

WAYS TO OPTIMIZE SERVICES MARKETING DECISIONS

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Abstract: The present paper take into consideration the development of decision support systems in marketing and highlight the main areas in which marketing decisions can be optimized. In a turbulent marketing environment as it is today, optimizing decisions represents the main task of any management level. Nowadays organizations can build effective marketing strategies only if they possess the tools and knowledge to plan and implement decision support systems. In the field of services marketing the dynamics of marketing environment, along with the greater involvement from the customer point of view determine a stronger relationship between performance and the decisions optimization process. Thus, it becomes imperative for services providers to anticipate and implement an optimal flow of decisions in order to maximize their answer to the environment change.

Keywords: marketing models, decision support systems, marketing strategy, strategic planning

INTRODUCTION

The foundation of marketing decisions represents a complex process requiring diverse human resources, materials, expertise and information. As many other business related decision processes, the one regarding marketing activity has an important feature – the dynamic character. When we speak about marketing activity, we speak about adapting the organization to the marketing environment. And when it comes to adapting to the environment, it is all about the dynamics of environmental factors – endogenous and exogenous. Especially in the environment specific for organizations providing services, the response speed for different changes is crucial for the efficiency of the organization.

This decision process has different outputs with different effects. Trying to obtain the best possible specific outputs requires an optimization process. At the first glance to optimize decisions means: optimizing the information for decision gathering process, optimizing the means and procedures for processing information, using adaptive decision models, measuring in real-time the effect of decisional process and making the necessary adjustments.

The traditional marketing theory states that the firms are in a kind of adaptive position regarding the opportunities that can appear within their environment [Berger et al, 2002, pg. 41]. Yet, other specialists argue that organizations have the capacity to develop marketing strategies that have a proactive perspective, focusing on the acquisition of valuable customers and the enhancement of the existing customer's relationship with the organization. With the development of new concepts and technologies (IT, modern telecommunication etc.), organizations are become more and more capable to manage their customer base, their proactive actions towards competition, in other words their capacity to shape the environment in which they operate. In this context it becomes also more and more important to compare the possible long term profitability as a result of standardizing marketing strategies designed for the entire customer base with the profitability derived from customized marketing strategies for different customers segments. In order to make such important decisions, and to acquire an optimized planning process, organizations have to determine in a proper manner the value of each segment or individual customer.

DISCUSSION

Taking into consideration the process of decision making in marketing activity we have to encompass the importance of formal planning in the field of strategic decision in general. Formal strategic planning may be defined as a process of establishing long-range objectives, procedures regarding alternative strategies and a system necessary to monitor the results of the entire plan [Armstrong, 1982].

Formal planning has as a first stage the foundation of objectives. Setting clear, "S.M.A.R.T." Objectives improve performance and according with some studies increase also the satisfaction among people involved in to the organization [Katerberg, 1980].

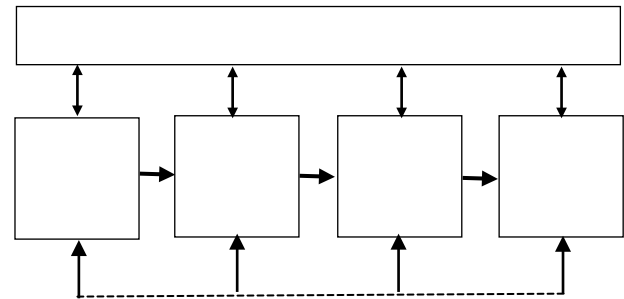


Fig. 1. The formal strategic planning process [Armstrong, 1982, 198]

Objectives that are defined in a proper manner, with a sufficient level of specificity are essential for the organization's efficiency. Another issue related with this stage is concerning the array of objectives stated. It is important, in an equal measure to take into consideration objectives that are addressing to the all organization's stakeholders categories (creditors, stockholders, employees, consumers, suppliers, dealers, local community etc).

The second stage is about setting strategies according to objectives, and it is advisable to consider alternative strategies. These alternative strategies have to be comprehensive strategies and specialists suggest that these alternatives involve fewer resources than the maximum amount of the current organization. This margin of unused resources gives organizations the possibility to adapt for every type of change and to respond in a flexible manner to the dynamic of marketing environment. Using this type of procedure, organizations may overcome situations in which a single way of action – the main strategy, cannot give maximum of efficiency in a given environment.

Finding alternative ways to develop the marketing strategy helps organizations to identify better modalities to combine resources than the existing ones, and to achieve a better response capacity if the dynamics of environment ask it and to elaborate a systematic approach of these situations. Procedures designed to identify alternative strategies are very complex and have been in a continuous development within scientific literature. Still, techniques like synectics and brainstorming are considered more efficient than the unstructured group meetings, because they emphasize the connection between participants and the level of auto-diagnose of their inner creative process.

The stage concerning evaluation of strategies implies a process of assessing the different course of action implied by the strategy. Evaluation has to clarify aspects like: the strategy does not violate any constrains, the potential of feasible strategies in order to attain specified objectives. For doing this, organizations have to implement procedures like check lists, Delphi groups, "the devil's advocate" etc.

Speaking about monitoring stage, we have to stress out the necessity to measure the feedback of strategies implementation at given intervals. For better results and for a proper planning process a couple of items should be carefully monitored: frequent changes in the external environment (opportunities and threats), changes in the internal organization environment (strengths and weaknesses), actions taken by the organization itself, actions taken by the competitors, and partial results.

At the level of monitoring process it becomes important to analyze the level of achieving objectives for every stakeholder category. Also the monitoring system has to be built upon explicit performance standards in order to assure the capacity of the organization to determine the level of achieving desired outcomes. Nowadays organizations still have an issue with their monitoring systems, they lack a systematic procedure and they are focusing on the short-range goals, mainly on short-budget range controls.

The entire process of formal strategic planning should be carried out taking into account the need for performance and commitment. Studies have shown that all the actors implied in the process have a more efficient involvement if they are guided by a strong motivation and commitment. In particular, organizations that have a clear organizational culture, build by values including trust, commitment and performance are much more in the position to succeed with strategic planning than others that may lose their focus along the process. Plus, it is possible to obtain a low level of efficiency regarding the planning process if is used just to control others, as the operating levels of management may have the perception that are less responsible for the success of strategic decisions.

The formal planning process can be found more important in certain situations than others. We may consider these situations under the following synthetic typology:

- Inefficient markets – formal planning can achieve better results if the organization is dealing with an inefficient market. The main characteristic of an inefficient market could be the one that little information is available about the proper pricing strategy. In this case formal planning can be of help in order to examine and manage the pricing issues in a systematic manner.
- Large changes – usually, the majority of organizations are prepared to deal with minor external changes and are developing a kind of resistance to minor internal changes. But, when large external changes occur within their environment, only formal planning can make the difference between being prepared to take the right course of action and to lose competitive advantages, market shares etc. In markets that are characterized by a higher rate of technology innovations and new products introductions, planning can be more needed in order to adapt properly to these complex changes.
- High uncertainty – if the environment has a greater degree of uncertainty, formal planning can help the organization to find in the right time alternative solutions and to test them before being too late. As an observation, the degree of uncertainty has to maintain in a practical range, otherwise, any planning effort could become futile.
- High complexity – organizations that are having more complex production, distribution processes would need more formal planning than the others. The number and the complexity of variables that are defining these essential processes, will require a greater effort for planning.
- Interaction of the above factors – there are situations in which all the factors considered until now can merge with each other. In this case, the need for planning is increasing exponentially. Given the situation in which are taking place mergers, or a new product introduction – these can lead to large changes, inefficient market (if the new product introduction suppose a technological breakthrough) and high

complexity in terms of production process. In this case, the need for planning is well established, otherwise the use of resources in an efficient way could be impossible to attain.

If we take the setup of strategic planning and refer to the development of marketing thinking, we may take into consideration five different “eras” of decision models implementation in marketing: [Leeflang, Wittink, 2000]:

- first era in which some principles of management science have been applied per se in marketing activity (between 1950 and 1965)
- an era consisting of adaptation of managerial models of decision (1965-1970)
- some models become frequent because of their large applicability (real time models) (1970-1980)
- the development of marketing decision support systems, routinized models based on meta analyses and studies regarding generalizability of results (1985-2000)
- new type of models based on internet technology and e-crm insights (2000-present)

First era (1950-1965) is consisting of using different models such descriptive models: purchase incidence models, purchase timing and brand choice models. Markov based models and learning models have been used for the latest issue regarding brand choice models.

Also has been used models like normative models, and models that optimize an objective function simultaneously for multiple brands. Many of the models corresponding to this era were developed for consumer durables - like automobiles and industrial products. In the same time have been introduced for the first time in marketing some econometric methods designed to estimate demand relationships.

Second era of models development and application in marketing activity characterizes by the effort to adapt different type of models to marketing specific problems not only using them. It can be outlined the model proposed by Howard and Morgenroth, a model that describes pricing decisions made by managers in a large firm that operates in an oligopolistic market. In addition, a well-known model at that time was that proposed by Bass – the new product growth model. This model has been applied in many occasions and it was extended to include effects of different marketing variables.

The third era (1970-1985) was the era of implementable marketing models. For the first time, models have been not only capable to represent reality but they become much more easy to use. The accent in that time was put on models that can be implemented.

Thus, for this period we may take into consideration logically consistent market share models like MCI and MNL – models, BRANDAID marketing mix model proposed by Little in 1975. Other type of models developed in this period are referring to strategic marketing planning models and Marketing Decision Support Systems (MDSS).

The development of critical thinking and implementation of models in marketing activity is related also with a body of scientific reviews that has emerged at that time – International Journal of Research in Marketing and Marketing Science Journal.

After 1985 we may talk about mature modeling in marketing activity, process influenced by the evolution of technology (scanners for customers, RFID, mobile technology, etc.).

Thereby, some marketing research top companies like IRI and Nielsen introduced – PROMOTIONSCAN and SCAN*PRO, a kind of econometric models system for estimating marketing effects on sales.

The development of marketing models until present time was greatly influenced by the availability of accurate and detailed data, and the technology to process in real time huge amounts of data.

The following areas have been successfully developed regarding marketing models between 1989 and 2000:

- consumers choice processes
- consumer behavior heterogeneity
- over-time behavior regarding brand loyalty

- product design and new products process of innovation
- brand equity
- marketing channel operations
- decisions regarding sales force
- the optimal process of selection regarding direct mail addresses
- optimal competitive strategies
- reactions from competitors
- effects on short term and long term of the demand on marketing activities

In the light of the above fields of developing models we may assume that, for every marketing manager some decisions areas, become easier to operate: repetitive promotion and pricing programs decisions, media allocation decisions, distribution programs decisions, product assortment and shelf space allocation decisions in case of individual stores, etc.

In this period, based on multiple meta analyses carried using different models, specialists were able to extract some “generally applied” rules regarding some marketing phenomena. These include:

- relationship between market share of brands and number of household buying the brand
- elasticity of selective advertising on brand sales
- price elasticity
- diffusion of new products
- relationship between market share and distribution

If we try to encompass the possible future directions of development regarding applying models in marketing activity, we have to stress out the importance of applying models at the strategic level and at the tactical level in the same time.

The effort to optimize decisions will be based on modeling the marketing activity. Especially when we talk about services marketing the emphasis should be put on the relational side – the customer centric paradigm of marketing.

The entire marketing effort will be built around customers that are proper from the point of view of their needs and the capacity to build longtime relationship with the organization.

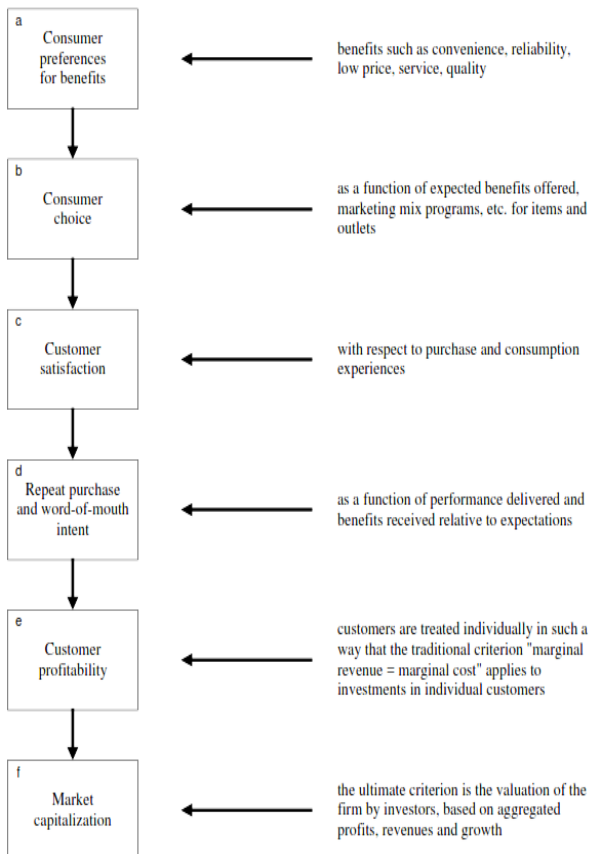


Fig 2. A six-stage approach regarding modeling the marketing activity [Leeflang, Wittink, 2000]

Thus, modeling the entire marketing activity of a service provider can be done taking into account the following six stages [Leeflang, Wittink, 2000]:

- identification of preferences of the potential customers relying on elements like: benefits, reliability, convenience, price etc. Cited authors propose at this level a modelling based on conjoint analyses that permit to measure individual perceptions
- analyzing the consumer’s choice, as a response to the organization’s marketing mix. Cited authors propose heterogeneous logit and probit models in order to characterize individual choice behavior because of different marketing mix actions. In addition, it can be combined actual choice data with hypothetical choices resulted from conjoint choice experiments.
- after the consumer choice, it will be advisable to determine the relevant customer satisfaction. In order to model this, it will be measured the influence of uncontrollable factors and controllable factors that can appear in the process of customers evaluation.
- after the identification of satisfaction drivers the organization must concentrate to find out which are the factors that can influence repeat purchase and future satisfaction accounted as word of mouth. In this context the customer profitability can be related with retention and the degree of retention with reward and loyalty programs.
- next step should naturally be the modelling of customer profitability related with future marketing efforts. The amount of marketing activities, the proper dosage for individual clients has to be done in order to achieve efficiency. So, at this stage the marketing models should focus on individual customers contribution to the profit and the optimization of marginal revenue – marginal cost relationship.
- in the final stage will be used models capable to show a preview of the organization profitability on the market in order to ensure an efficient integration from the point of view of the business strategy for an extended period.

The six stages approach regarding the optimization of marketing decisions represents a potential efficient instrument because it is able to cover many aspects of marketing activity and their implication at the level of business strategy.

In addition, we consider that it should be necessary to talk about the optimization process of the implementation of marketing mix itself. In order to do so, organization have to build models that can integrate all the specific activities for every element of the marketing mix. Especially in the field of services marketing, the optimization of decisions regarding the marketing mix it is crucial for the performance of services providers. Services marketing mix will include variables like: contact personnel, ambient, customers itself etc, and decisions regarding this type of variables need a special attention. In order to achieve greater efficiency and optimization, organizations will implement models capable to show how these variables respond to the environmental factors and most of all how all the services marketing mix elements work together as a fully integrated system.

Model designed for implementation can be developed using a eleven stage process that can be generalized for every kind of models with a great extent of implementation.[Leeflang, Wittink, Wedel, Naert, 2000]

Model building process will start with opportunity identification stage. In this stage, organization has to determine if a model can be constructed in order to help managers to improve their decisional tasks. The model has to respect all the

requirements regarding validity of data, variables relevance, lack of bias etc.

The second stage refers to the definition of model purpose. Marketers should choose between different types of models - descriptive, normative or predictive. The type of model should respond to the particular need of management regarding the decisional optimization process.

In the third stage, it will be considered the scope of the model in order to establish the level of usability. Nowadays, models that encompass marketing activities and other type of activities within the organizations are becoming more and more common.

The fourth stage refers to the degree of availability of data. Different types of models need different type of data. In some cases, data will be aggregate; in other cases, individual data will be used.

The stage referring to the model-building criteria is centered on some basics criteria that a model should accomplish in order to be implemented: simplicity, completeness, adaptivity and robustness.

Model specification refers at the level of specification – level of details that model will be built on. Model can be specified to the level of a particular brand, product, product range etc.

Parameterization refers to the methods used within the model. It can be nonparametric or semi-parametric methods, designed to catch different types of interaction between variables and factors. Among the methods used, we may recall: generalized method of moments, structural equation models etc

The validation stage implies methods that assures manager about validity of the model, lack of bias and if it is the case the “predictive power”.

The final stages comprise cost-benefit considerations, the use of the model and updating.

Cost-benefit analyses comprise the value of the model seen through the benefits once applied. If the model is useful in optimizing decision process, also it can induce cost reduction on some operations.

The updating stage refers to the possibility to update the modeling process in order to fulfill current decisional needs.

After the model is accepted, it becomes very important to check the accuracy of conditional predictions. Thus we will compare what it should be expected based on the initial model estimation with the resulted accuracies. If there are found some weak aspects within the model, the builder can respecify or update accordingly the model’s parameters.

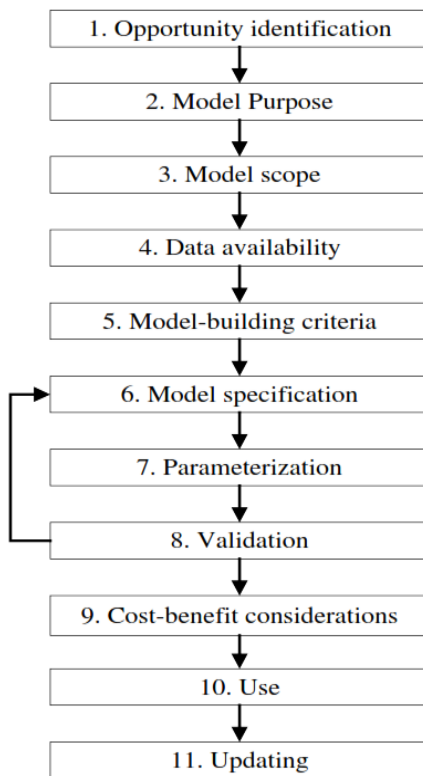


Fig 3. The model building process focused on implementation [Leeflang, Wittink, 2000]

Conclusion

Optimization of the decisional process regarding marketing activity represent a very complex task, and implies a large amount of resources within organizations.

As the business environment becomes more and more dynamic, the need for fast, reliable decisions is also increasing. Marketing activity has to keep up the pace, because we may define marketing as “organizations environment adaptation science”. We may think at organizations like living entities that develop, feed themselves, and interact with other living entities in a particular environment.

Like other biological entities, organizations will have a diverse range of exchanges with the environment. From this particular point of view, marketing represents not only a “way of life”, a “business philosophy”, but also a true science for development, for growing in harmonious conditions within the business environment. Optimizing decisions become “the art for survival”, and it may become an extension for development not only mere survival. As we seen, the process of modeling marketing activity becomes more and more complex as we integrate more and complex technology, sources for data etc.

In the near future, there are obvious trends regarding using models, like the diversity of situations, diversity of motives (from forecasting and optimization/allocation problems to simulation situations), development of intelligent systems and virtual systems.

Nowadays models tend to start around the concept of customer share, not the old market share concept. For this endeavor, the capacity to aggregate a large amount of individual data becomes crucial, and the operationalization of an efficient informatic system for the

organization is also required. The social networks development phenomena implies not only the transfer of a huge amount of information between potential customers, but also the building of a cyber-community that will allow organizations to connect to a plethora of beliefs, motives, attitudes. [Lăzăroiu et al, 2011]

As a result it would be possible to develop efficient customer asset management models (CAM models) – that will allow organizations to determine which are the best ways to optimize their marketing activity around valuable areas – profitable customers seen as profitable assets on a long run.

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