CHAPTER 2
LITERATURE REVIEW AND THEORITICAL BACKGROUND

2.1 Literature Review
2.1.1 Previous Research

There are some previous research which being references in this research making. Selection of the marketing strategy of the SME done by Astuti, Silalahi, and Wijaya (2015). That research objectives is about to know the influence of 7P marketing mix variables, which consists of product, price, promotion, place, people, physical evidence and process on purchasing decision of consumers in determining appropriate marketing strategy of Malang apples at Giant MOG. There are 2 variables; independent variables that is 7P (X) and dependent variables that is purchasing decision (Y). At that research, multiple linear regression analysis was used to determine the marketing mix variable that most influences on purchasing decisions of Malang apples consumers at Giant MOG. Analytical Hierarchy Process (AHP) was used to set the right marketing strategy of Malang apples at Giant MOG according to management of Giant MOG.

A research about marketing strategy also conducted by Kumar and Rajeev (2012). In his research explained that internet marketing strategy have a very important role in many industries because internet marketing is one of the easiest and cheapest way of marketing. Its population of the internet user increase day-by-day and it is easily available in any part of the country. With the same reason Kiran, Majumdar, and Kishore (2012) in his research about innovative marketing strategies for SME also suggest to use Internet as a promotional tool in Small Medium Enterprise (SME). It is also agreed by Öztamur and Karakadılar (2014), Dilhan did a marketing research strategy using internet as the media with a assumption that internet give us a big opportunity to connect with people throughout the world. In his research qualitative content analysis is used as the main method, because the ultimate target is to see the companies strategical use of social media, including which contents they choose, how often they update their accounts, what style of language they use and how effective their communication is.

A research about marketing strategy whose done by Vásquez and Escamilla (2014) also leads to a social networks marketing. In that research, conclude that it has been shown by quantitative research that there is a large area of opportunity

to educate small businesses about the potential that a good social media strategy for your business can generate. Many of them have no knowledge of the existence of tools that could be useful in their daily operations as promote their products, customer approach, monitoring and measuring the effectiveness of its strategy, brand positioning, etc.

2.1.2 Present Research

This research is about identify the marketing strategy for product innovative of SME of Mount Merapi Eruption victims based on the women whose job switched from agriculture to SME in Cangkringan as the object. The method is used in this research is Analytic Network Process (ANP).

2.2 Theoretical Background

2.2.1 Marketing strategy

Marketing is one of the important things in the business. Many people mistakenly think that marketing is only about communication activities such as advertising, promotion, public relations, and personal selling. In his book Ferrell and Hartline (2005) says that marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. Viewed from that perspective, we can see that the scope of marketing function is considerably broader.

According to Walker and Boyd (1992), Strategy is a fundamental pattern of present and planned objectives, resources deployments and interactions of an organization with markets, competitors, and other environmental factors. According to that definition Walker conclude that a good strategy should specify (1) what is to be accomplished; (2) where, that is, on which industries or product-markets it will focus; and (3) how, or which resources and activities will be allocated to each product-market to meet enviromental opportunities and threats and to gain a competitive advantage. Therefore according to the Walker, the primary purpose of a marketing strategy is to effectively allocate and coordinate marketing resources and activities to accomplish the firm's objective within a specific product-market. Then Marketing strategy requires a definition of the market domain in which the company will compete and a statement of how utility and value will be created for customers through product and service offerings. Recognizing customers needs and filling them better than competitors is the core of successful marketing

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strategy. When customers needs are satisfied by effective marketing programs, long-term competitive advantage can be achieved and financial goals can be met (Urban & Star, 1991). The marketing strategy can be consist of one or more marketing programs. Each programs consists of two elements—a target market and a marketing mix. To develop a marketing strategy, an organization must select the right combination of target over it market(s) and marketing mix in order to create distinct competitive advantages over its rivals (Ferrell & Hartline, 2005).

The term 'marketing mix' is attributed to Neil H.Borden and refers to the set of marketing ingredients a company can use to achieve its objectives. Lancaster and Massingham (2010) suggest some of the factors that the detailed marketing mix plans as four *P*s are Products (Quality, Features, Options, Style, Services, Installation, Warranty, Packaging,and New product development), Price (Pricing, Price changes, List prices, Discounts, Allowances, Payment, and Credit terms), Promotion (overall emphasis in promotional mix, objectives, strategies and plans), and the last is Place (Channel configuration/coverage/levels, Specific type of intermediaries, Terms and responsibilities of channel members, Order processing systems, Warehousing, storage, stocking and delivery policies)

In a modern marketing system, marketing mix incorporated in 7P, i.e. product, price, place, promotion, people, physical evidence, and process (Lovelock & Wirtz, 2011). The definition of 7P according to The Chartered Institute of Marketing (2009) is as follows:

a. Product

There is no point in developing a product or service that no one wants to buy, yet many businesses decide what to offer first, and then hope to find a market for it afterwards. In contrast, the successful company will find out what customers need or want and then develop the right product — with the right level of quality to meet those needs now and in the future.

b. Price

A product is only worth what customers are prepared to pay for it. The price also needs to be competitive, but this does not necessarily mean the cheapest; the small business may be able to compete with larger rivals by adding extra services or details that will offer customers better value for money. The pricing must also provide a profit. It is the only element of the marketing mix that generates revenue — everything else represents a cost.

c. Place

The place means of distributing the product to that place where customers buy a product. The product must be appropriate and convenient for the customer. The product must be available in the right place, at the right time and in the right quantity, while keeping storage, inventory and distribution costs to an acceptable level.

d. Promotion

Promotion is the way a company communicates what it does and what it can offer customers. It includes activities such as branding, advertising, PR, corporate identity, sales management, special offers and exhibitions. Promotion must gain attention, be appealing, tell a consistent message and above all else give the customer a reason to choose your product rather than someone else's.

e. People

Anyone who comes into contact with customers will make an impression, and that can have a profound effect — positive or negative — on customer satisfaction. The reputation of the brand rests in the people's hands. The people must be appropriately trained, well motivated and have the right attitude. It is essential to ensure that all employees who have contact with customers are not only properly trained, but also the right kind of people for the job

f. Process

The process of giving a service, and the behavior of those who deliver are crucial to customer satisfaction. Issues such as waiting times, the information given to customers and the helpfulness of staff are all vital to keep customers happy.

g. Physical evidence

A service cannot be experienced before it is delivered. This means that choosing to use a service can be perceived as a risky business because buying something intangible. This uncertainty can be reduced by helping potential customers to 'see' what they are buying. Case studies and testimonials can provide evidence that an organization keeps its promises. Facilities such as a clean, tidy and well-decorated reception area can also help to reassure.

For the sub criteria, author also did literature review to find which aspect was contain in criteria. The literature mapping shown in table 2.1.

Table 2. 1. Categorize of innovative marketing sub criteria

Criteria	Sub criteria	Representative literature
Price	The affordability of product price	Astuti *et al.,*2015; Bodlaj and Rojsek, 2014
	Competitive price	Tantong, 2003; Febrianti and Ariffin,2013; Astuti *et al.,*2015
	Special Price	Bodlaj and Rojsek, 2014
	Discount	Febrianti and Ariffin,2013
	Price sensitivity	Bodlaj and Rojsek, 2014; Tantong, 2003
Product	Product Innovation	Astuti *et al.,*2015; Sok *et al.*, 2013; Bodlaj and Rojsek, 2014; Brata, 2011; Kanibir *et al.*, 2014; Kiran *et al.*, 2012
	The uniqueness of the product	Febrianti and Ariffin,2013
	Product Variation Model	Tantong, 2003
	Brand	Kanibir *et al.*, 2014;Febrianti and Ariffin,2013
	Product strengths	Tantong, 2003
	Product flexibility	Tantong, 2003
	Product quality	Astuti *et al.,*2015; Sok *et al.*, 2013
	Product level	Sok *et al.*, 2013
Place	Media technology (Facebook, twitter, TV, Radio)	Kumar and Rajeev, 2013; Centeno and Hart, 2011
	Media nontechnology (newspaper, magazine, flayer)	Bodlaj and Rojsek, 2014
	Media activity (event)	Bettiol *et al.*, 2012
	Product stock	Astuti *et al.*, 2015
	Display product / layout	Astuti *et al.*, 2015
	Retail location	Brata, 2011
	Retail type	Centeno and Hart, 2011
Promotion	Promotion frequency	Astuti *et al.*, 2015; Kumar and Rajeev, 2013; Oztamur and Karakadilar, 2014; Tantong, 2003
	Promotion adaptation	Centeno *et al.*, 2011; Tantong, 2003

Table 2. 1. Continued

Criteria	Sub criteria	Representative literature
Promotion	Ways of promotion (words of mouth, event sponsor)	Centeno and Hart, 2011; Kiran *et al.*, 2012
	Ordering Access	Kumar and Rajeev, 2013
	Brand orientation	Centeno and Hart, 2011
People	Ethics	Astuti *et al.*, 2015; Bodlaj and Rojsek, 2014
	The latest information	Oztamur and Karakadilar, 2014; Brata, 2011
	Skill	Brata, 2011
	Method (e-mail, newsletter, website)	Centeno and Hart, 2011
	Experience	Sok *et al.*, 2013
	Ways of working	Bodlaj and Rojsek, 2014
Physical Evidence	Retail facility	Astuti *et al.*, 2015
	Retail condition	Astuti *et al.*, 2015
	Product sampling and trials	Centeno and Hart, 2011
	Service quality	Bodlaj and Rojsek, 2014
	Special service	Kiran *et al.*, 2012
Process	Communication process	Bodlaj and Rojsek, 2014; Bettiol *et al.*, 2012; Kanibir *et al.*, 2014
	The impression of the display	Astuti *et al.*, 2015; Kumar and Rajeev, 2013
	The easiness of payment process	Astuti *et al.*, 2015
	Products delivery performance	Kumar and Rajeev, 2013

2.2.2 Pairwise Comparison

Suppose there are n objectives. We begin by writing down an $n \times n$ matrix (known as the pairwise comparison matrix) A. The entry in row i and column j of A (call it a_{ij}) indicates how much more important objective i is than objective j. "Importance" is to be measured on an integer-valued 1–9 scale, with each number having the interpretation shown in Table 2.2. For all i, it is necessary that a_{ii} = 1. If, for example, a_{13} = 3, objective 1 is weakly more important than objective 3. If $a_{ij} = k$, then for consistency, it is necessary that $a_{ji} = \frac{1}{k}$, then $a_{31} = \frac{1}{3}$ must hold (Taha, 2011).

Table 2. 2 Interpretation of Entries in a Pairwise Comparison Matrix

Value of a_{ij}	Interpretation
1	Objective i and j are of equal importance.
3	Objective i is weakly more important than objective j.
5	Experience and judgment indicate that objective i is strongly more important than objective j.
7	Objective i is very strongly or demonstrably more important than objective j.
9	Objective i is absolutely more important than objective j.
2,4,6,8	Intermediate values—for example, a value of 8 means that objective i is midway between strongly and absolutely more important than objective j.

Sources: Taha, 2011

Suppose there are n objectives. Let $w_i =$ the weight given to objective i. To describe how the AHP determines the wi's, let's suppose the decision maker is perfectly consistent. Then the pairwise comparison matrix should be of the following form:

$$A = \begin{bmatrix} \frac{w_1}{w_1} & \frac{w_1}{w_2} & \cdots & \frac{w_1}{w_n} \\ \frac{w_2}{w_1} & \frac{w_2}{w_2} & \cdots & \frac{w_2}{w_n} \\ \vdots & \vdots & & \vdots \\ \frac{w_n}{w_1} & \frac{w_n}{w_2} & \cdots & \frac{w_n}{w_n} \end{bmatrix} \qquad (2.1)$$

Suppose that $w_1 = \frac{1}{2}$ and $w_2 = \frac{1}{6}$. Then objective 1 is three times as important as objective 2, so:

$$a_{12} = \frac{w_1}{w_2} = 3 \qquad (2.2)$$

As we know that not all the decision maker is not perfectly consistent. Therefore that for a consistent decision maker, the weights w_i can be obtained from the only nontrivial solution to (2.1). Now suppose that the decision maker is not perfectly consistent, we use the following two-step procedure:

1. A_{norm} matrix

Divide each entry in column i of A by the sum of the entries in column i. This yields a new matrix (call it A_{norm}, for normalized) in which the sum of the entries in each column is 1.

2. Average each row

Estimate w_i as the average of the entries in row i of A_{norm}. The lowest averaged result will be the weakest criteria, whereas the highest will be the strongest criteria in that comparison.

Pairwise comparisons assessment involving more than one expert will produce a different assessment. Every expert assessment results will be combined into a single value that represents all the pairwise comparison assessment results. The merging is done by finding the average value. According to Saaty (1994), the smoothing method used is the Geometric Mean.

Each of these values for each pair are multiplied then the multiplying result are rooted by the number of expert with the geometric mean. Mathematically geometric mean formula is written as follows (Saaty, 1994):

$$\mu_{ij} = \sqrt[n]{\alpha_{ij1}\,\alpha_{ij2}\,...\,\alpha_{ijn}} \tag{2.3}$$

where :

μ_{ij} = *Geometric Mean* baris ke-i kolom ke-j

n = jumlah *expert*

We can now use the following four-step procedure to check for the consistency of the decision maker's comparisons. (From now on, w denotes our estimate of the decision maker's weights.)

1. Compute $A\boldsymbol{w}^T$

$$A\boldsymbol{w}^T = \begin{bmatrix} \frac{w_1}{w_1} & \frac{w_1}{w_2} & \cdots & \frac{w_1}{w_n} \\ \frac{w_2}{w_1} & \frac{w_2}{w_2} & \cdots & \frac{w_2}{w_n} \\ \vdots & \vdots & & \vdots \\ \frac{w_n}{w_1} & \frac{w_n}{w_2} & \cdots & \frac{w_n}{w_n} \end{bmatrix} \begin{bmatrix} Av\ row\ i \\ Av\ row\ j \\ \vdots \\ Av\ row\ n \end{bmatrix} \tag{2.4}$$

2. Compute

$$\frac{1}{n}\sum_{i=1}^{i=n} \frac{ith\ entry\ in\ A\boldsymbol{w}^T}{ith\ entry\ in\ \boldsymbol{w}^T} \tag{2.5}$$

3. Compute the consistency index (CI) as follows:

$$CI = \frac{(Step\ 2\ result) - n}{n-1} \tag{2.6}$$

4. Compare CI to the random index (RI)

Compare CI to the random index (RI) for the appropriate value of n, shown in Table 2.2. For a perfectly consistent decision maker the ith entry in $A\boldsymbol{w}^T = n$ (ith entry of $\boldsymbol{w}^T$). This implies that a perfectly consistent decision maker has CI = 0. The values of RI in Table 2.3 give the average value of CI if the entries in A were chosen at random, subject to the constraint that all diagonal entries must equal 1 and

$$a_{ij} = \frac{1}{a_{ji}} \tag{2.7}$$

If CI is sufficiently small, the decision maker's comparisons are probably consistent enough to give useful estimates of the weights for his or her objective function. If $\frac{CI}{RI} < .10$, the degree of consistency is satisfactory, but if $\frac{CI}{RI} > .10$, serious inconsistencies may exist, and the AHP may not yield meaningful results.

Table 2. 3 Values of the Random Index (RI)

n	RI
2	0
3	0.58
4	0.90
5	1.12
6	1.24
7	1.32
8	1.41
9	1.45
10	1.51

Sources: Taha, 2011

2.2.3 Strengths, Weakness, Opportunities, and Threat (SWOT) Analysis

Managing the marketing begins with a complete analysis of the company's situation. The marketer should conduct a SWOT analysis, by which it evaluates the company overall strengths (S), weakness (W), opportunities (P), and threats (T). Strengths include internal capabilities, resources, and positive situational factors that may help the company to serve its customer and achieve the objectives. Weakness include internal limitations and negative situational factors that may interfere with the company's performance. Opportunities are favorable factors or trends in the external environment that the company may be able to exploit to its advantage. And threats are unfavorable external factors or trends that may present challenges to performance (Kotler & Armstrong, 2008).

According to Kotler and Keller (2006), SWOT involves monitoring the external and internal marketing environment. The external environment includes opportunity and threat. The internal are strengths and weaknesses as shown in figure 2.1. The major purpose of environmental scanning is to discern new opportunities. In many ways good marketing is the art of finding, developing and profiting from opportunities. Kotler and Keller (2006) says there are three main sources of opportunities. The first is to supply something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in new or superior way. There are several ways to uncover possible product or service improvements: by asking consumers for their suggestions (*problem detection method*); by asking consumers to imagine an ideal version of the product or service (*ideal method*); by asking consumers to chart their steps in acquiring, using, and disposing of a product (*consumption chain method*). The third source often leads to a totally new product or service.

	Positive	Negative
Internal	**Strengths** Internal capabilities that may help a company reach its objectives	**Weaknesses** Internal limitations that may interfere with a company's ability to achieve its objectives
External	**Opportunities** External factors that the company may be able to exploit to its advantage	**Threats** Current and emerging external factors that may challenge the company's performance

Figure 2. 1. SWOT

Source: Kotler and Keller, 2006

2.2.4 Analytical Network Process (ANP)

The Analytic Hierarchy Process (AHP) is a theory of relative measurement with absolute scales of both tangible and intangible criteria based on the judgment of knowledgeable and expert people. The main concerned of the mathematics of the AHP is how to measure intangibles. The AHP reduces a multidimensional problem into a one dimensional one. Decisions are determined by a single number for the best outcome or by a vector of priorities that gives an ordering of the different

possible outcomes. We can also combine our judgments or our final choices obtained from a group when we wish to cooperate to agree on a single outcome (Saaty, 1999).

The Analytic Network Process (ANP) is a generalization of the Analytic Hierarchy Process (AHP), by considering the dependence between the elements of the hierarchy. Many decision problems cannot be structured hierarchically because they involve the interaction and dependence of higher-level elements in a hierarchy on lower- level elements. Therefore, ANP is represented by a network, rather than a hierarchy. The Analytical Network Process (ANP) is a general theory of relative measurement used to drive composite priority ratio scales from individual ratio scales that represent relative measurement of the influence of elements that interact with respect to control criteria (Saaty, 1999). ANP is one of the multivariate decision making methods. It's useful when decision makers should consider multiple factors and choices.

The feedback structure does not have the top-to-bottom form of a hierarchy but a network, with cycles connecting its components of elements, which we can no longer call levels, and with loops that connect a component to itself. It also has sources and sinks.

The ANP is a coupling of two parts. The first consists of a control hierarchy or network of criteria and sub criteria that control the interactions. The second is a network of influences among the elements and clusters. The network varies from criterion to criterion and a different super matrix of limiting influence is computed for each control criterion. Finally, each of these super matrix is weighted by the priority of its control criterion and the results are synthesized through addition for all the control criteria.