

CHAPTER II Literature Review

This chapter will discuss relevant literature review to provide a theoretical foundation for the research. Chapter 2 will start by explaining the basic concept of marketing theory and followed by more specific information about marketing mix. In this part, it will discuss analysing tools that will be used for analysing Tencent company, which are SWOT analysis, Porter's 5 Forces model, STP, and PEST analysis.

2.1 Marketing Theory

“Marketing refers to activities undertaken by a company to promote the buying or selling of a product or service. Marketing includes advertising, selling, and delivering products to consumers or other businesses” (Twin, 2019).

2.1.1 Marketing Mix 4Ps

“The marketing mix is a crucial tool to help understand what the product or service can offer and how to plan for a successful product offering. The marketing mix is most commonly executed through the 4P's of marketing: Price, Product, Promotion, and Place” (Martin, 2014).

Price is the amount that the company sets for a product or service that needs to be paid by the customer. To set a competitive price, the company has to identify the cost of production, including distribution cost, unit cost, and marketing cost. Also, the company needs to know the price of their competitors to set a price that makes the customers choose their company rather than competitors for buying the product or service (Twin,2020).

Product refers to an item or service that the company offers to the market. The company has to know what the value proposition of their products and what makes it stand out from a great number of competitors in the market. The company also has to know whether there is a substitute product in the market then distribute the important information to the marketers to give the correct campaign in the market (Twin,2020).

Place, the third P, is the distribution place of the product or service. The company has to decide where to sell the products better, through online, stores (offline) or both. When the company decides online or offline sales, the company has to decide the locations for its store or what online media that the company wants to use (Twin, 2020).

Promotion refers to the activities that the company does as a marketing campaign. It needs consideration on how to promote its products or services to the market and make people aware of the company’s product. It includes activities such as sponsorship, advertising and marketing, sales promotion also public relations (Twin, 2020).

Below is the Figure to show what activities and components that the company has to manage in each 4Ps.



Figure 2.1: Activities in Each Marketing Mix Components

Source: CloudHost, 2019

2.1.2 STP Analysis

STP stands for segmentation, targeting and positioning. This analysis model is used in marketing to identify and understand the market criterion that the company has to focus on and develop to serve a correct market that could bring the highest potential of profit (Devrix, 2019).

Segmentation is the process in which the company divides its customer into groups based on the same characteristics and needs. Segmenting the market could be based on age, gender, state, values, lifestyle, education, occupation or the benefits that customers looking for from a product or service (Mindtools, 2018).

While market segmentation is dividing the customers into several groups, market targeting is the process for the company to choose from those customer groups which of them that the company has to focus on and put the most effort into. The customer segment that the company chooses is the one who could bring the highest potential for the company. The company would assess whether this particular segment has steady growth or is it worth enough to be focusing (Hanlon, 2019).

The last step in STP analysis process is positioning. In this step, the company has to decide how they want their customer perceives the company's products or services; what the company wants to be known as (White, 2012). In order to position its company effectively in the market, the company has to identify what each customer segments needs and the problem that their facing. Then, the company has to produce a product or service to solve those problems. The important part is that the company has to establish products or service that has value proposition to make it unique so that the customer would not choose other companies to buy the products or services. The products or services that the company creates has to meet the needs of targeted and valuable customer segment (Davis, 2017).

2.2 PEST Analysis

It is a strategic analysis tool that helps an organization make better business decisions by assessing 4 external factors that influence the business operation of a company. These factors are political, economic, social and technological aspects (Kenton, 2018). PEST analyzing tool is really helpful to examine the macro-environment of a business.

Political factor that PEST model analyzes is the government influences that affecting the business or firms. These influences include tax policy, labor laws, foreign trade policy, government policy, political stability, environmental laws, trade restrictions and fiscal policy (Thiele, 2018).

Economic factors refer to economic conditions and performance in a local or global range that could impact the company. Economic factors include inflation, wages rates, economic growth, and financing capabilities (Kenton, 2018).

Social factors include population growth, customer buying trends and behavior, age distribution, education, occupation and cultural trends (Thiele, 2018). It is considering the attitude and belief that a certain community has in order for the company to identify correctly what the customer needs and fulfill it.

Technological factors are used to considering the development of the technologies and how technologies advancement could create opportunities as well as risks to the business (Kenton, 2018).

2.3 The Porter's 5 Forces Model

It is a business analysis model that examines a company's competitive environment by identifying the 5 competitive forces developed by Harvard Business School professor, Michael E. Porter. These forces could impact the business environment and erode the organization's profitability. Porter's 5 forces are:

1. Competition in the industry: identify the number of competitors and their ability to take down the company (Porter, 1980).
2. Potential of new entrants into the industry: if it needs less cost and time for new entrants to enter the market, the more an existed company's position could be weakened (Chappelow, 2019).
3. Power of suppliers: determines how easily the supplier could control the input cost of a company. If there are fewer suppliers or high switching costs between rival suppliers, a company must pay higher input costs (Chappelow, 2019).
4. Power of customers: it used to measure how is the customer's ability to drives prices lower. If the company has a big number of customers, they could charge a higher price compared if it has smaller and more powerful customers (Porter, 1980).
5. Threat of substitute products: it examines the threats of a company by the number of substitute goods in the market. If there are more substitutes good available, the power to control the high price of the company's good is weakened and lead to price falls (Chappelow, 2019).

2.4 SWOT Analysis

SWOT framework is a strategic tool that analyze the internal strengths and weaknesses of a business and list the opportunities and threats that exist outside of the company (Wroblewski, 2019). SWOT could do both internal and external environment analyses that lead the managers to think about everything that could potentially impact the success of a new project (Laidre, 2011).