptual maps and identify paths into new marketplaces.

**BRAND OR PERCEPTUAL
POSITIONING MAP**

Segmentation

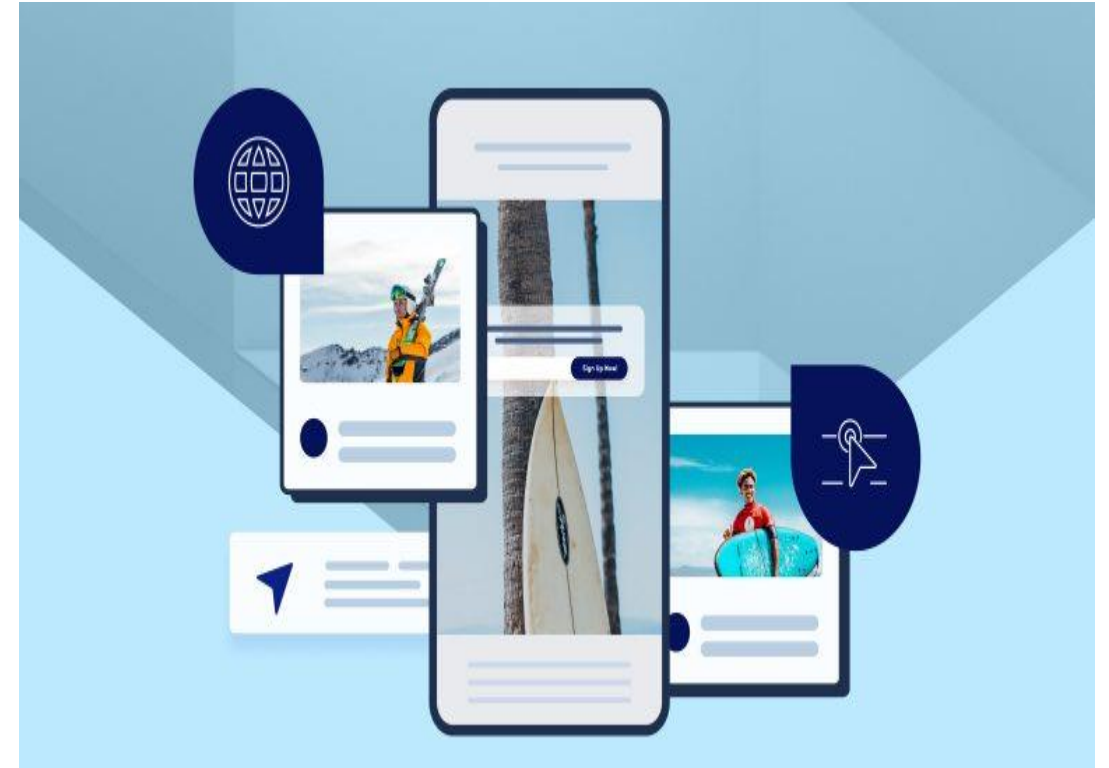
vitally important to understand segmentation as well. Consumers will always have similarities in their behavior's, demographics, buying patterns and other factors that enable you to group them into segments. This enables smarter, more appropriate targeting and messaging within your marketing communications. These groups will have different uses for products and varying perspectives on services. Their lifestyles will be inherently different as will be their needs, aspirations, opinions and much more. Five common forms of segmentation - geographic, demographic, behavioral, benefit and psychographic - are listed below, including the advantages and disadvantages of each alongside how businesses use these methods.



SEGMENTATION

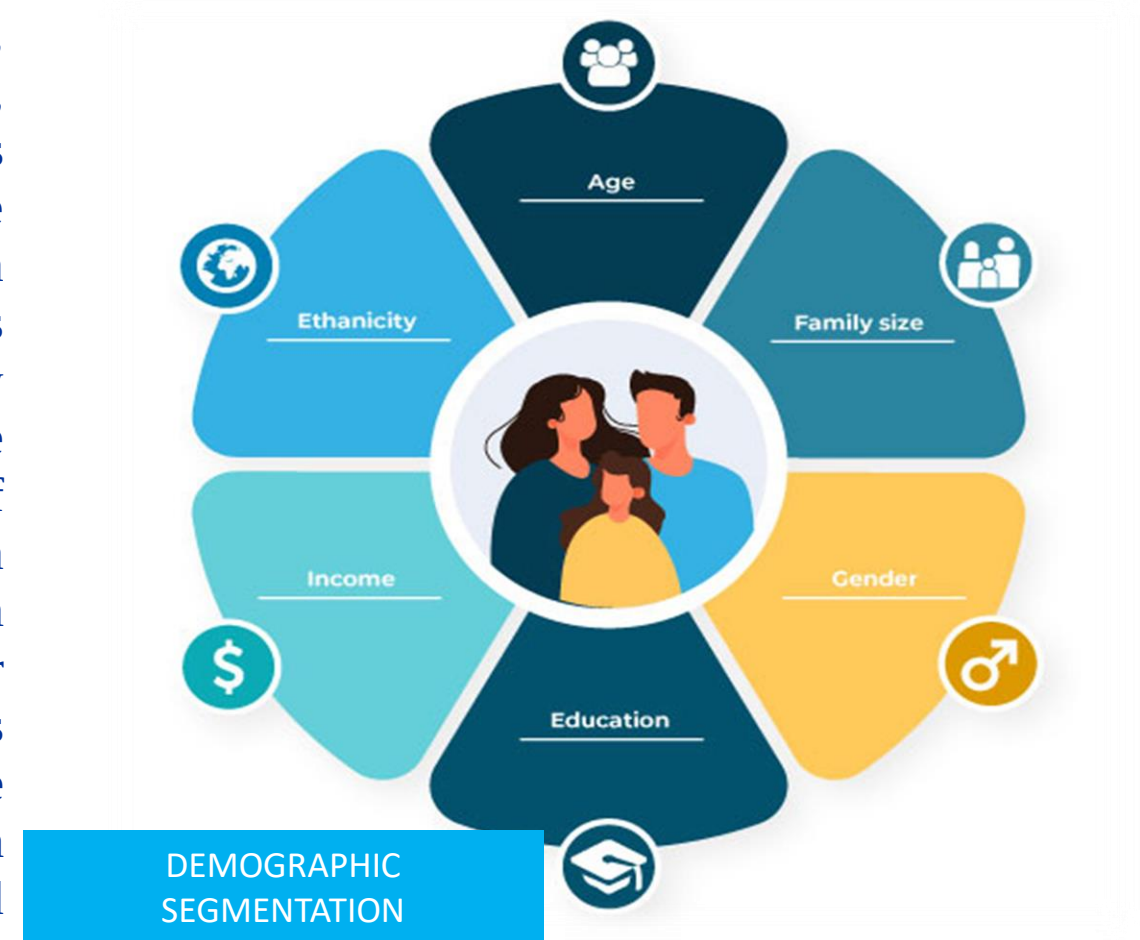
Geographic

Perhaps the simplest of all segmentation strategies, this is quite simply the location of the individuals being analyzed. Businesses that have regional retail outlets will have some focus on this but it can also prove a useful tool to understand where to target your marketing. That could be outdoor or press advertising but from a digital perspective it may inform your geo-targeting or data selection for your strategy. The disadvantage is quite simply that this is very basic and tells you next to nothing about the individuals themselves.

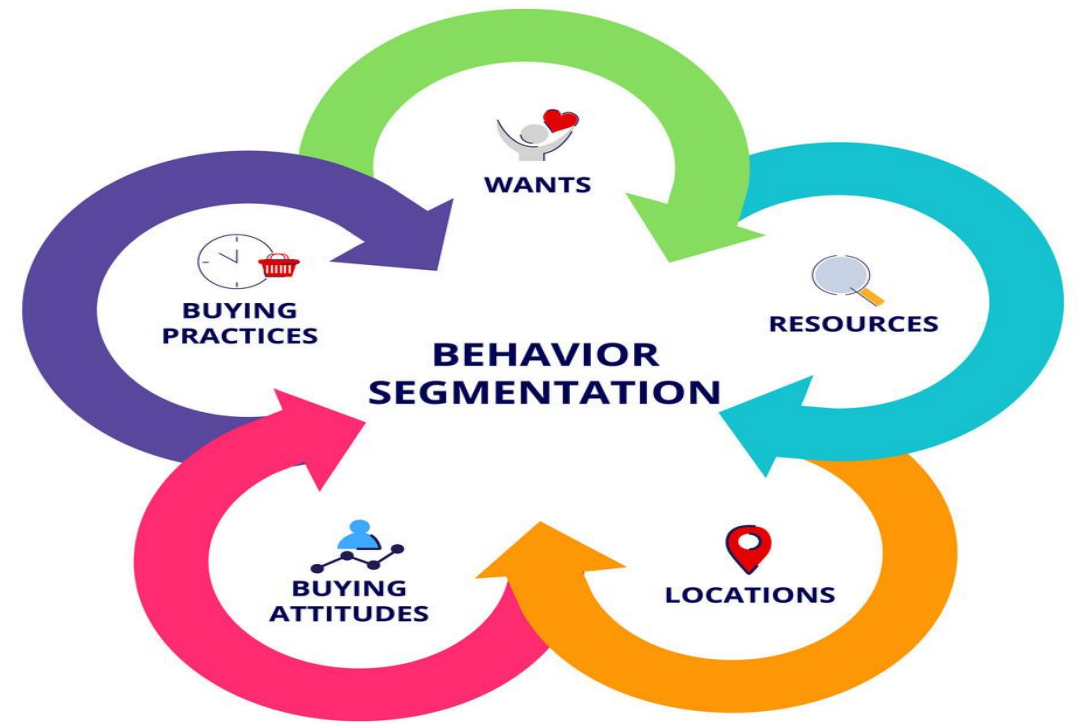


GEOGRAPHIC SEGMENTATION

Demographic A very common form of segmentation, demographics includes factors such as age, race, gender, education, employment, income and economic status. It is therefore an area of segmentation that gives a reflection of the characteristics of a group of people. Demographic segmentation is used by governments and a very broad range of organizations as it can answer questions such as 'Who can afford to buy my product?' and 'Will this group of consumers be the right age range for my product?' The disadvantage of this type of segmentation is that there is a large assumption that people with similar characteristics will behave similarly, which is far from the truth. If someone is a French, 45-year-old factory worker who has had a poor education will they behave the same way as all their colleagues in the factory who are of roughly the same age? No. They will have different passions, hobbies and much more. To understand this in more detail we need to understand behavioral segmentation.



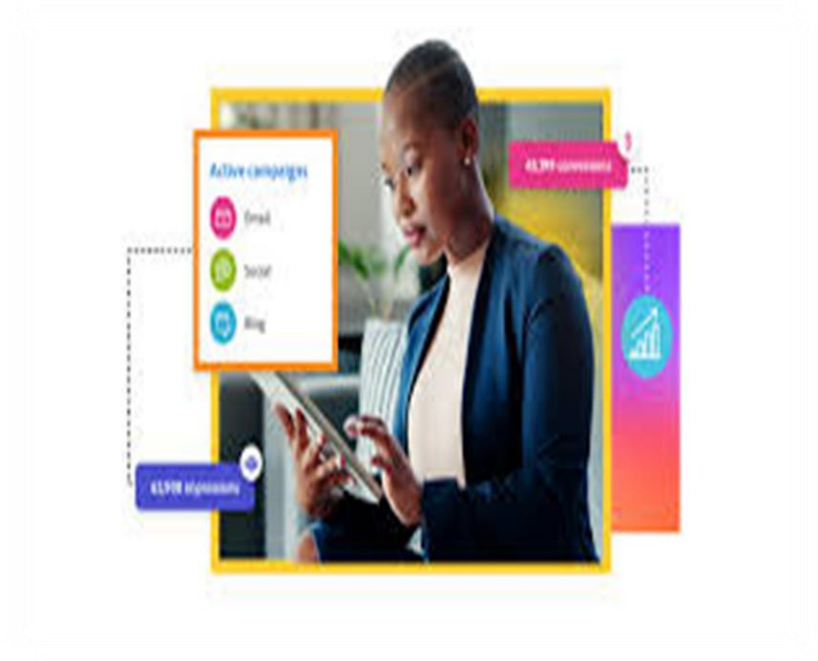
Behavioral segmentation is becoming increasingly possible. It has historically been difficult to understand consumer behavior but in the big data world we are able to understand consumers a lot more, especially those in the digital space. This method groups consumers by buying patterns and usage behaviors. This is an excellent way of talking to individuals in a way that is highly likely to resonate with them. It is useful when talking about specific products or use occasions. Behavioral does not of course give such a black-and-white view as demographic segmentation and therefore is not an exact science. For example, behavior can change with your lifestyle. Divorce, children and retirement are key examples of when life changes could result in behavior changes. It is therefore vital to be working with data that is up to date. With behavioral segmentation you have the advantage of being highly relevant to your audience whilst also running the risk of missing the mark completely.



**BEHAVIOURAL
SEGMENTATION**

Benefit

Something that is vital to understand in marketing, and in fact business in general, is that perception is key. How you are perceived will impact your career - we all know the clichés about first impressions. Well, this form of segmentation is based around **consumer perceived benefit**. Many businesses use this to understand the consumer base and to inform product development and marketing opportunities. A good example of this is the fashion industry. If you imagine retailers of coats and jackets: some consumers will look for warm winter coats for their ski holidays, some for all-weather jackets for their outdoor lifestyle, some for lightweight jackets they can wear whilst exercising, some for smart coats for work and some purely for fashion. The perceived benefit of your coat will appeal differently to each different segment, so perhaps you need to change the perception of your coat or bring out a new range to appeal to a new segment.



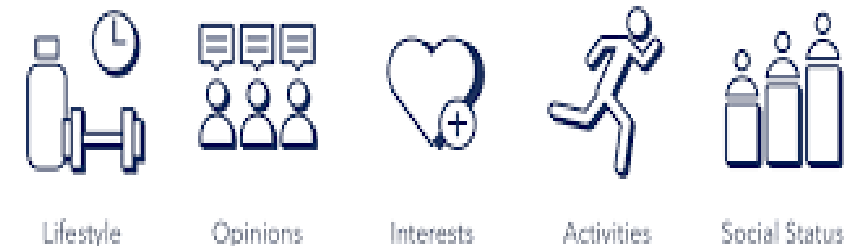
BENEFITS

Psychographic

Psychographic segmentation sounds exceptionally complex but it is simply an understanding of a consumer's lifestyle. This includes studying activities, opinions, beliefs and interests. Understanding these elements can, similarly to behavioral segmentation, result in messaging and products that truly resonate with the individuals. For example, individuals may be environmentalists, Buddhists, body builders or movie lovers (or any combination of these). Creating segments on this basis creates a more real' view of the individuals than geographic or demographic segmentation ever could.



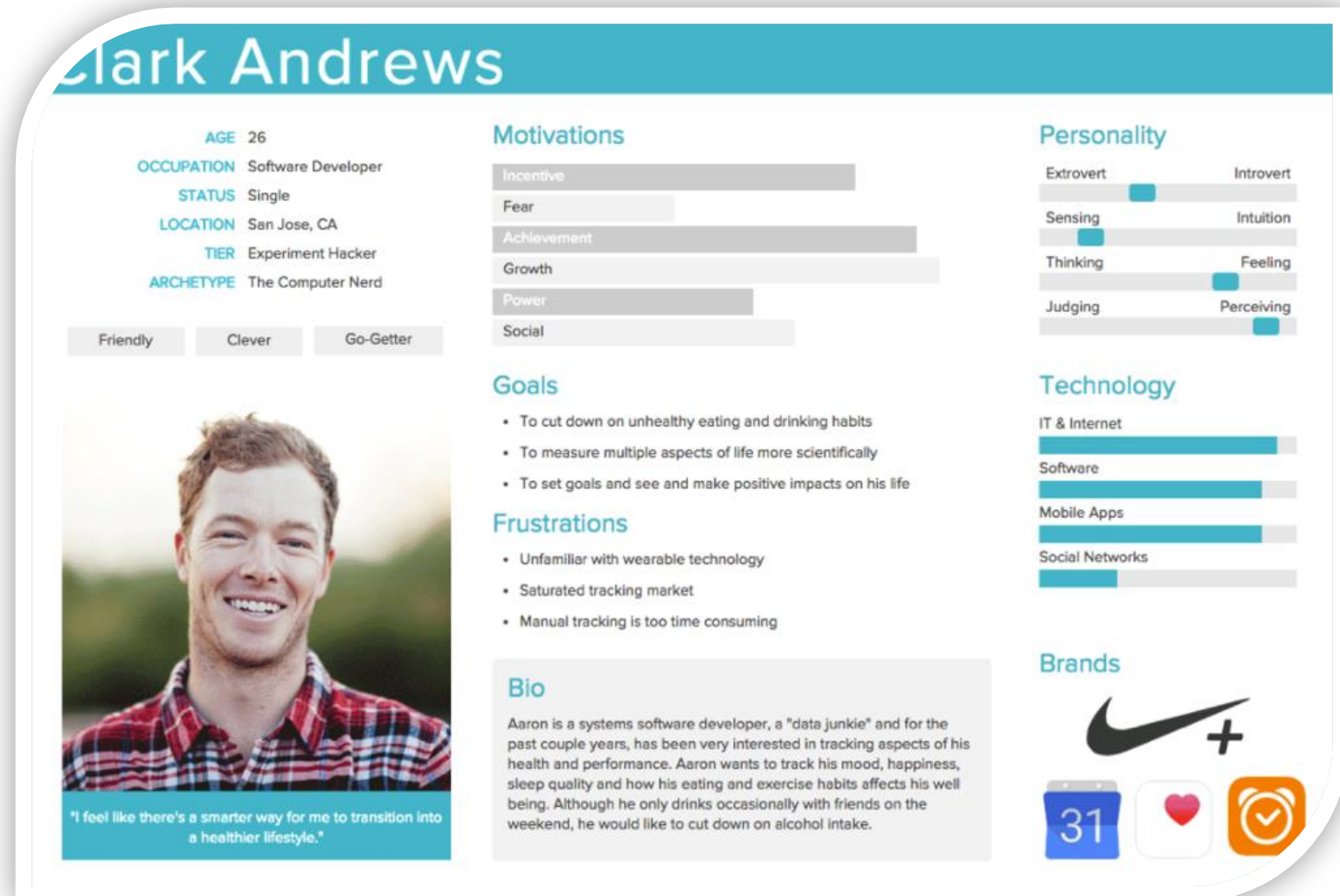
Five Factors of Psychographic Segmentation



Personas

By pulling together the above five forms of segmentation you can create personas, as per the example shown in the Figure.

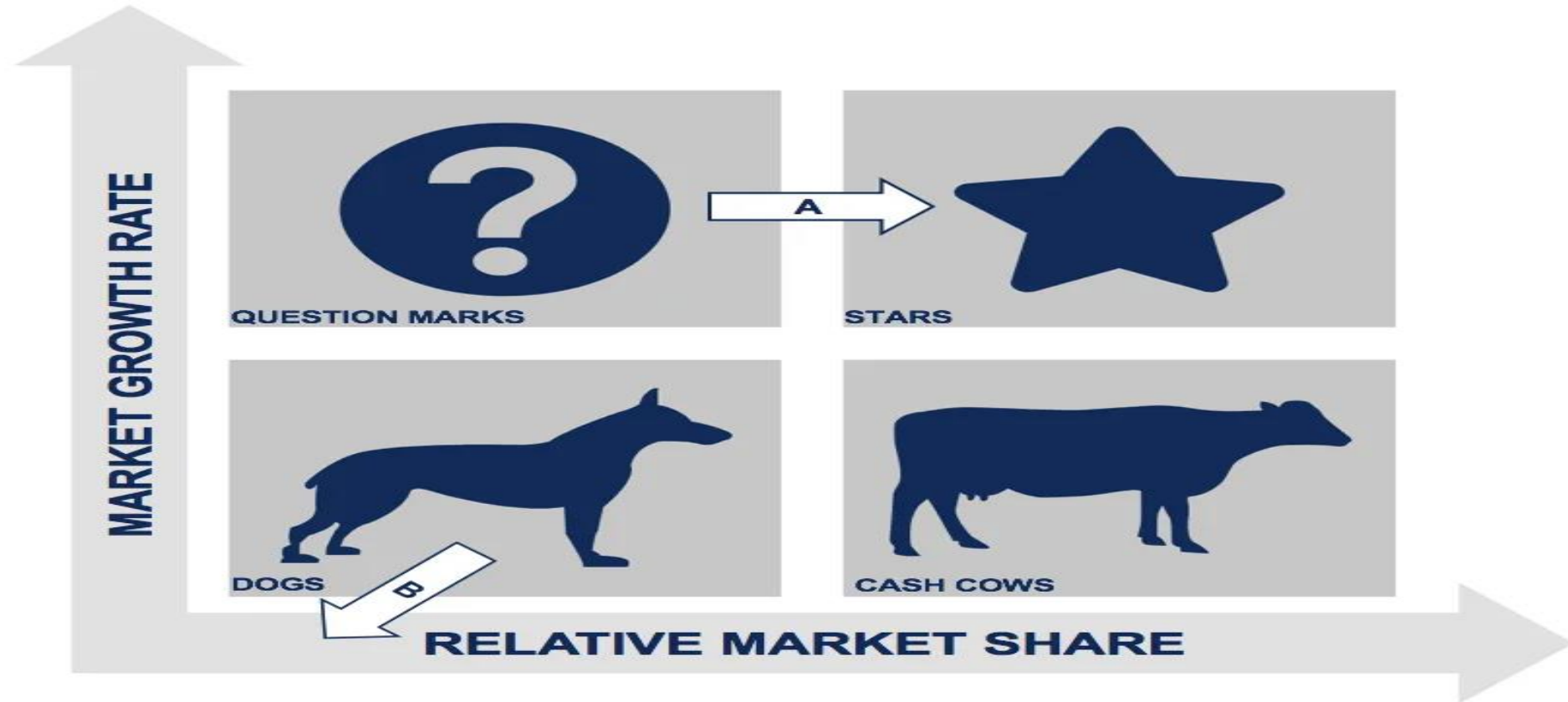
These are effectively descriptions of your segments. Most businesses will create between five and ten of these, as too few results in large groups that are too generic and too many can result in segments that are too small or overcomplicate the targeting approach.



Boston Consulting Group matrix

According to Bruce Henderson, founder of the Boston Consulting Group, 'To be successful, a company should have a portfolio of products with different growth rates and different market shares' (Henderson, 1970). This model is similar to the brand perceptual model mentioned above - in that it uses a matrix. However, the Boston Consulting Group (BCG) matrix is used for a very different purpose. The model categorizes products in a portfolio into stars, cash cows, dogs and question marks (Figure 1.4) by looking at market share and market growth. This is why it is sometimes called the growth-share matrix. It is used primarily to maximize long-term value creation in a business by maximizing high-potential areas and minimizing poor performers.





Cash cows - high market share in a slow-growth environment

Cash cows are strong and safe products. They generate money steadily in a market that is not growing at any pace and, as such, do not require much investment. As a result they are highly profitable

Dogs - low market share in a slow-growth environment Dogs are not the strongest part of the portfolio and can in fact be damaging for a business. They break even and so do not offer a great deal of benefit to the business. Businesses will generally look to reduce dogs or sell them off and should be very wary of investing money into them as returns are unlikely.



Question marks - low market share in a high-growth environment

Question marks are aptly named as they can go in either direction. They are growing rapidly but have a low share so they consume a lot of cash and do not generate a great deal. A question mark can become a 'star if it gains market share and then even a 'cash cow if the market slows, but it also has the potential to be a 'dog if the market slows before it has gained momentum. Decisions around what to do with question marks must be based on extensive analysis - to invest or not to invest.



Stars - high market share in a high-growth environment

Stars generate cash due to having a strong market share but they also swallow up a lot of investment due to the high growth environment. Once the growth declines, stars become cash cows; therefore, having a range of stars in your portfolio that can become the next cash cows is an important strategy.



The matrix itself shows not only the position of each product but also, by utilizing the area or size of each category, the value of each product. This therefore gives a snapshot of profitability and cash flows of an organization. Ultimately, cash cows and dogs are at either end of the scale and so all business units will move to one end or the other eventually and there is a common path: question mark - star - cash cow- dog. Of course it is not the situation for most companies, or indeed the aim, to have a set of products that simply fall into one of these categories

and in fact a blend of these is important to be able to describe your portfolio as balanced:

- Cash cows exist to supply funds that can be used to invest in the future of the company.
- Stars, due to their high growth potential and high market share, are the products that build this future.
- Question marks are items to steer into your next set of stars.
- Dogs should be removed.

One key thing to remember is that the BCG matrix has complications and has been misinterpreted and misused many times, so understanding the intricacies of it and how to apply it (and indeed when to apply it) is crucial.



What does this mean for digital marketing?

The BCG matrix will inform which products you should be selling through which methods and channels, which will influence your overall digital strategy. You can also use it to assess your digital channels themselves and understand, therefore, whether you are applying your focus effectively. For example, is paid search a cash cow or a dog? The value of this channel is often debated and so being able to substantiate where your channels fit on the BCG matrix is a great way to communicate how your channel strategy will be managed. Moving SEO from a question mark to a star is a common goal of businesses that have poor natural search performance but understand the steps to make improvements.



Chapter checklist

- A history of digital marketing
- The 4 Ps of marketing
- Porter's five forces
- Brand or perceptual positioning map
- Customer lifetime value
- Segmentation
- Boston Consulting Group matrix





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DIGITAL MARKETING STRATEGY

