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HENRIKA SAKIENE

Marketing

Course Handbook

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PREFACE

Technology and innovation management involves various actions, which start with new technologies and innovations' identification and end with implementation or sales. People who work in a business sector are seeking for the main business aim – gaining the profit. To achieve this, we must know the principles of marketing, to be able to commercialise and present to customers our goods. Ideas, technologies, products or services can be sold profitably only if we know to whom and how to present them. The answers to that presents a theory of marketing.

The course material explains the essence and importance of marketing, the impact of marketing actions and decisions on the results of a company or an organisation. Students are provided with information allowing to perceive marketing relationships with a demand. At the end of the Marketing course, students will be able to analyse and assess marketing environment (micro-environment and macro-environment), to do marketing research, market segmentation, to perceive the functioning of marketing information system. The course allows to get acquainted with consumer behaviour, the factors determining it, the process of purchasing goods, marketing mix (complex), and marketing planning.

The Aim of the course unit and the "Marketing" teaching material is to introduce students with the main marketing principles, their application in business companies and organisations.

Students will gain knowledge about the main marketing concepts, company's marketing environment, will understand the content and functions of marketing activity, will know how to assess the importance of marketing in a company and will be able to properly solve marketing problems.

Very often marketing is understood as a social process where consumers can satisfy their needs by spending money. On one hand, consumers must understand their needs and look for the satisfaction themselves. On the other hand, producers or businesses in general must create marketing management systems that help them to find out what needs consumers have and what would satisfy them the most. The best solutions can ensure constant or high level of profits for businesses. Marketing can be described as the process of market research and analysis, planning and control of resources, implementation of various actions that help to compete in the market, satisfy consumers and business itself. Marketing starts before production. Marketing is a preparatory work that must be done by managers and business owners before it has been decided to produce product or introduce service to the market.

Students of Joint Degree Study Programme *Technology and Innovation Management* by studying the Marketing course unit will achieve these study programme outcomes:

- the ability to apply the marketing conceptions of innovative products and services and the features of their application in practical activity.
- the ability to analyse, assess and forecast changes in business, to identify the need for new technologies and innovations and opportunities of introducing them into specific areas of a business company.

- the ability to reasonably present innovation projects, to cooperate with business partners and customers, through application of the models of an effective communication, to communicate in the mother tongue and a foreign language (English).
- the ability to constantly assess one's professional activity, knowledge and experience, to foresee the trends of self-expression and self-development and to develop one's professionalism while acting in a changing business environment.

After fulfilling Marketing course students will:

1. know the main concepts and patterns of marketing;
2. be able to carry out market segmentation and distinguish target segment;
3. be able to select the strategies of the elements of marketing complex;
4. be able to analyse research data and make conclusions;
5. be able to plan the marketing activity of a company;
6. be able to use consumer behaviour knowledge to prepare marketing mix;
7. be able to maintain a feedback from consumers.

Studying the material of the Marketing course students will find 10 chapters. Each chapter starts from the main goal of the analysed topic, then students will find concepts and main theory of the topic. It is recommended to answer self-test questions before moving to the tasks' section. Answering to the self-test questions will help to improve understanding of theory. Every chapter ends with the list of references for the additional information of the topic.

Wish you to be patient studying the Marketing theory and to be creative while solving the tasks and case studies.

Henrika Šakienė

Chapter 1.

NATURE, CONTENT AND DEVELOPMENT OF MARKETING

***The main aim of this chapter** is to introduce students to the concepts used in marketing and marketing functions in enterprise.*

Concepts

Marketing – creating and holding customers by producing goods and services that they need and want, communicating product benefits to customers, ensuring that goods and services are accessible, and that they are available at a price that customers are prepared to pay.

Demand is a buyer's willingness and ability to pay a price for a specific quantity of a good or service.

4Ps – otherwise known as the marketing mix, these are the basic tools of marketing: product, place, price and promotion.

Product – the item offered for sale.

Services – goods that are largely or mainly non-physical in character, such as personal services, travel and tourism, medical care or management consultancy.

Value – a customer's assessment of the worth of what they are getting in terms of a product's functional or psychological benefits.

Marketing research – the process of collecting and analysing information in order to solve marketing problems.

Price – a medium of exchange what is offered in return for something else; usually measured in terms of money.

Promotional mix – the elements that combine to make an organisation's marketing communication strategy: advertising, sales promotion, personal selling, direct marketing and public relations.

1.1 Nature and Content of Marketing

Every company must create such a product or service that could meet the needs of consumers and society, also guarantee possibilities to earn profits constantly.

An enterprise must harmonise its own, customers and business partners' interests. Buyers, distributors and producers' interests must be nearly the same if they want to meet the needs.

Ph. Kotler (2000) identifies the main goals of marketing:

- the maximal consumption,
- maximum satisfaction,
- maximum supply of goods or services,
- maximum quality of life.

Seeking for these marketing goals, that are quite alternative to each other, there can be identified groups of marketing tasks:

- the tasks related to market research and consumer's needs analysis;
- the tasks associated with the company's production to the market structure;
- the tasks associated with exposure to the buyer and the formation of the demand structure.

According to Ph. Kotler (2000) the main marketing functions are:

- the external environmental analysis; consumer's needs research; marketing research;
- products that meet consumer needs, development and production;
- presentation of goods to consumers;
- promotion planning;
- marketing planning and control.

1.2 Development of Marketing

One marketing standard chronology subdivides marketing history as follows:

- production orientation era,
- product orientation era,
- sales orientation era,
- market orientation era,
- relationship orientation era,
- social/mobile marketing orientation era (Burnett, 2008).

Production orientation era means that businesses orientate their business philosophy towards production, manufacturing, and efficiency issues. This orientation rose to prominence in an environment which had a shortage of manufactured goods relative to demand, thus goods sold easily. Sometimes there was stated: "Supply creates its own demand" or "if somebody makes a product, somebody else will want to buy it".

Implications of this orientation include narrow product lines, pricing based on the costs of production and distribution, packaging designed primarily to protect product. The research during this period was limited to technical product research. With minimal promotion and advertising was raised awareness of the existence of the product because consumers were more interested in simply obtaining the product, and less in its quality.

Some marketing specialists say that this orientation is valid and nowadays when demand is higher than supply, and producers orientate their production offers only to their production costs (Lilien, 2013).

Product orientation era. The phrase product orientation refers to an approach to business that centres its activities on continually improving and refining its products. A company is heavily focused on streamlining production processes and also concentrates on improvement of efficiencies. Product orientation links customer's needs to company capabilities.

Sales orientation era. A sales orientation focuses primarily on the selling and promotion of a particular product. A firm using a sales orientation focuses primarily on the selling and promotion of a particular product. The successful management of the relationship between the company and its customers defines the act of sales or selling. It creates value for customers. Emphasis is not placed on determining new consumer desires, as such. Consequently, this entails simply selling an already existing product and using promotion techniques to attain the highest sales possible. Such a modern day orientation may suit scenarios in which a firm holds dead stock, or otherwise sells a product that is in high demand, with little likelihood of changes in consumer tastes that would diminish demand (Noble and others, 2002).

Market orientation era. From the second half of the 20th century onward, the saturation of markets led companies to bestow upon marketers the opportunity to perform on a more strategic level. Through a profound knowledge on the customer, these professionals were involved in what the company would produce, its distribution channels and pricing strategy. Employees within an organisation were also motivated to acquire marketing knowledge, which set the grounds to clients obtaining a general brand experience (MarketingProfs, 2014).

A company philosophy focused on discovering and meeting the needs and desires of its customers through its product mix. Unlike past marketing strategies that concentrated on establishing selling points for existing products, market orientation works in reverse, attempting to tailor products to meet the demands of customers. In essence, market orientation can be thought of as a coordinated marketing campaign between a company and its customers (Brännback Malin, 1999).

Relationship orientation era started in the 1990s. The focus of relationship marketing is on a long-term relationship that benefits both the company and the customer. The relationship is based on trust and commitment. One of the most prominent reasons for relationship marketing comes from Kotler's idea that it costs about five times more to obtain a new customer than to maintain the relationship with an existing customer.

Sales in relationship marketing involve the following: open communication, employee empowerment, customers and the planning process, teamwork. First, communication is essential in figuring out what the customers need and determining how the firm can satisfy those needs. With open communication, both sides can express what they are trying to do and can work out a way to make it work together. Second, employee empowerment is important so that the employees are able to satisfy customer needs. Without empowerment, they may be limited in their solutions and cannot creatively satisfy the needs. Third, customers must be involved in the planning process. Customer input is invaluable, as the customer is the one who will be using the product. If the customer is not satisfied from the beginning, there is no way to gain approval after the product is incorporated. Lastly, relationship marketing must emphasise teamwork. Several people who can help solve customer problems should work together and use their talents to best serve the customers.

Social/mobile marketing orientation era. Concentrate on social interaction and a real-time connection with clients. Businesses are connected to current and potential customers 24/7 and engagement is a critical success factor (MarketingProfs, 2014).

Self-test questions:

Describe what is marketing in your own words?

What do we understand as a marketing mix?

What are the parts of a marketing mix?

What could be the main objective of the marketing in a company?

What marketing managers might find as marketing challenges nowadays?

What knowledge must have a marketing manager to perform their work functions in a perfect way?

What are the examples of each of the orientation eras we can observe?

Can we find examples of each orientation eras nowadays?

What are the differences between the production orientation, the product orientation and the sales orientation?

Task No.1

Choose a product that you have purchased recently and show how the elements of the marketing mix came together to create the overall offering.

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Task No.2

Choose three different products within the same market and explain how each one of them is trying to gain a competitive edge over the others.

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Case study No.1 – Ford's story

An example of the Ford factory. Ford organised the production planning that the production costs' reduction would ensure that the more people were able to buy them. At the beginning of the business Ford used production orientation in marketing and it helped the factory to establish itself in the market.

'The famous businessman Henry Ford said this phrase: "I can offer to people a car of any colour with the condition that the colour will be black." Eventually, the application of this business orientation nearly led to the collapse of this huge industrial company.

Please, discuss why this production orientation era could not prosper for a longer time?

What could be the consequences of neglecting the customer's needs?

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Case study No.2 – Starbucks story

Every day, we go to work hoping to do two things: share great coffee with our friends and help make the world a little better. It was true when the first Starbucks opened in 1971, and it is just as true today.

Back then, the company was a single store in Seattle historic Pike Place Market. From just a narrow storefront, Starbucks offered some of the world's finest fresh-roasted whole-bean coffee. The name, inspired by Moby Dick, evoked the romance of the high seas and the seafaring tradition of the early coffee traders.

In 1981, Howard Schultz (the Starbucks chairman, president and chief executive officer) had first walked into a Starbucks store. From his first cup of Sumatra, Howard was drawn into Starbucks and joined a year later.

A year later, in 1983, Howard travelled to Italy and became captivated with Italian coffee bars and the romance of the coffee experience. He had a vision to bring the Italian coffeehouse tradition back to the United States. A place for conversation and a sense of community. A third place between work and home. He left Starbucks for a short period of time to start his own Il Giornale coffeehouses and returned in August 1987 to purchase Starbucks with the help of local investors.

From the beginning, Starbucks set out to be a different kind of company. One that not only celebrated coffee and the rich tradition, but that also brought a feeling of connection.

Our mission to inspire and nurture the human spirit – one person, one cup, and one neighbourhood at a time.

Today, with more than 18,000 stores in 62 countries, Starbucks is the premier roaster and retailer of specialty coffee in the world. And with every cup, we strive to bring both our heritage and an exceptional experience to life (Starbucks, 2014).

Discuss the presented case. What could be the factors of Starbucks success?

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Chapter 2.

MICRO AND MACRO ENVIRONMENTS OF MARKETING

The main aim of this chapter *is to introduce students to the enterprise marketing environments and its importance.*

Concepts

Marketing environment – the external world in which the organisation and its potential customers have to exist, and within the context of which marketing decisions have to be made.

Micro environment – the elements or factors outside a business organisation which directly affect it, such as supply of raw materials, demand for its products and rival companies.

Macro environment – factors outside the area of marketing which cannot be influenced by the marketing effort, including demographics, the natural environment, etc.

Consumer – a person or company who buys and uses goods and services.

Competition – the action of companies or individuals who are trying to do better that others, to win a larger share of the market, to control the use of resources, etc.

Market – an area where a product might be sold or the group of people who might buy a product.

Supplier – a person or company that supplies or sells goods or services.

The **marketing environment** represents a mix between the internal and external forces which surround an organisation and have an impact upon it, especially their ability to build and maintain successful relationships with target customers.

The marketing environment consists of the **micro and macro environment** (Oxford Learning Lab, 2014).

Macro environmental factors include social, economic, political and legal influences, together with demography and technological forces. The organisation cannot control these forces, it can only prepare for changes taking place.

Micro environment refers to the forces closely influencing the company and directly affect the organisation's relationships. The factors include the company and its current employees, its suppliers, marketing intermediaries, competitors, customers and the general public. These forces can sometimes be controlled or influenced and are explained in more detail in Porter's 5 Forces (Kotler, Keller, 2006).

Figure 1. Marketing environment (Kotler, 2000)

Familiarity with the different types of markets helps marketers to better understand the marketing environment they operate within. The main types of customers are businesses, consumers, government bodies and employees. Several transactions can occur between them, leading to the concept of consumer or B2C markets, Business or B2B markets, export markets, government or G2C markets, with each having their own specific profile.

Business to business (B2B) marketing represents the sales process between organisations or institutions. Transactions in these markets are often more complex, the distribution channels are shorter and more direct with stricter product standards and specifications.

Consumer markets (B2C) are represented by individuals who purchase goods, products or services for their own consumption.

G2C markets (government to citizen) develop when governmental institutions become sellers and citizens assume the role of buyers (Oxford Learning Lab, 2014).

Microenvironment

Customers. As all businesses need customers, they should be cantered (orientated) around customers. The firm's marketing plan should aim to attract and retain customers through products that meets their "wants and needs" and excellent customer service (Learn Marketing, 2014).

Employees. Employing staff with relevant skills and experience is essential. This process begins at recruitment stage and continues throughout an employee's employment via ongoing training and promotion opportunities. Training and development play a critical role in achieving a competitive edge, especially in Service Sector Marketing. If a business employs staff without motivation, skills or experience, it might affect customer service and ultimately sales. Company's vendors and salespeople have direct influence over the final result of your marketing efforts. They use the marketing materials and campaigns you put forth to drive sales and bring in new clients and more revenue. This front-line interaction with the consumer makes the vendor and salesperson powerful parts of the marketing microenvironment. They provide customer feedback and their own impressions and can drastically affect your marketing as a result. Small businesses should regularly talk to their front-line employees to ensure that the marketing message is in sync with the sales methods used at the time of sale.

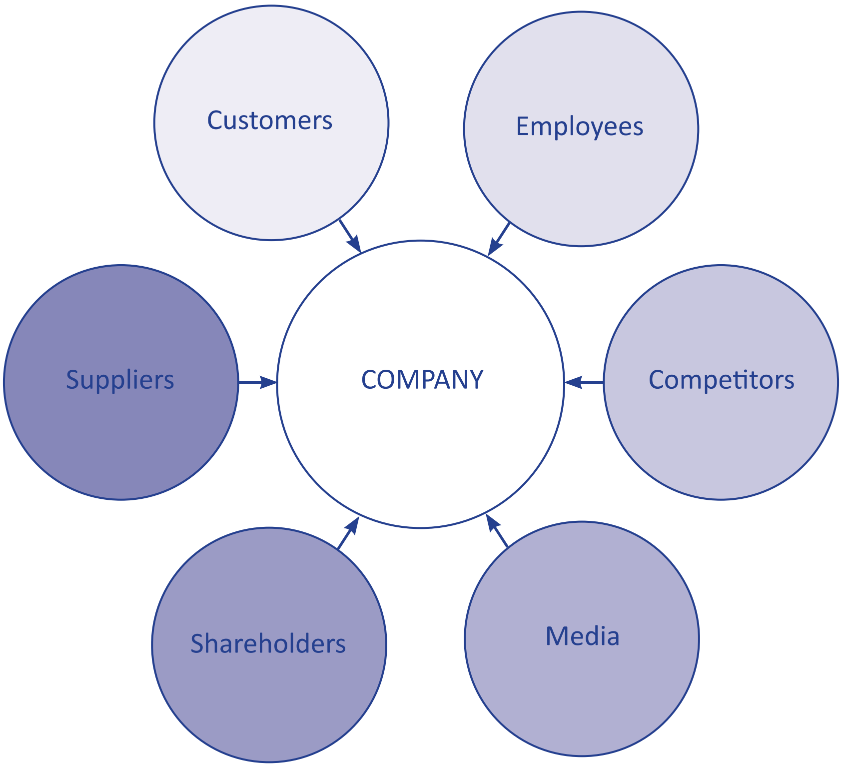


Figure 2. Microenvironment (Kotler, Armstrong, 2012)

Suppliers. Suppliers provide businesses with the materials they need to carry out their business activities. A supplier's behaviour will directly impact the business it supplies. For example if a supplier provides a poor service this could increase timescales or product quality. An increase in raw material prices will affect an organisation's Marketing Mix strategy and may even force price increases. Close supplier relationships are an effective way to remain competitive and secure quality products. For example, if you own a travel agency that is currently promoting trips to Italy and the Italian national airline suddenly goes bankrupt, your marketing may have to shift focus toward another air supplier or to another destination altogether to avoid problems with clients and a false marketing message.

Shareholders. As organisations require investment to grow, they may decide to raise money by floating on the stock market i.e. move from private to public ownership. The introduction of public shareholders brings new pressures as public shareholders want a return from the money they have invested in the company. Shareholder pressure to increase profits will affect organisational strategy. Relationships with shareholders need to be managed carefully as rapid short term increases in profit could detrimentally affect the long term success of the business.

Media. Positive media attention can "make" an organisation (or its products) and negative media attention can "break" an organisation. Organisations need to manage the media so that the media helped promote the positive things about the organisation and reduce the impact of a negative event on their reputation. Some organisations will even employ public relations' (PR) consultants to help them manage a particular event or incident.

Competitors. The name of the game in marketing is differentiation. Can an organisation offer benefits that are better than those offered by the competitors? Does a business have a unique selling point (USP)? Competitor analysis and monitoring is crucial if an organisation is to maintain or improve its position within the market. If a business is unaware of its competitor's activities they will find it very difficult to "beat" their competitors. The market can move very quickly for example through a change in trading conditions, consumer behaviour or technological developments. As a business it is important to examine competitors' responses to these changes so that you can maximise the impact of your response (Learn Marketing, 2014).

Macro environment

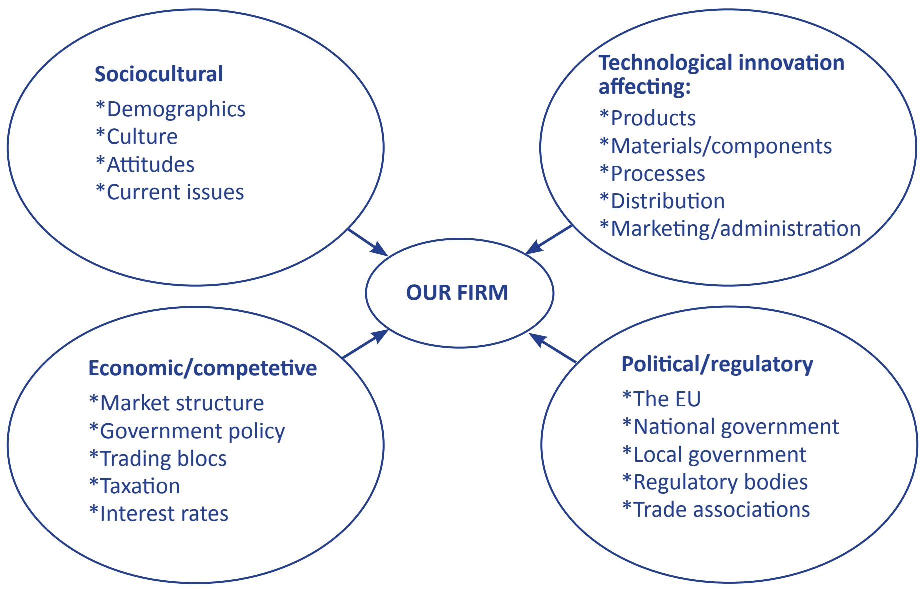


Figure 3. Macro environment (Brasington, Pettitt, 2006)

The company and all of the others operate in a large macro environment. The forces that affect opportunities and pose threats to the company are known as macro environment. Six largely uncountable external forces that influence organisation's marketing activities are known as macro environment.

Major are external and uncontrollable factors that influence an organisation's decision making, and affect its performance and strategies. The factors that include the economic, demographics, political/legal, and cultural/social conditions, technological changes, and natural forces are known as macro environment. A factor that influences a company's or product's development, but that is outside of the company's control is known as macro environment. For example, the macro environment could include competitors, changes in interest rates, changes in cultural tastes, or government regulations. On the whole we can say that the factors that are a major part of the company and uncountable factors, which influence an organisations' marketing are known as macro environment.

Demographic Environment. Demography is the study of human populations in terms of size, destiny, location, age, gender, race, occupation and other statistics. The demographic environment is of major interest to marketers because it involves people.

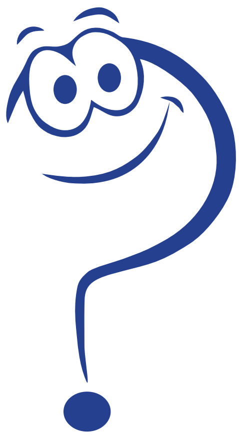
Economic Environment. Marketers require buying power as well as people. The economic environment consists of factors that affect consumers' purchasing power and spending power/ patterns. Marketers must pay close attention to major trends and consumers' spending patterns (Kotler, Armstrong, 2012).

Natural Environment. The natural environment involves the natural resources that are needed as inputs by marketers or they are affected by marketing activities. Environmental concerns have grown steadily during the past three decades. Marketers should be aware of several trends in the natural environment.

Technological Environment. The technological environment is perhaps the most dramatic forces now shopping own destiny. Technological environment involves forces that create new technologist creating new product and marketing opportunities.

Political Environment. Marketing decisions are strongly affected by developments in the political environment. Political environment consists of laws, government agencies, government itself and pressure groups that influence or limits various organisations and individuals in a given society.

Cultural Environment. The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences and behaviours. There are few cultural values which affect marketing decision making. These are, persistence of cultural value, shifts in secondary cultural value, people views of organisation/ others, etc. (Kotler, Armstrong, 2012).



Self-test questions:

What is included in the company's microenvironment?

What do you call a company's internal marketing environment? What are the parts of it?

Whom with does company's marketing managers must cooperate inside the company?

What types of market do you know?

Of what consists the company's marketing macro environment?

What information do we collect investigating each of the elements of the marketing macro environment?

Task No.1

Where would you look for information about company's macro environment? Please, make a list of possible places to look for information.

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Task No.2

Find and discuss examples of products that are particularly vulnerable to changing consumer tastes.

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Task No.3

Choose a company and research its micro and macro environment. What influence on company's marketing and its results can make elements of micro environment?

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What are the macro environment parts that make the highest influence on marketing of a chosen company? Collect data about each environment.

Demographic environment

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Economic Environment

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Natural Environment

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Technological Environment

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Political Environment

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Cultural Environment

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Review your chosen company's marketing environment analysis and discuss it with your colleagues. Please, identify the threats that company might face from external environment.

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Case study No.1 – Demographic changes

After the Second World War in the United States was born a large number of babies. This phenomenon is called "baby boom". For marketing professionals this phenomenon eased the work, as it could be easy to predict the trends of the "baby boom" generation use (goods for children, teenagers, wedding services and activities for the elderly, the future needs of retirees).

Another example of demographic environment influence towards consumption and marketing decisions is Chinese "principle of six pockets". It is known that one Chinese family can have only one child. Each of the grandparents can only have one grandson or granddaughter. Therefore, Chinese children are loved by two parents and both pairs of grandparents. Eventually now Chinese children's wishes are not limited because they benefit from "six pockets". There are no money limitation for child's desires when someone really tries to show love to a favourite and single offspring. The result - prosperity of Chinese toys and children's service industry.

Discuss those examples and find more instances how demographic changes can help benefit businesses.

Case study No.2 – Political/legal changes and challenges

The Orange Revolution was a series of protests and political events that took place in Ukraine from late November 2004 to January 2005, in the immediate aftermath of the run-off vote of the 2004 Ukrainian presidential election which was claimed to be marred by massive corruption, voter intimidation and direct electoral fraud. Kiev, the Ukrainian capital, was the focal point of the movement's campaign of civil resistance, with thousands of protesters demonstrating daily. Nationwide, the democratic revolution was highlighted by a series of acts of civil disobedience and general strikes organised by the opposition movement. During this revolution period many of foreign business companies decided to leave Ukraine because of uncertain business environment.

The next unexpected revolution appeared in Ukraine spring 2014. The result of this was the separated area of Krym from Ukraine.

Discuss about Ukraine situation nowadays and its influence towards marketing decisions in local or international businesses that work with Ukrainian market.

Chapter 3.

MARKETING RESEARCH

The main aim of this chapter *is to introduce students to marketing research use, methods and tools.*

Concepts

Marketing research is the process or set of processes that links the consumers, customers, and end users to the marketer through information — information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyses the results, and communicates the findings and their implications.

Focus group – a group of people who are brought together to discuss informally a market-research question.

Qualitative research – research based on finding the opinions and attitudes of respondents rather that any scientifically measurable data.

Quantitative research – research based on measurable data gathered by sampling.

Questionnaire – a printed list of questions aiming at collecting data in an unbiased way, especially used in market research.

SWOT analysis – a method of developing a marketing strategy based on an assessment of the Strengths and Weaknesses of the company and the Opportunities and Threats in the market.

The core difference between Market Research and Marketing Research is the scope of the concept. First, Market Research is a narrower concept because it is research focused on a specific market. Marketing Research, however, scales on a much broader level. It encompasses areas such as new products research and product development research, distribution research, also can include promotion research, pricing, advertising and public relations. Both concepts are integral parts of marketing, which is essentially everything that happens before the sale of a product or service.

Here is a quick way to sum it up: market research is a subset of marketing research.

Marketing research is the process of systematic gathering, recording and analysing of data about customers, competitors and the market. Marketing research can help create a business plan, launch a new product or service, fine tune existing products and services, expand into new markets etc. It can be used to determine which portion of the population will purchase the product/service, based on variables like age, gender, location and income level. It can be found out what market characteristics your target market has. With market research companies can learn more about current and potential customers.

The purpose of marketing research is to help companies make better business decisions about the development and marketing of new products. Market research represents the voice of the consumer in a company.

With marketing research you can get some kind of confirmation that there is a market for your idea, and that a successful launch and growth are possible (Burns, Bush, 2014).

Market information is making known the prices of the different commodities in the market, the supply and the demand. Information about the markets can be obtained in several different varieties and formats. The most basic form of market information is the best quotation and last sale data, including the number of shares, with respect to a particular security at a given time.

Examples of market information questions are:

- Who are the customers?
- Where are they located and how can they be contacted?
- What quantity and quality do they want?
- What is the best time to sell?
- What is the long-term or historical price data over a number of years?
- What is the expected production in the country?
- Is there more demand for one product or another?

Market Analysis should be performed to be able to make right decisions. Besides information about the target market you also need information about your competitor, your customers, products etc. A few techniques are:

- Customer analysis,
- Competitor analysis,
- Risk analysis,
- Product research,
- Advertising research,
- E-mail survey.

Marketing research is often partitioned into two sets of categorical pairs, either by target market:

- Consumer marketing research, and

- Business-to-business (B2B) marketing research

or, alternatively, by methodological approach:

- Qualitative marketing research, and
- Quantitative marketing research.

Market Research Methodology. Before the following five steps are discussed, it is important to make a few comments about these steps. First although the list does strongly imply an orderly step-by-step process, it is rare that a research project follows these steps in the exact order that they are presented in the picture. Market research is more of an interactive process whereby a researcher, by discovering something in a given step, may move backward in the process and begin again at another step. Finding some new information while collecting data, may cause the researcher to establish different research objectives.

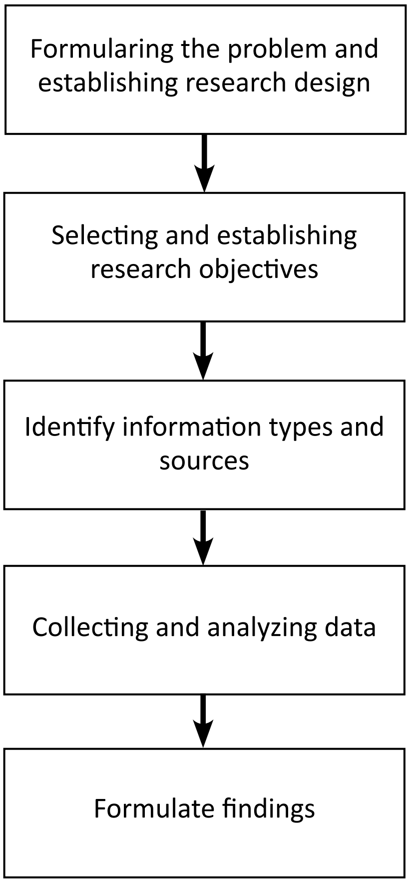

Figure 4. The process of marketing research (Hoffman, 2005)

Defining the research problem. The step defining the research problem consists of 2 main steps: (1) formulating the problem and (2) establishing research objectives. Defining the problem is the single most important step in the market research process. A clear statement of the problem is a key to a good research. A firm may spend hundreds or thousands of dollars doing market research, but if it has not correctly identified the problem, those money are wasted. Problems that may be encountered are: it is unknown what potential markets there are, what customer groups are interested in your products, who the competitors are? After formulating your problem, you need to formulate your research questions. What questions need to be answered and which possible sub-questions do you have? Research objectives, related to and determined by the problem formulation, are set so that when achieved they provide the necessary information to solve the problem. A good way of setting research objectives is to ask, "What information is needed in order to solve the problem?"

Selecting and establishing research design. The step selecting and establishing research design consists of 3 main steps: (1) select the research design, (2) identify information types and sources and (3) determine and design research instrument.

As stated earlier, every research project and every business is different. Still, there are enough commonalities among research projects to categorise them by research methods and procedures used to collect and analyse data. There are four types of research design:

- Exploratory research design,
- Descriptive research,
- Quantitative research,
- Causal research.

Exploratory research is defined as collecting information in an unstructured and informal way.

Descriptive research refers to a set of methods and procedures that describe marketing variables. Descriptive studies portray these variables by answering who, what, why and how questions. These types of research studies may describe such things as consumers' attitudes, intentions, and behaviours, or the number of competitors and their strategies.

Quantitative research assigns numerical values to the market parameters: market size, strength of buyer sentiment, market shares, etc.

Causal research design is conducted by controlling various factors to determine which factor is causing the problem. It allows you to isolate causes and effects. By changing one factor, say price you can monitor its effects on a key consequence such as sales. Although causal research can give you a high level of understanding of the variable you are studying, the designs often require experiments that are complex and expensive (Market Research Association, 2014).

Identify information types and sources. There are two types of information available to a market researcher: primary data and secondary data. Primary data is original information gathered for a specific purpose. Secondary data refers to information that already exists somewhere and has been collected for some other purpose. Both types of research have a number of activities and methods of conducting associated with them. Secondary research is usually faster and less expensive to obtain than primary research. Gathering secondary research may be as simple as making a trip to a local library or business information centre or browsing the Internet. There is already a lot of statistics about different businesses that can be used for this research.

The most common research instrument is the questionnaire. There are two types of forms: structured and unstructured. Structured questionnaires list close-end questions. These include multiple choice questions which offer respondents the ability to answer "yes" or "no" or choose from a list of several answer choices. Close-end questions also include scales refer to questions that ask respondents to rank their answers at a particular point on a scale. Unstructured questionnaires have open-ended questions. Respondents can answer in their own words (Davis, 2012).

Collecting and analysing data. Data collection is usually done by trained interviewers who are employed by field data collection companies to collect primary data. A choice has to be made between collecting the data yourself or hiring an external office, which is specialised in interviews.

Formulate findings. After analysing the data you can make your findings based on this data. Once the findings about the target market, competition and environment are finished, present it in an organised manner to the decision makers of the business. In this case report the findings in the market analysis section of your business plan. In summary, the resulting data was created to help guide your business decisions, so it needs to be readily accessible to the decision makers.

While there are many ways to perform marketing research, some businesses use one or more of five basic methods: surveys, focus groups, personal interviews, observation, and field trials. The choice might depend on the data you need or the funds you have.

1. Surveys. With concise and straightforward questionnaires you can analyse a sample group that represents your target market. The larger the sample, the more reliable your results will be.

- In-person surveys are one-on-one interviews typically conducted in high-traffic locations such as shopping malls. They allow you to present people with samples of products, packaging, or advertising and gather immediate feedback. In-person surveys can generate response rates of more than 90 percent, but they are costly.
- Telephone surveys are less expensive than in-person surveys, but costlier than mail. However, due to consumer resistance to relentless telemarketing, convincing people to participate in phone surveys has grown increasingly difficult. Telephone surveys generally yield response rates of 50 to 60 percent.
- Mail surveys are a relatively inexpensive way to reach a broad audience. They are much cheaper than in-person and phone surveys, but they only generate response rates of 3 percent to 15 percent. Despite the low return, mail surveys remain a cost-effective choice for small businesses.
- Online surveys usually generate unpredictable response rates and unreliable data, because you have no control over the pool of respondents. But an online survey is a simple, inexpensive way to collect anecdotal evidence and gather customer opinions and preferences.

2. Focus groups. In focus groups, a moderator uses a scripted series of questions or topics to lead a discussion among a group of people. These sessions take place at neutral locations, usually at facilities with videotaping equipment and an observation room with one-way mirrors. A focus group usually lasts one to two hours, and it takes at least three groups to get balanced results.

3. Personal interviews. Like focus groups, personal interviews include unstructured, open-ended questions. They usually last for about an hour and are typically recorded. Focus groups and personal interviews provide more subjective data than surveys.

4. Observation. Individual responses to surveys and focus groups are sometimes at odds with people's actual behaviour. When you observe consumers in action by videotaping them in stores, at work, or at home, you can observe how they buy or use a product. This gives you a more accurate picture of customers' usage habits and shopping patterns.

5. Field trials. Placing a new product in selected stores to test customer response under real-life selling conditions can help you make product modifications, adjust prices, or improve packaging. Small business owners should try to establish rapport with local store owners and Web sites that can help them test their products.

SWOT analysis is an important tool in auditing the external and internal environment of the organisation.

Strengths and **Weaknesses** are internal environmental factors, while external environmental factors are expressed through **Opportunities** and **Threats**.

Basically the **SWOT** analysis should be helpful in assessing the resources, capabilities and vulnerable points which need improvement in order to develop competitiveness. It can also provide a framework to review the strategy or direction of a company.

Table 1. SWOT analysis matrix

Strengths	**Weaknesses**
Opportunities	**Threats**

- **Strengths** represent those specific characteristics of the business that offer an advantage over its competitors. These features are helpful when it comes to achieving objectives, so the organisation may seek to discover new means of using these strengths.
- **Weaknesses** are characteristics that limit performance and could represent an obstacle in achieving objectives. Therefore, new solutions should be found to eliminate or improve them.
- **Opportunities** include external conditions that could help improve performance or that can be capitalised upon or exploited.
- **Threats** indicate external conditions and situations that could hinder performance, so ways of defending against them can be explored.

The conclusion is that companies should apply a different policy for each type of market and several guidelines are suggested for different positioning of markets on the directional policy matrix. Changing a market position should not be assessed in terms of profitability alone, but also considered in terms of improved competitiveness.

Self-test questions:

What information is needed for the company marketing managers?

What is included and where to get the company's internal information?

What do you need to know about the competitors?

What do we call a marketing research?

Describe parts of the marketing research processes.

What does constitute a primary marketing research data?

Where could be the secondary data obtained?

How can you collect primary marketing research data?

Task No.1

Discuss why is marketing research an essential tool for the marketing manager?

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Task No.2

How many sources of secondary data can you list? Check your list against what your library has to offer.

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Task No.3

Design a questionnaire. It should contain about 10 questions and you should use as many of the different types of questions as possible.

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Task No.4

Why is an ethical approach to marketing research important and what are the main areas of concern?

Task No.5

Please review the micro and macro environment of a chosen company (Chapter 2. Task No. 3). Perform SWOT analysis of a chosen company based on marketing environment research.

Strengths	Weaknesses
Opportunities	**Threats**

Task No.6

Based on SWOT analysis in Task No.5, present your conclusions and marketing action offers to a company.

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Case study No.1 – Product adoption according marketing research results

A simple example of what marketing research can do for a business is the following. At the company Chevrolet they brought several disciplines together in a cross-functional team to develop a concept for a completely new Corvette. This team enabled the marketers to come up with an alternative concept, one that balanced four attributes: comfort and convenience, quality, styling, and performance. This was considered radical because comfort and convenience were not the traditional Corvette values. However, market research demonstrated that consumers supported the alternative concept. As a result the new Corvette was a huge success in the market.

Another example can be potato chips "Pringles". Why this kind of product is so different from the others? Where is its success? Everything is simple. After marketing research of analysed chips' consumers it appeared that the most annoying things about chips are: they are greasy (your hand become greasy after eating), they brake (sometimes you get just little pieces of chips) and you can not leave opened package for tomorrow (the package can't be closed and chips get softer afterwards). Are those problems solved with the Pringles?

Discuss the cases and find more examples in the market. What effect of marketing research results might have towards innovations and technologies in company?

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Chapter 4.

MARKET CONCEPT, MARKET SEGMENTATION AND CLASSIFICATION

The main aim of this chapter *is to introduce students to the conception of market and teach the methods of market segmentation.*

Concepts

Potential market – a market that could be exploited.

Target market is a particular market segment at which a marketing campaign is focused.

Segmentation – the division of the market or consumers into categories according their buying habits.

Target marketing – the aiming of advertising or selling at a specific group of consumers who all have similar characteristics.

Undifferentiated marketing strategy – a marketing strategy which seeks to present a product to the public without stressing any unique feature of the product, thus appealing to all segments of the market.

Positioning – the creation of an image for a product in the minds of consumers; the promotion of a product in a particular area of market.

Market – an actual or nominal place where forces of demand and supply operate, and where buyers and sellers interact (directly or through intermediaries) to trade goods, services, or contracts or instruments, for money or barter. Markets include mechanisms or means for (1) determining price of the traded item, (2) communicating the price information, (3) facilitating deals and transactions, and (4) effecting distribution. The market for a particular item is made up of existing and potential customers who need it and have the ability and willingness to pay for it

In marketing, the term *market* refers to the group of consumers or organisations that is interested in the product, has the resources to purchase the product, and is permitted by law and other regulations to acquire the product. The market definition begins with the total population and progressively narrows as shown in the following Figure 5.

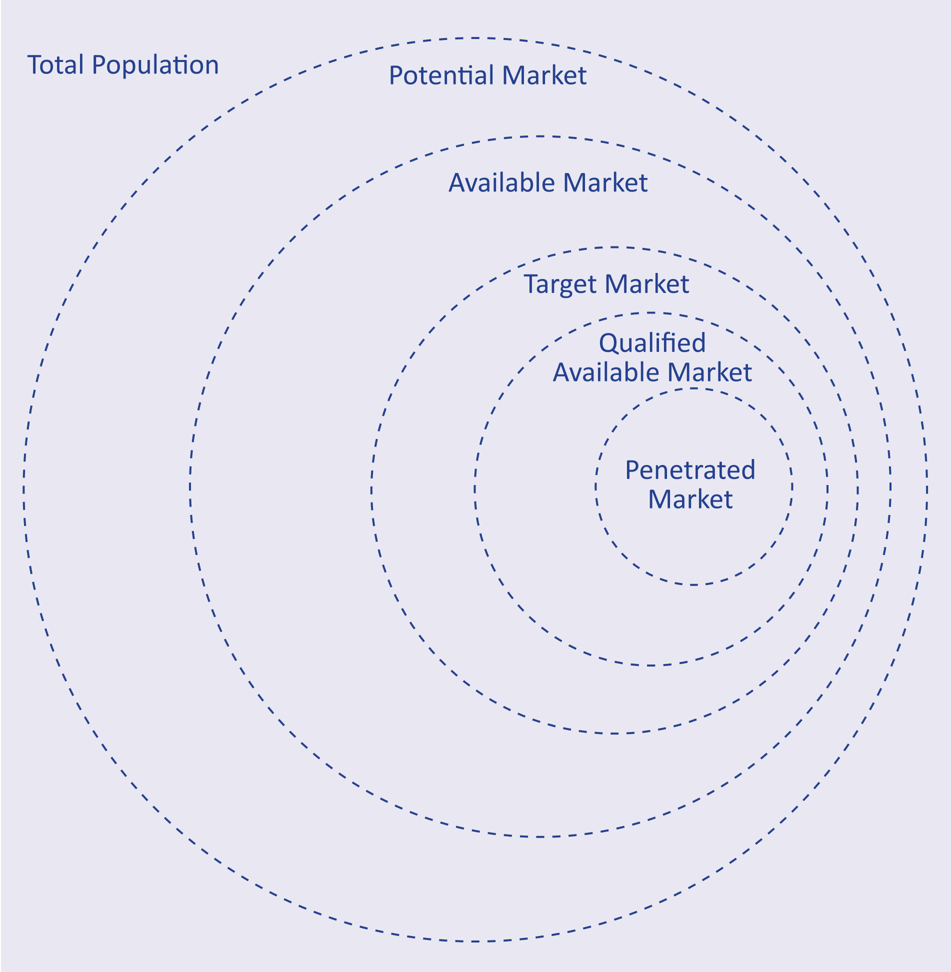

Figure 5. Conceptual market diagram (Kotler, 2000)

Beginning with the total population, various terms are used to describe the market based on the level of narrowing:

- **Total population**
- **Potential market** - those in the total population who have interest in acquiring the product.
- **Available market** - those in the potential market who have enough money to buy the product.
- **Qualified available market** - those in the available market who legally are permitted to buy the product.
- **Target market** - the segment of the qualified available market that the firm has decided to serve (the *served market*).
- **Penetrated market** - those in the target market who have purchased the product (NetMBA Business Knowledge Center, 2014).

In the above listing, "product" refers to both physical products and services.

The size of the market is not necessarily fixed. For example, the size of the available market for a product can be increased by decreasing the product's price, and the size of the qualified available market can be increased through changes in legislation that result in fewer restrictions on who can buy the product.

Defining the market is the first step in analysing it. Since the market is likely to be composed of consumers whose needs differ, market segmentation is useful in order to better understand those needs and to select the groups within the market that the firm will serve.

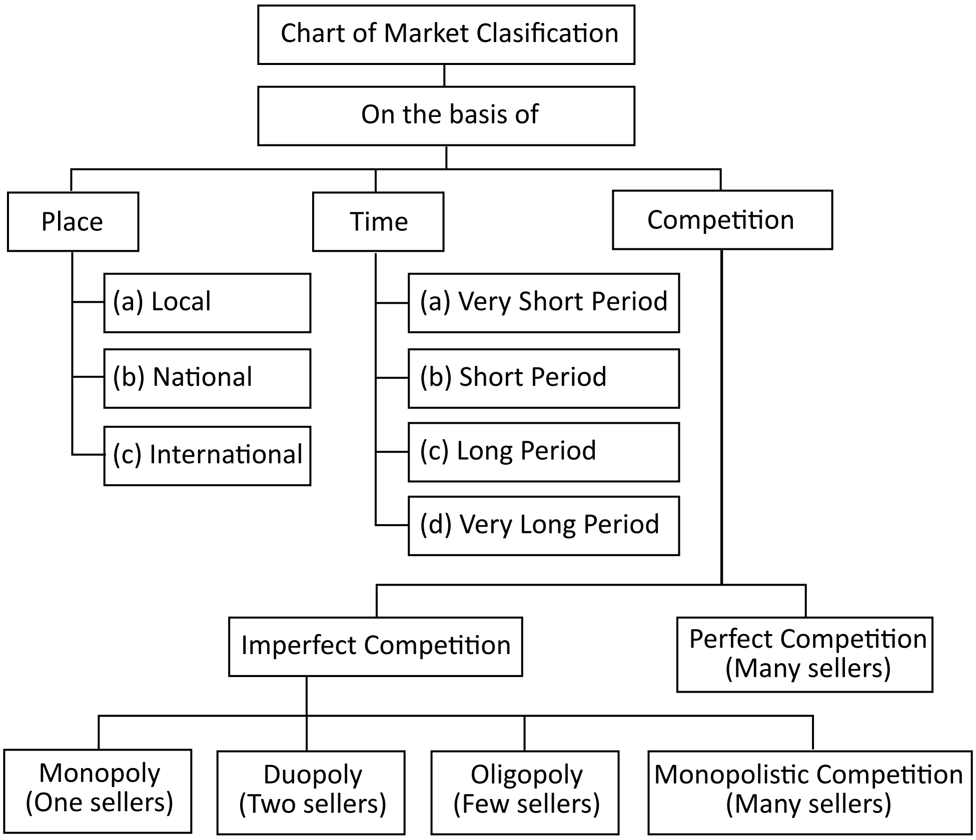

Figure 6. Classification or Types of Market – Chart (Kalyan City Life, 2014)

On the basis of **Place**, market is classified into:

1. Local Market or Regional Market.
2. National Market or Countrywide Market.
3. International Market or Global Market.

On the basis of **Time**, market is classified into:

1. Very Short Period Market.
2. Short Period Market.
3. Long Period Market.
4. Very Long Period Market.

On the basis of **Competition**, market is classified into:

1. Perfectly competitive market structure - many buyers and sellers, none being able to influence prices.

2. Imperfectly competitive market structure.

Both these market structure widely differ from each other in respect of their features, price etc. Under imperfect competition, there are different forms of markets like monopoly (single seller with considerable control over supply and prices), duopoly (two competitors in the market), oligopoly (several large sellers who have some control over the prices) and monopolistic competition.

A market can be classified as follows on the basis of volume of business, nature of transaction, position of seller, area, contents of transaction, etc. (Kalyan City Life, 2014).

On the basis of **volume of transaction** the market can be divided into two kinds on the basis of volume of business transaction: wholesale market (it is the market where the middlemen buy the goods in bulk form the producers and manufacturers) and retail market (it is that market where goods are sold in small quantity directly to the consumer).

On the basis of **nature of transaction** the market can be divided into two kinds on the basis of nature of business transaction: spot market (the spot market is a ready market where the sellers on the spot physically hand over goods to the buyers; there is an exchange of goods for money at the same time) and future market (it is a market in which the buyers and sellers make agreement for delivery of goods in future; the contract is made on a certain date but the goods will be delivered in future) (Palmer, 2011).

On the basis of **position of seller** a market can be divided into the following three kinds on the basis of position of seller: primary market (this is the market where the producers of goods sell their farm products to the wholesalers and their agents), secondary market (this is the market where the wholesalers sell their goods to the retailers for onward selling to the consumer; the middlemen buy goods from producers and manufacturers and sell to the retailers) and terminal market (it is the market where goods are purchased for final use or consumption; the retailers sell their goods to consumers).

On the basis of **area** a market can be divided into the following four kinds on the basis of area: local market (the local market is a place for the purchase and sale of different goods within the city; the buyers and sellers of one city assemble to buy and sell), regional market (it consists of many cities and districts of a particular area; the buyers and sellers of different villages, cities and districts assemble to buy and sell the different commodities), national market (it consists of the whole area of country; the buyers and sellers from all over the country take part in buying and selling) and international market (it consists of the whole world; the buyers and sellers from the whole world meet and exchange their foods and services; the commodities can be bought and sold at different places in the world).

Markets also can be named as: *Commodity market* (it is a market where the different types of commodities are bought and sold; the wheat, rice, etc., are the commodities that are exchanged by the buyers and sellers), *Money market* (it is a market where the financial institutions deal in money; the banks and financial institutions are engaged in borrowing and lending of funds) and *Stock exchange market* (it is a market where shares and debentures of different companies are bought and sold).

Market segmentation is the identification of portions of the market that are different from one another. Segmentation allows the firm to better satisfy the needs of its potential customers.

The marketing concept calls for understanding customers and satisfying their needs better than the competition. But different customers have different needs, and it rarely is possible to satisfy all customers by treating them alike.

Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realised through mass production, mass distribution, and mass communication. The drawback of mass marketing is that customer needs and preferences differ and the same offering is unlikely to be viewed as optimal by all customers. If firms ignored the differing customer needs, another firm likely would enter the market with a product that serves a specific group, and the incumbent firms would lose those customers.

Target marketing on the other hand recognises the diversity of customers and does not try to please all of them with the same offering. The first step in target marketing is to identify different market segments and their needs.

In addition to having different needs, for segments to be practical they should be evaluated against the following criteria:

- Identifiable: the differentiating attributes of the segments must be measurable so that they can be identified.
- Accessible: the segments must be reachable through communication and distribution channels.
- Substantial: the segments should be sufficiently large to justify the resources required to target them.
- Unique needs: to justify separate offerings, the segments must respond differently to the different marketing mixes.
- Durable: the segments should be relatively stable to minimise the cost of frequent changes (NetMBA Business Knowledge Center, 2014).

A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments.

Consumer markets can be segmented on the following customer characteristics:

- Geographic,
- Demographic,
- Psychographic,
- Behavioural.

Geographic Segmentation

The following are some examples of geographic variables often used in segmentation:

- Region: by continent, country, state, or even neighbourhood

- Size of metropolitan area: segmented according to size of population
- Population density: often classified as urban, suburban, or rural
- Climate: according to weather patterns common to certain geographic regions.

Demographic Segmentation

Some demographic segmentation variables include:

- Age
- Gender
- Family size
- Family lifecycle
- Generation: baby-boomers, Generation X, etc.
- Income
- Occupation
- Education
- Ethnicity
- Nationality
- Religion
- Social class

Many of these variables have standard categories for their values. For example, family lifecycle often is expressed as bachelor, married with no children (Double Income, No Kids), full-nest, empty-nest, or solitary survivor. Some of these categories have several stages, for example, full-nest I, II, or III depending on the age of the children (NetMBA Business Knowledge Center, 2014).

Psychographic Segmentation

Psychographic segmentation groups customers according to their lifestyle. Activities, interests, and opinions (AIO) surveys are one tool for measuring lifestyle. Some psychographic variables include:

- Activities
- Interests
- Opinions
- Attitudes
- Values

Behavioural Segmentation

Behavioural segmentation is based on actual customer behaviour toward products. Some behavioural variables include:

- Benefits sought
- Usage rate
- Brand loyalty
- User status: potential, first-time, regular, etc.
- Readiness to buy
- Occasions: holidays and events that stimulate purchases

Behavioural segmentation has the advantage of using variables that are closely related to the product itself. It is a fairly direct starting point for market segmentation.

In contrast to consumers, **industrial customers** tend to be fewer in number and purchase larger quantities. They evaluate offerings in more detail, and the decision process usually involves more than one person. These characteristics apply to organisations such as manufacturers and service providers, as well as resellers, governments, and institutions (NetMBA Business Knowledge Center, 2014).

Many of the consumer market segmentation variables can be applied to industrial markets. Industrial markets might be segmented on characteristics such as:

- Location
- Company type
- Behavioural characteristics

<u>Location</u>

In industrial markets, customer location may be important in some cases. Shipping costs may be a purchase factor for vendor selection for products having a high bulk to value ratio, so distance from the vendor may be critical. In some industries firms tend to cluster together geographically and therefore may have similar needs within a region.

<u>Company Type</u>

Business customers can be classified according to type as follows:

- Company size
- Industry
- Decision making unit
- Purchase Criteria

<u>Behavioural Characteristics</u>

In industrial markets, patterns of purchase behaviour can be a basis for segmentation. Such behavioural characteristics may include:

- Usage rate
- Buying status: potential, first-time, regular, etc.
- Purchase procedure: sealed bids, negotiations, etc.

Target markets research and analysis is an important first step to any marketing campaign. When you define a target market, it means you have established a certain level of **market segmentation** and selected the target market segment that will present the most opportunity for profit.

Skipping the process of target market analysis and target market segmentation will waste significant money and efforts, as your marketing campaigns will not properly address the right client segment. It is pointless to address a target audience with little vested interest in a particular product or service, or a target market audience that is already saturated with a competitor's offerings (McDonald, Meldrum, 2013)

Target market research allows you to identify and define the target market that would be most attracted to your offering. Once you have settled on a target market and initiated your marketing activities, you can begin to identify potential niche markets within your target market. Isolating niche markets enables you to focus on those subdivisions within a target market audience which are defined by a shared interest or unique quality. One rule is very important to remember: **the more narrowly you can define a target audience, the easier it is to target.**

Business-to-business (B2B) target market segmentation is very different from business-to-consumer (B2C) target market segmentation. For one, selecting a supplier in B2B target markets is more complicated than consumer markets. Since people buy on behalf of their company, rather than themselves, there is more pressure to be objective and rational about their decision. Thus, in business-to business markets, the target audience of buyers and specified people may well know as much about a product/service as the company that supplies it. Also, in a business-to-business context, it is unlikely that just one person will make the buying decision. The process of target market analysis and segmentation is often more complex in B2B situations. A specified person may test and approve the product, a production manager may run it through trials, a board of directors may impose an overriding structure on the source of supply, a buyer may negotiate the price, and so on. In B2B target market segmentation, the aim is to focus on a manageable group of decision-makers to define the target audience.

In order to gain a competitive advantage, Target market segmentation is especially important in B2B markets, as there is often little to differentiate one product from another. Target market segmentation is closely linked with the positioning strategy of a company. Considerations in the positioning strategy are subsequently taken into account in the design of inbound marketing campaigns.

Self-test questions:

What do you call the market? What does it consist of?

What is potential market?

What is market segmentation?

What are the methods of market segmentation?

What do we call target market?

What are the requirements for choosing target market?

What is the benefit the company gains by segmenting the market?

What is the difference between consumer market segmentation and business market segmentation?

Task No.1

Look at the local market and identify at least 3 companies that are using target marketing and 3 companies that are using undifferentiated marketing. Discuss those examples with your colleagues.

Task No.2

Discuss when it is recommended to apply segmentation? How it helps to save money for business?

Task No.3

How might the market for personal computers, sold to B2B markets, be segmented?

Task No.4

How can market segmentation influence decisions about the marketing mix?

Task No.5

Choose the company either its product/service and identify main criteria for its market segmentation. Which of criteria are the most significant?

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Task No.6

Find examples of products that depend strongly on demographic segmentation, making sure that you find at least one example for each of the main demographic variables.

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Chapter 5.

A CONCEPTION OF CONSUMER BEHAVIOR

***The main aim of this chapter** is to introduce students to consumer behaviour and its influence towards marketing decisions.*

Concepts

Consumer behavior – the study of individuals, groups, or organisations and the processes they use to select, secure, and dispose of products, services, experiences, or ideas to satisfy needs; and the impacts that these processes have on the consumer and society.

Reference group is a group to which an individual or another group is compared.

The study of consumers helps firms and organisations improve their marketing strategies by understanding issues such as:

- The psychology of how consumers think, feel, reason, and select between different alternatives (e.g., brands, products, and retailers);
- The psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media);
- The behaviour of consumers while shopping or making other marketing decisions;
- Limitations in consumer knowledge or information processing abilities influence decisions and marketing outcome;
- How consumer motivation and decision strategies differ between products that differ in their level of importance or interest that they entail for the consumer;
- How marketers can adapt and improve their marketing campaigns and marketing strategies to more effectively reach the consumer (University of Southern California, 2014).

One "official" definition of consumer behaviour is "The study of individuals, groups, or organisations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society." Although it is not necessary to memorise this definition, it brings up some useful points:

- Behaviour occurs either for the individual, or in the context of a group (e.g., friends influence what kinds of clothes a person wears) or an organisation (people on the job make decisions as to which products the firm should use).
- Consumer behaviour involves the use and disposal of products as well as the study of how they are purchased. Product use is often of great interest to the marketer, because this may influence how a product is best positioned or how we can encourage increased consumption. Since many environmental problems result from product disposal (e.g., motor oil being sent into sewage systems to save the recycling fee, or garbage piling up at landfills) this is also an area of interest.
- Consumer behaviour involves services and ideas as well as tangible products.
- The impact of consumer behaviour on society is also relevant.

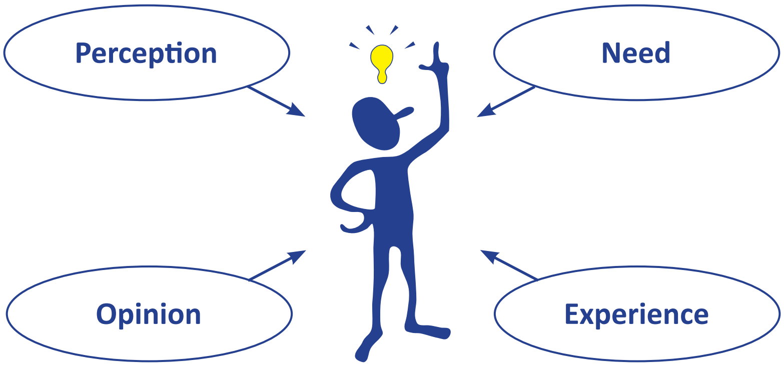

Figure 7. Personal behaviour factors

Consumer behaviour focuses on how individuals make decisions to spend their available resources (time, money, effort) on consumption-related items that includes what they buy, why they buy, when they buy it, where they buy it, how often they buy it, how often they use it, how they evaluate it after the purchase and the impact of such evaluations on future purchases, and how they dispose of it.

Two different kinds of consuming entities: the personal consumer and the organisational consumer.

Personal Consumer. Buys goods and services for his or her own use, for the use of the household or as a gift for a friend. The products are bought for final use by individuals, who are referred to as end users or ultimate consumers (Boundless, 2013).

Organisational Consumer. Includes profit and non-profit businesses, government agencies (local, state, national) and institutional (e.g. schools, hospitals, and prisons), all of which buy products, equipment, and services in order to run their organisations.

Marketers today realise that in order to outperform competitors they must achieve the full profit potential from each and every customer. The three drivers of successful relationship between marketers and customers are customer value, high levels of customer satisfaction, and building a structure for customer retention.

1) Providing customer value. Customer value is defined as the ratio between the customers perceived benefits (economic, functional and psychological) and the resources (monetary, time, effort, psychological) used to obtain those benefits. Perceived value is relative and subjective.

2) Customer satisfaction. Customer satisfaction is the individual's perception of the performance of the product or service in relation to his or her expectations.

The linked levels of customer satisfaction with customer behaviour identified several types of customers:

- Loyalists - who keeps purchasing, they are satisfied completely.
- Apostles - whose experiences exceed their expectations and who provide very positive word of mouth about the company to others.
- Defectors - who feel neutral or merely satisfied and are likely to stop doing business with the company.
- Terrorists - who have had negative experiences with the company and who spread negative word of mouth.
- Hostages - who are unhappy customers that stay with the company because of a non-politic environment or low prices and who are difficult and costly to deal with because of their frequent complaints?
- Mercenaries - who are very satisfied customers but who have no real loyalty to the company and may defect because of a lower price elsewhere or on impulse, defying the satisfaction-loyalty rationale.

The researches purpose that companies should strive to create apostles, raise the satisfaction of defectors and turn them in to loyalist avoid having terrorists or hostages and reduce the number of mercenaries.

3) Customer retention. Customer retention makes it in the best interest of customers to stay with the company rather than switch to another firm. Loyal customers buy more products. Loyal customers are less price sensitive and pay less attention to competitor's advertising. Servicing the existing customers, who are familiar with the firm's offerings and processes, is cheaper. Loyal customers spread positive word of mouth and refer other customer.

Customer profitability-focused marketing tracks costs and revenues of individual customers and then categorises them into tiers based on consumption behaviours that are specific to the company's offerings.

Recent Study advocates using "customer pyramid" where customers are grouped in 4 ties:

1) **The Platinum Ties** - includes heavy users who are not price sensitive and who are willing to try new offerings.

2) **The Gold Tier** - it consists of customers who are heavy user but not as profitable because they are more price sensitive than those in the higher ties. Ask for discount and buy from several providers.

3) **The Iron Tier** - it consists of customers whose spending volume and profitability do not merit special treatment from the company.

4) **The Lead Tier** - it includes customers who actually cost the company money because they claim more attention than is merited by their spending.

The process of consumer decision making can be viewed as three distinct but interlocking stages: the input stage, the process stage, and the output stage.

The Input Stage - influences the consumer's recognition of a product need and consists of two major sources of information, the firm's marketing efforts (the product itself, its price, its promotion and where it is sold) and the external sociological influences on the consumers.

The Process Stage – it is the model focuses on how consumers make decisions. The psychological factors inherent in each individual.

The Output Stage – it is the consumer decision making model consists of two closely related post decision activities (Jobber, Lancaster, 2012).

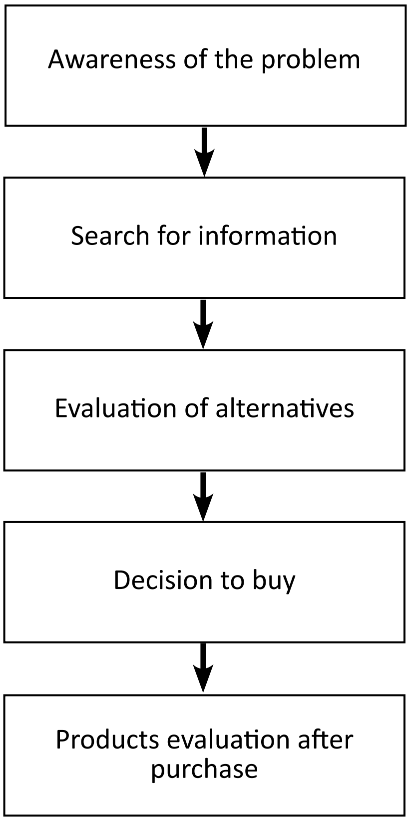

Figure 8. Purchase decision-making process (Jobber, Lancaster, 2012)

Knowledge of purchase decision-making process allows to prepare proper offer and to spread information to potential consumers on time. It is always important to remember that consumer evaluates products after purchase and the real value of the product will be known only after consumer starts using the products either service.

The consumer's behaviour depends on different factors such as culture, social classes, family, reference groups and etc.

Culture can have a profound effect on *consumer behaviour* and impact how a product is marketed. Values are general statements that guide *behaviour* and influence beliefs. Customs are modes of *behaviour* that constitute culturally approved ways of behaving in specific situations. Each of subcultures will have specific influences on *consumer behaviour*. Culture can have a profound effect on *consumer behaviour* and purchasing, and can affect how a product is marketed.

Consumer Influence. Marketing organisations must facilitate the *consumer* to act on their purchase intentions. As a result, marketers usually find and target these 'top influences' and ensure that they do their bit in influencing the *behaviour* of other consumers. Marketers must understand what influences *consumer behaviour*, such as the *consumer* buyer process, top influencers, and effective advertising (Payne, Frow, 2013)

Social Classes. A major influence on one's purchasing habits and *consumer behaviour* is the social class in which one finds him or herself. Social class is considered an external influence on *consumer behaviour* because it is not a function of feelings or knowledge. Influence on *consumer behaviour* Social class can have a profound effect on *consumer* spending habits. Generally, the rich have the ability to purchase more *consumer* goods than those with less income, and those goods are of higher quality. Marketers should understand that a person's social class will have a major influence on the types and quantity of *consumer* goods purchased.

Family. One way to understand the family's impact on *consumer behaviour* is to identify the decision maker for a purchase. Families influence purchases in many ways. Family Life Cycle is another aspect of understanding the impact of families on buying *behaviour* is the family life cycle. *Consumer behaviour* and purchasing is different in each of these stages.

Social behaviour of consumers. Traditionally, *consumer behaviour* is the study of individuals, groups, or organisations and the processes they use to select, purchase and dispose of products, services, experiences, or ideas. Relationship marketing, customer retention, customer relationship management (CRM) and personalisation are all tactics used to assess *consumer behaviour*. However, *consumer behaviour* is also influenced by internal conditions such as demographics, psychographics (lifestyle), personality, motivation, knowledge, attitudes, beliefs, and feelings.

Stimulate Demand. Companies are now increasingly focusing on how to stimulate *consumer* demand and compete for customer loyalty. It is possible and common to have latent needs that do not serve as the motive of *behaviour*. Lifestyle is one of the newer and increasingly important sets of factors being used to understand *consumer behaviour* behind demand. Such variables as interests in hunting, attitudes toward gender equality, and opinions on the importance of stylish clothing can be used to better understand *consumer behaviour*. For brands to successfully stimulate *consumer* demand, they must understand *consumer* needs and motives.

Type of Buying Decision. Buying decisions are based on buyer *behaviour*. *Consumer behaviour* and business *behaviour* can differ because their buying processes are different. *Consumer* products are often advertised on television in a way that tries to create an emotional tie with the buyer.

Perception. A *consumer* will selectively perceive what they will ultimately classify as their needs and wants. Perception is a psychological variable involved in the purchase decision process that is known to influence *consumer behaviour*. Other variables included in this *consumer* process include: motivation, learning, attitude, personality, and lifestyle. All of these concepts are crucial in interpreting the *consumer* buying process and can also help guide marketing efforts. Perception in marketing is described as a process by which a *consumer* identifies, organises, and interprets information to create meaning.

Reference Groups. Reference groups are similar to opinion leaders in that they can have a profound influence on consumer behaviour. Reference groups are considered a social influence in consumer purchasing. In keeping with this idea, people will often modify their own behaviour to coincide with group norms (even those that profess non-conformity are in some ways conforming with other people who want the same thing). In the consumer world, this means that if a reference group purchases a product, those that associate with the group likely will as well (Jobber, Lancaster, 2012).

Self-test questions:

What does affect consumer behaviour? Describe each of the factors.

How does reference group influence consumer behaviour?

Why is it important to know the family life cycle?

What steps can distinguish a decision-making process? Does the buyer always accept the decision to purchase the following sequence?

Why is it so important buyer's reaction after the purchase?

How can buyers be grouped according to their actions?

Task No.1

Discuss and compare your culture and chosen culture. How does those two cultures influence consumers behaviour? How differently we buy food, cars? What are differences in celebrations or shopping habits?

Task No.2

Think of a purchase that you have made recently. What products or brands made up your evoked set of alternatives, and what choice criteria did you use to differentiate between them to lead to your eventual purchase?

Task No.3

To what extent do you think that social class is a helpful concept in improving the marketer's understanding of consumer behaviour?

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Task No.4

How might the roles undertaken by various members of a two-parent family vary between the buying decisions for:

- a house?
- something for tonight's dinner?
- a birthday present for a 10-year old child?

How would you answer change if it was a one- parent family?

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Task No.5

You are purchasing manager of a large organisation with an enormous annual spend. Most of your contracts are awarded by tender. What would your attitude be to the following offers from potential suppliers, and to what extent would they influence your decision-making:

- a bottle of whisky at Christmas?
- an invitation to lunch to discuss your requirements?

- an offer of the free use of the supplier's managing director's Spanish villa for two weeks?

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Task No.6

What do you think are the advantages and disadvantages of long-term, close buyer-seller relationships?

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Case study No.1 – Decision making

A number of the major buyers of goods are obvious - shavers buying men, women buy pantyhose. However, some of the goods purchase decision may not be as obvious or generally expected. For example: British company ICI, as a leader in the production of chemical products, after research found out that 60 per cent of solutions for a particular brand of household paint are made by women. As a result, it was decided to paint 'Deluxe' advertisements aimed at women, who ultimately increase sales.

What other products in your opinion decision makers can be not so obvious as it might seem in the beginning?

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Case study No.2 – Product adoption according marketing research results

The marketer has to learn about the needs and changing of the consumer behaviour and practice the Marketing Concept. Levi Strauss & Co. were selling jeans to a mass market and did not bother about segmenting the market till their sales went down. The study into consumer behaviour showed their greatest market of the baby boomers had outgrown and their NEEDs had changed. They therefore came out with Khaki or dockers to different segments and comfortable action stocks for the consumers in the 50 age group. Thus by separating the market and targeting various groups and fulfilling their needs, they not only made up for the lost sales but far exceeded the previous sales. They also targeted the women consumers for jeans and both men and women started wearing jeans in greater numbers. The offering given by the company must be enlarged to suit various segments. For example Maruti Udyog Ltd has come out with many models. Maruti 800, Maruti Van, Zen, Alto, Veagon R, Versa Gypsy, Esteem, Boleno and other models.

For successful marketing one should:

1. Find consumer needs of various segments.

2. Position Products (new & existing) to these segments.

3. Develop strategies for these segments. Practice greater selectivity in advertising and personal selling and creating more selective media and distribution outlets.

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Case study No.3 – New product marketing campaign

By understanding that consumers are more receptive to food advertising when they are hungry, we learn to schedule snack advertisements late in the afternoon. By understanding that new products are usually initially adopted by a few consumers and only spread later, and then only gradually, to the rest of the population, we learn that (1) companies that introduce new products must be well financed so that they can stay afloat until their products become a commercial success and (2) it is important to please initial customers, since they will in turn influence many subsequent customers' brand choices.

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Case study No.4 – Use of consumer behaviour in social marketing

Social marketing involves getting ideas across to consumers rather than selling something. Marty Fishbein, a marketing professor, went on sabbatical to work for the Centers for Disease Control trying to reduce the incidence of transmission of diseases through illegal drug use. The best solution, obviously, would be if we could get illegal drug users to stop. This, however, was deemed to be infeasible. It was also determined that the practice of sharing needles was too ingrained in the drug culture to be stopped. As a result, using knowledge of consumer attitudes, Dr. Fishbein created a campaign that encouraged the cleaning of needles in bleach before sharing them, a goal that was believed to be more realistic.

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Chapter 6.

DEVELOPMENT OF NEW GOODS

The main aim of this chapter *is to introduce students to the marketing mix element – product, the new product development and product life cycle.*

Concepts

Product – the goods and services which satisfy a consumer's needs or desires.

New product – goods and services that differ significantly in their characteristics or intended uses from products previously produced by the firm.

Product life cycle – stages in the life of a product in terms of sales and profitability, from its launch to its decline.

The marketing mix describes the elements which can be reviewed and considered to create a successful combination of the right product, right place, right price and right promotion. These four elements are adjusted until the ideal combination is found, so that both company objectives and customers' needs are satisfied.

The traditional marketing mix consists of the four Ps (price, place, product and promotion) but can be extended to the 7Ps to encompass service aspects by including people, processes and physical evidence.

The term "product" refers to tangible, physical products as well as services. Here are some examples of the product decisions to be made: brand name, functionality, styling, quality, safety, packaging, repairs and support, warranty, accessories and services (NetMBA Business Knowledge Center, 2014).

In recent years, there have been attempts to develop a package (mix) that will not only satisfy the needs of the customer, but simultaneously maximise the performance of the organisation. Controllable factors vs. uncontrollable facts can be defined as:

Controllable - The 4Ps representing the elements of marketing we can control internally. They depend upon such "givens" as your budget, personnel, creativity, etc.

Uncontrollable - The current economic environment including such elements as consumer confidence, degree of unemployment, new technologies, the threat of displacement, competitors, government regulations or changing consumer preferences (Crawford, Di Benedetto, 2011).

Many marketing specialists are now seeing the 4Ps as too product-oriented and have adopted the 4Cs marketing mix. This model looks at the marketing from the customer's point of view.

1. **Place** becomes **Convenience**
2. **Price** becomes **Cost to the user**
3. **Promotion** becomes **Communication**
4. **Product** becomes **Customer needs and wants**

These Cs reflect a more client-oriented marketing philosophy. They provide useful reminders - for example that you need to bear in mind the convenience of the client when deciding where to offer a service. To apply the 4Cs approach to marketing you must consider the impact of the "uncontrollable" elements on your marketing mix. The 4Cs explicitly require you to think like a customer (Kotler, Keller, 2006).

Kotler uses five levels in which a product is located or seen from the perception of the consumer. These levels indicate the value that consumers attach to a product. The customer will only be satisfied when the specified value is identical or higher than the expected value.

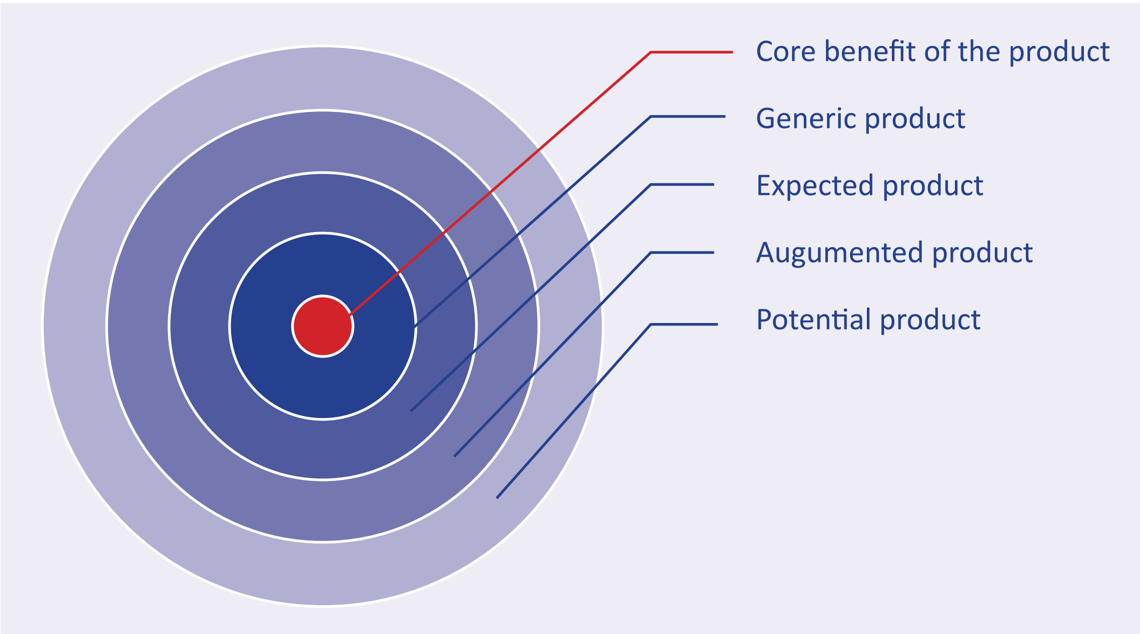

Figure 9. Five product levels (Kotler, Keller 2006)

1. Core Product. This is the basic product and the focus is on the purpose for which the product is intended. For example, a warm coat will protect you from the cold and the rain.

2. Generic Product. This represents all the qualities of the product. For a warm coat this is about fit, material, rain repellent ability, high-quality fasteners, etc.

3. Expected Product. This is about all aspects the consumer expects to get when they purchase a product. That coat should be really warm and protect from the weather and the wind and be comfortable when riding a bicycle.

4. Augmented Product. This refers to all additional factors which sets the product apart from that of the competition. And this particularly involves brand identity and image. Is that warm coat in style, its color trendy and made by a well-known fashion brand? But also factors like service, warranty and good value for money play a major role in this.

5. Potential Product. This is about augmentations and transformations that the product may undergo in the future. For example, a warm coat that is made of a fabric that is as thin as paper and therefore light as a feather that allows rain to automatically slide down (Kotler, Armstrong, 2012).

New Product Development

When teams collaborate in developing new innovations, having the following eight ingredients mixed into your team's new product developmental repertoire will ensure that its overall marketability will happen relatively quick, and accurately – making everyone productive across the board.

Step 1: *Generating.* Utilising basic internal and external SWOT analyses, as well as current marketing trends, one can distance themselves from the competition by generating ideologies which take affordability and widespread distribution costs into account. You may want to develop multiple versions of your road map scaled to suit different types and risk levels of projects.

Step 2: *Screening The Idea.* Set specific criteria for ideas that should be continued or dropped. Stick to the agreed upon criteria so poor projects can be sent back to the idea-hopper early on.

Step 3: *Testing The Concept.* Aside from patent research, design due diligence, and other legalities involved with new product development; knowing where the marketing messages will work best is often the biggest part of testing the concept. Does the consumer understand, need, or want the product or service?

Step 4: *Business Analytics.* During the New Product Development process, build a system of metrics to monitor progress. Include input metrics, such as average time in each stage, as well as output metrics that measure the value of launched products, percentage of new product sales and other figures that provide valuable feedback. It is important for an organisation to be in agreement for these criteria and metrics. Even if an idea does not turn into product, keep it in the hopper because it can prove to be a valuable asset for future products and a basis for learning and growth.

Step 5: *Marketability Tests.* Arranging private tests groups, launching beta versions, and then forming test panels after the product or products have been tested will provide you with valuable information allowing last minute improvements and tweaks. Not to mention helping to generate a small amount of buzz.

Step 6: *Technicalities* + Product Development. Provided the technical aspects can be perfected without alterations to post-beta products, heading towards a smooth step 7 is imminent.

Step 7: *Commercialise.* At this stage, your new product developments have gone mainstream, consumers are purchasing your good or service, and technical support is consistently monitoring progress. Keeping your distribution pipelines loaded with products is an integral part of this process too, as one prefers not to give physical (or perpetual) shelf space to competition. Refreshing advertisements during this stage will keep your product's name firmly supplanted into the minds of those in the contemplation stages of purchase.

Step 8: Post Launch Review and *Perfect Pricing.* Review the NPD process efficiency and look for continues improvements. Most new products are introduced with introductory pricing, in which final prices are nailed down after consumers have 'gotten in'. In this final stage, you will gauge overall value relevant to COGS (cost of goods sold), making sure internal costs are not overshadowing new product profits. You continuously differentiate consumer needs as your products age, forecast profits and improve delivery process whether physical, or digital, products are being perpetuated (Crawford, Di Benedetto, 2011).

Here is how to tackle challenges during new product development stages:

1. Take snapshots of the design at major points during the process, like when releasing files for prototyping. Keep track of modifications of both part revisions so you will not have to second guess changes that occurred. Again, using Word or Excel alone to capture this information can be problematic whereas PDFs provide a solid reflection of the design at that point in time.

2. Collect all the product documents, including all types of files, and organise them in an easy to navigate folder structure. This will free up time when you need to gather information to give to manufacturing; you will not have to dig through several different locations if documents are maintained in a centralised location.

3. Be consistent with the naming conventions for all your files including manufacturer's data sheets for off-the-shelf parts as well as internal CAD drawing files. Name files so that they can be easily associated with the right component or assembly within a product. With easily recognisable nomenclature you will be able to tell the associated part number and revision from the file name. Everyone will have an easier time knowing what information they have and will not have to open a lot of documents to find the right data.

The **Product life cycle** concept describes the stages that a product goes through from the moment it is launched into the market, until it eventually declines and it is withdrawn.

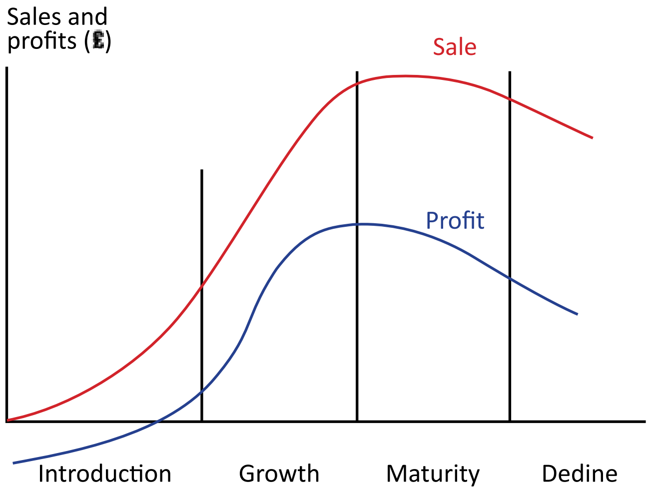

Figure 10. Product's Life Cycle (Crawford, Di Benedetto, 2011)

The life cycle concept may apply to a brand or to a category of product. Its duration may be as short as a few months for a fad item or a century or more for product categories such as the gasoline-powered automobile.

Product development is the incubation stage of the product life cycle. There are no sales and the firm prepares to introduce the product. As the product progresses through its life cycle, changes in the marketing mix usually are required in order to adjust to the evolving challenges and opportunities (MarketingProfs, 2014).

Introduction Stage. When the product is introduced, sales will be low until customers become aware of the product and its benefits. Some firms may announce their product before it is introduced, but such announcements also alert competitors and remove the element of surprise. Advertising costs typically are high during this stage in order to rapidly increase customer awareness of the product and to target the early adopters. During the introductory stage the firm is likely to incur additional costs associated with the initial distribution of the product. These higher costs coupled with a low sales volume usually make the introduction stage a period of negative profits.

During the introduction stage, the primary goal is to establish a market and build primary demand for the product class.

Growth Stage. The growth stage is a period of rapid revenue growth. Sales increase as more customers become aware of the product and its benefits and additional market segments are targeted. Once the product has been proven a success and customers begin asking for it, sales will increase further as more retailers become interested in carrying it. The marketing team may expand the distribution at this point. When competitors enter the market, often during the later part of the growth stage, there may be price competition and/or increased promotional costs in order to convince consumers that the firm's product is better than that of the competition.

During the growth stage, the goal is to gain consumer preference and increase sales.

Maturity Stage. The maturity stage is the most profitable. While sales continue to increase into this stage, they do so at a slower pace. Because brand awareness is strong, advertising expenditures will be reduced. Competition may result in decreased market share and/or prices. The competing products may be very similar at this point, increasing the difficulty of differentiating the product. The firm places effort into encouraging competitors' customers to switch, increasing usage per customer, and converting non-users into customers. Sales promotions may be offered to encourage retailers to give the product more shelf space over competing products.

During the maturity stage, the primary goal is to maintain market share and extend the product life cycle.

Decline Stage. Eventually sales begin to decline as the market becomes saturated, the product becomes technologically obsolete, or customer tastes change. If the product has developed brand loyalty, the profitability may be maintained longer. Unit costs may increase with the declining production volumes and eventually no more profit can be made.

During the decline phase, the firm generally has three options:

- Maintain the product in hopes that competitors will exit. Reduce costs and find new uses for the product.
- Harvest it, reducing marketing support and coasting along until no more profit can be made.
- Discontinue the product when no more profit can be made or there is a successor product.

The term "life cycle" implies a well-defined life cycle as observed in living organisms, but products do not have such a predictable life and the specific life cycle curves followed by different products vary substantially. Consequently, the life cycle concept is not well-suited for the forecasting of product sales. Furthermore, critics have argued that the product life cycle may become self-fulfilling. For example, if sales peak and then decline, managers may conclude that the product is in the decline phase and therefore cut the advertising budget, thus precipitating a further decline.

Nonetheless, the product life cycle concept helps marketing managers to plan alternate marketing strategies to address the challenges that their products are likely to face. It also is useful for monitoring sales results over time and comparing them to those of products having a similar life cycle (NetMBA Business Knowledge Center, 2014).

Self-test questions:

What do you call the marketing mix?

Describe how can be distinguished levels of products in marketing? Give examples.

How to identify what is a new product?

What are new product development stages?

Describe each of the product life cycle stages.

What are specific actions for each stage of the product life cycle?

Task No.1

How are marketing, production and financial concerns brought together at the business analysis stage?

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Task No.2

Kotler states: *"Competition is determined not so much by what companies produce, but by what they add to their product in the form of packaging, services, advertising, advice, delivery (financing) arrangements and other things that can be of value to consumers"*. Please, comment this statement and add examples to it?

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Task No.3

How might the product development stage differ for B2C and for B2B product?

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Task No.4

To what extent do you think that test marketing is a good idea?

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Case study – Mood-lites

The entrepreneur: Kathryn Goetzke White, 34, founder of Innovative Analysis Inc. in Annapolis, Maryland

Product description: Mood-lites, dubbed "light bulbs for your lifestyle," are colored light bulbs that were created according to research on how colors affect moods. Available in seven colors, from Happy (yellow) to Serenity (turquoise), the 25-watt Mood-lites produce a soft glow similar to a candle. With a suggested retail price of $4.95 to $5.95, Mood-lites are sold in Linens 'n Things and specialty outlets such as spas, natural-food stores and college bookstores nationwide. They are also sold in some Ace Hardware and Bed Bath & Beyond stores.

Startup: Goetzke White financed the business with personal savings, credit cards and loans from family and friends. She spent $25,000 for research, consultant fees, trademarks and preliminary work, as well as $50,000 for inventory.

Sales: More than $1 million projected for 2005

The challenge: Overcoming retailer resistance when introducing a new product category

When Kathryn Goetzke White developed her Mood-lites, she knew interior home lighting was a big market and believed consumers would love her colourful light bulbs. But she also knew that getting her products in stores nationwide would prove quite a challenge, as retailers typically resist new product categories for fear of ending up with unsold merchandise. Then Goetzke White had a bright idea for breaking through the resistance: persuade retailers that her colorful Mood-lites were part of a larger consumer trend. Thanks to sales help from her 35-year-old husband, John, Goetzke White developed an action plan that created quick acceptance of the Mood-lites product line.

Steps to Success

- **Find a trend that fits.** Goetzke White had her product idea for several years, but didn't pursue it until she saw a Home Depot ad that talked about colour therapy and how to paint a room a certain colour to create a mood. At that point, she felt her product could sell because the colour therapy concept was being accepted by major retailers. "My undergraduate degree was in psychology, and I was intrigued by moods and different influencers of moods," she says. "I knew that certain colours created different moods--for example, blue is associated with the ocean and water, images that bring a sense of tranquillity. I was tired of basic white lighting and decided to combine colour therapy with the upsurge in candle sales for soft mood lighting. Adding an oil-based coating gave that glow that makes Mood-lites different from other products on the market."

- **Develop a marketing story**. While Goetzke White was sure people understood the concept of colours and their impact on mood, she wanted to complete the story to inspire consumers to make a purchase. Today, she is obtaining trademarks for each of the colours: Serenity for turquoise, Tranquillity for sapphire, Passion for crimson, Happiness for yellow, Energy for orange, Creativity for purple and Renewal for green.

- **Create interest with PR.** In fall 2004, Goetzke White started an extensive PR campaign to get articles about Mood-lites in magazines. "The goal was not only to sell Mood-lites, which were available on our website, but really to help sell retailers," she says. "I felt the positive energy created by the PR would show the market was interested in Mood-lites. We hired a PR firm, and articles were published in many newspapers as well as *Home, Residential Lighting, For Me Magazine and New York Magazine's Metro*, among others. Those articles were a big help when I approached retailers to carry Mood-lites."

- **Package the product to create exposure.** A new product needs to be noticed on a shelf. "One of the best moves I made was to produce the package so it could fit on clip strips [plastic strips with six to 12 clips to hold individual packages]," says Goetzke White. "Retailers love these strips, as they allow them to move the product into the store, save on shelf space and entice customers with new products. We have produced a header [a small card with sales copy] for the clip strips showcasing the bulbs in use, and we also have a display box for stores [that] carry Mood-lites on the shelf."

- **Find markets that enhance the product's image.** Some of Goetzke White's earliest customers were doctors and massage therapists, who used Mood-lites to create a relaxing environment for patients. "We are expanding distribution to include spas and gyms with massage therapists, yoga practitioners and spinning rooms," she says. "The intent is to get exposure for the brand. Clients of these customers will see the effectiveness of [Mood-lites] and want to try them at home."

Lessons Learned

- **Retailers support new trends.** Products tied to new trends typically sell well and sell at high margins--just the types of products retailers want. Consumers are curious about new trends, and that curiosity produces sales and store traffic. Because published articles show the product is part of a trend, they effectively generate retailer interest.

- **Go with the flow, not against it.** Inventors often come up with ideas to change how things are done. Their product introduction strategy calls for persuading people that there is a better way to do something. That strategy almost never works; inventors just do not have the money to change a market. They should instead find a way to show how their product is an extension of products people already use. Goetzke White's tactic of adding an oil-based finish to light bulbs to create a soft glow was expensive and time-consuming, but it allowed Mood-lites to go with the flow of candle therapy.
- **Keep products front and centre.** People usually shop with a purchase in mind. Rarely do people notice other products unless they are displayed prominently enough to catch their attention. Using clip strips, which can be provided by the inventor or the retailer, is a low-cost tactic that often produces impulse sales, and most inventors can afford it.
- **Get expert advice.** Inventors without marketing experience often do not know how to best position a product in the market. (Business Case Studies, 2014).

Chapter 7.

PRICE CONCEPTION

***The main aim of this chapter** is to help students to understand the factors that affect a firm's pricing decisions and importance for companies to conduct research before setting prices for the various markets.*

Concepts

Price – money which has to be paid to buy something.

Price leadership – a situation where the producers model their prices on those of one leading producer.

Pricing policy – a company's policy in giving prices to its products.

Penetration pricing pursues the objective of quantity maximisation by means of a low price.

Skim pricing attempts to "skim the cream" off the top of the market by setting a high price and selling to those customers who are less price sensitive. Skimming is a strategy used to pursue the objective of profit margin maximisation.

Another from 4Ps is Price. To prepare this element of marketing mix should some decisions to be made, such as pricing strategy, suggested retail price, volume discounts and wholesale pricing, cash and early payment discounts, seasonal pricing, bundling, price flexibility and price discrimination.

It is clear how product, distribution, and promotional activities can be guided by the marketing concept. However, it is less clear how pricing activities can be guided by the marketing concept. Certainly, customers would prefer paying less. In fact, paying nothing at all might well be their first choice! But it is simply not feasible to "give away the store." An organisation that gives away the value it creates will soon cease to exist, and thus the value it creates will disappear. This does not serve customers well. Rather, it is in the customer's interest for an organisation that creates customer value to set prices that maximise the organisation's profitability, since that would give the organisation the greatest possible chance of continuing to create that value.

Nothing attracts competitors more quickly than a highly profitable product. Further, the marketing concept points the price setter to consider not only the customer value that can be harvested but also the customer's feelings about the price that is being charged. Customers perceiving they are receiving a discount or a price lower than their expectations. It is important to note that both identifying the value that the product represents to the customer and considering customers' price expectations and feelings depend on understanding and attending to customer needs. Both of these aspects of the marketing approach to pricing will be discussed in detail in later chapters.

Pricing decisions are affected by the customer, competition, economical factors such as weak buying power or recession and the government laws and policies. All the factors affecting the pricing decision are grouped into external and internal factors.

The final price for a product may be influenced by many factors which can be categorised into two main groups:

- **Internal Factors** - when setting price, marketers must take into consideration several factors which are the result of company decisions and actions. To a large extent these factors are controllable by the company and, if necessary, can be altered. However, while the organisation may have control over these factors making a quick change is not always realistic. For instance, product pricing may depend heavily on the productivity of a manufacturing facility (e.g., how much can be produced within a certain period of time). The marketer knows that increasing productivity can reduce the cost of producing each product and thus allow the marketer to potentially lower the product's price. But increasing productivity may require major changes at the manufacturing facility that will take time (not to mention be costly) and will not translate into lower price products for a considerable period of time.

- **External Factors** - There are a number of influencing factors which are not controlled by the company but will impact pricing decisions. Understanding these factors requires the marketer conduct research to monitor what is happening in each market the company serves since the effect of these factors can vary by market (Lilien, 2013).

Corporate objectives can be wide-ranging and include different objectives for different functional areas (e.g., objectives for production, human resources, etc). While pricing decisions are influenced by many types of objectives set up for the marketing functional area, there are four key objectives in which price plays a central role. In most situations only one of these objectives will be followed, though the marketer may have different objectives for different products. The four main marketing objectives affecting price include:

- **Return on Investment (ROI)** – a firm may set as a marketing objective the requirement that all products attain a certain percentage return on the organisation's spending on marketing the product. This level of return along with an estimate of sales will help determine appropriate pricing levels needed to meet the ROI objective.

- **Cash Flow** – firms may seek to set prices at a level that will insure that sales revenue will at least cover product production and marketing costs. This is most likely to occur with new products where the organisational objectives allow a new product to simply meet its expenses while efforts are made to establish the product in the market. This objective allows the marketer to worry less about product profitability and instead directs energies to building a market for the product.

- **Market Share** – the pricing decision may be important when the firm has an objective of gaining a hold in a new market or retaining a certain percent of an existing market. For new products under this objective the price is set artificially low in order to capture a sizeable portion of the market and will be increased as the product becomes more accepted by the target market (we will discuss this marketing strategy in further detail in our next tutorial). For existing products, firms may use price decisions to insure they retain market share in instances where there is a high level of market competition and competitors who are willing to compete on price.

- **Maximise Profits** – older products that appeal to a market that is no longer growing may have a company objective requiring the price be set at a level that optimises profits. This is often the case when the marketer has little incentive to introduce improvements to the product (e.g., demand for product is declining) and will continue to sell the same product at a price premium for as long as some in the market is willing to buy.

For many for-profit companies, the starting point for setting a product's price is to first determine how much it will cost to get the product to their customers. Obviously, whatever price customers pay must exceed the cost of producing a good or delivering a service otherwise the company will lose money.

When analysing cost, the marketer will consider all costs needed to get the product to market including those associated with production, marketing, distribution and company administration (e.g., office expense). These costs can be divided into two main categories:

- **Fixed Costs** - also referred to as overhead costs, these represent costs the marketing organisation incurs that are not affected by level of production or sales. For example, for a manufacturer of writing instruments that has just built a new production facility, whether they produce one pen or one million they will still need to pay the monthly mortgage for the building. From the marketing side, fixed costs may also exist in the form of expenditure for fielding a sales force, carrying out an advertising campaign and paying a service to host the company's website. These costs are fixed because there is a level of commitment to spending that is largely not affected by production or sales levels.

- **Variable Costs** – these costs are directly associated with the production and sales of products and, consequently, may change as the level of production or sales changes. Typically variable costs are evaluated on a per-unit basis since the cost is directly associated with individual items. Most variable costs involve costs of items that are either components of the product (e.g., parts, packaging) or are directly associated with creating the product (e.g., electricity to run an assembly line). However, there are also marketing variable costs such as coupons, which are likely to cost the company more as sales increase (i.e., customers using the coupon). Variable costs, especially for tangible products, tend to decline as more units are produced. This is due to the producing company's ability to purchase product components for lower prices since component suppliers often provide discounted pricing for large quantity purchases (Kotler, Keller, 2006).

Determining individual unit cost can be a complicated process. While variable costs are often determined on a per-unit basis, applying fixed costs to individual products is less straightforward. For example, if a company manufactures five different products in one manufacturing plant how would it distribute the plant's fixed costs (e.g., mortgage, production workers' cost) over the five products? In general, a company will assign fixed cost to individual products if the company can clearly associate the cost with the product, such as assigning the cost of operating production machines based on how much time it takes to produce each item. Alternatively, if it is too difficult to associate to specific products the company may simply divide the total fixed cost by production of each item and assign it on percentage basis.

Possibly the most obvious external factors that influence price setting are the expectations of customers and channel partners. As discussed, when it comes to making a purchase decision, customers assess the overall "value" of a product much more than they assess the price. When deciding on a price marketers need to conduct customer research to determine what "price points" are acceptable. Pricing beyond these price points could discourage customers from purchasing.

Firms within the marketer's channels of distribution also must be considered when determining price. Distribution partners expect to receive financial compensation for their efforts, which usually means they will receive a percentage of the final selling price. This percentage or margin between what they pay the marketer to acquire the product and the price they charge their customers must be sufficient for the distributor to cover their costs and also earn a desired profit.

Marketers will undoubtedly look to market competitors for indications of how price should be set. For many marketers of consumer products researching competitive pricing is relatively easy, particularly when Internet search tools are used. Price analysis can be somewhat more complicated for products sold to the business market since final price may be affected by a number of factors including if competitors allow customers to negotiate their final price (MarketingProfs, 2014).

Analysis of competition will include pricing by direct competitors, related products and primary products.

- **Direct Competitor Pricing** – almost all marketing decisions, including pricing, will include an evaluation of competitors' offerings. The impact of this information on the actual setting of price will depend on the competitive nature of the market. For instance, products that dominate markets and are viewed as market leaders may not be heavily influenced by competitor pricing since they are in a commanding position to set prices as they see fit. On the other hand in markets where a clear leader does not exist, the pricing of competitive products will be carefully considered. Marketers must not only research competitive prices but must also pay close attention to how these companies will respond to the marketer's pricing decisions. For instance, in highly competitive industries, such as gasoline or airline travel, competitors may respond quickly to competitors' price adjustments thus reducing the effect of such changes.

- **Related Product Pricing** - products that offer new ways for solving customer needs may look to pricing of products that customers are currently using even though these other products may not appear to be direct competitors.

- **Primary Product Pricing** - marketers may sell products viewed as complementary to a primary product. For example, Bluetooth headsets are considered complementary to the primary product cell phones. The pricing of complementary products may be affected by pricing changes made to the primary product since customers may compare the price for complementary products based on the primary product price.

Marketers must be aware of regulations that impact how price is set in the markets in which their products are sold. These regulations are primarily government enacted meaning that there may be legal ramifications if the rules are not followed. Price regulations can come from any level of government and vary widely in their requirements. For instance, in some industries, government regulation may set price ceilings (how high price may be set) while in other industries there may be price floors (how low price may be set). Additional areas of potential regulation include: deceptive pricing, price discrimination, predatory pricing and price fixing.

Finally, when selling beyond their home market, marketers must recognise that local regulations may make pricing decisions different for each market. This is particularly a concern when selling to international markets where failure to consider regulations can lead to severe penalties. Consequently marketers must have a clear understanding of regulations in each market they serve (Hoffman, 2005).

Pricing Strategies determine the pricing model that is compatible with the target market and is consistent with the pricing objectives. Pricing objectives can either be to obtain a target return on investment or to grab a target market share. The basic price strategies are:

a) **Cost Based Pricing**- this suggests to consider the costs and profits objectives of the business.

- Calculate the cost to make/buy the product.
- Calculate the related cost of doing business
- Add the profit margin to come to the price call the MarkUp

b) **Demand Based Pricing**- assumes that the demand is inelastic and requires the willingness of the customer to pay for the product and price is set accordingly

c) **Competition Based Pricing**- price is dependent on the price of the competitors.

The pricing policy is important as it standardises the pricing decisions of products in the future. There are 2 kinds of pricing policies:

a) Flexible Price Policy - this kind of policy takes the market conditions, demand and prices of competitors into account.

b) One Price Policy - the price is not based on the knowledge or bargaining skills rather same for all (Boundless, 2013).

The pricing technique can be selected from the available pricing models by evaluating the most suitable technique that will meet the needs and is most satisfying to customers. The various pricing models are:

a) Cost based pricing- it is simply calculated by adding the profit to the cost of producing the product to arrive at the price.

b) Skimming: in order to break even the fewer sales, products are sold at a higher price to gain larger margins on them. This technique is not useful in grabbing market share.

c) Limit Pricing: It is usually employed by the monopolist to ensure that no competition exists in the market. It is done by making the price of the product lesser than he cost of production.

d) Loss Leader: it is used to increase the market share of the company and is done by reducing the price to the lowest in the market.

e) Penetration pricing: it is a strategy to grab the market share and is similar to the loss leader except that the company simply reduces the price to increase its share of the market with no intention to grab the maximum share of the market. The price is usually set for a short run and is increased in the long run.

f) Price discrimination: it is the practice of setting different prices for the same product for the different segments of the market.

g) Premium pricing: it is used to increase the perception of the customers. This is done by increasing the price of the product very high to give it a snob image.

h) Predatory pricing: this is an aggressive way of pricing and is done to eliminate competitors from the market.

i) Psychological pricing: based on the belief that customers base perceptions of a product on price.

j) Dynamic pricing: used to change the price of the product depending to the dynamically changing willingness of the customers to buy a product.

k) Price leadership: the market leader usually dictates the price of the product in the market.

l) Value based pricing: it is pricing of a product by evaluating the value added by the product to the customer.

m) Pay what you want: it gives freedom to the customers to pay whatever they want to.

Product quality objectives can be reflected in price as there is a fundamental psychological association with the value of products. This results in **premium pricing** with high prices for high quality brands or luxury products. At the other end of the scale lies **economy pricing**, when low prices are supported by low organisational costs with lower subsequent quality. The issue with discussing prices and product quality is that their perception is usually very subjective and depends on every individual's background.

Prestige pricing is maintaining a high price for a product throughout its entire life, as opposed to the short term high price of a skimming strategy. In this case, prestige is associated with value and it represents an intrinsic purchasing motivation.

While there is no single recipe to determine pricing, the following is a general sequence of steps that might be followed for developing the pricing of a new product:

1. Develop marketing strategy - perform marketing analysis, segmentation, targeting, and positioning.

2. Make marketing mix decisions - define the product, distribution, and promotional tactics.

3. Estimate the demand curve - understand how quantity demanded varies with price.

4. Calculate cost - include fixed and variable costs associated with the product.

5. Understand environmental factors - evaluate likely competitor actions, understand legal constraints, etc.

6. Set pricing objectives - for example, profit maximisation, revenue maximisation, or price stabilisation (status quo).

7. Determine pricing - using information collected in the above steps, select a pricing method, develop the pricing structure, and define discounts (Merle, Di Benedetto, 2011).

These steps are interrelated and are not necessarily performed in the above order. Nonetheless, the above list serves to present a starting framework.

The firm's pricing objectives must be identified in order to determine the optimal pricing. Common objectives according to Ph.Kotler include the following:

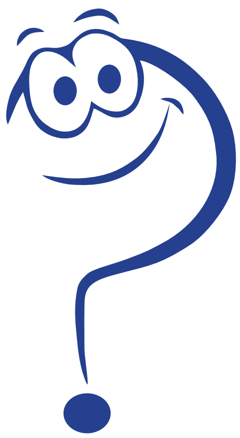
- **Current profit maximisation** - seeks to maximise current profit, taking into account revenue and costs. Current profit maximisation may not be the best objective if it results in lower long-term profits.
- **Current revenue maximisation** - seeks to maximise current revenue with no regard to profit margins. The underlying objective often is to maximise long-term profits by increasing market share and lowering costs.
- **Maximise quantity** - seeks to maximise the number of units sold or the number of customers served in order to decrease long-term costs as predicted by the experience curve.
- **Maximise profit margin** - attempts to maximise the unit profit margin, recognising that quantities will be low.
- **Quality leadership** - use price to signal high quality in an attempt to position the product as the quality leader.
- **Partial cost recovery** - an organisation that has other revenue sources may seek only partial cost recovery.
- **Survival** - in situations such as market decline and overcapacity, the goal may be to select a price that will cover costs and permit the firm to remain in the market. In this case, survival may take a priority over profits, so this objective is considered temporary.
- **Status quo** - the firm may seek price stabilisation in order to avoid price wars and maintain a moderate but stable level of profit.

Skimming is most appropriate when demand is expected to be relatively inelastic; that is, the customers are not highly price sensitive; also large cost savings are not expected at high volumes, or it is difficult to predict the cost savings that would be achieved at high volume. And the company does not have the resources to finance the large capital expenditures necessary for high volume production with initially low profit margins.

Penetration pricing most appropriate when demand is expected to be highly elastic; that is, customers are price sensitive and the quantity demanded will increase significantly as price declines; large decreases in cost are expected as cumulative volume increases. The product is of the nature of something that can gain mass appeal fairly quickly and there is a threat of impending competition.

The normally quoted price to end users is known as the *list price*. This price usually is discounted for distribution channel members and some end users. There are several **types of discounts**, as outlined below.

- **Quantity discount** - offered to customers who purchase in large quantities.
- **Cumulative quantity discount** - a discount that increases as the cumulative quantity increases. Cumulative discounts may be offered to resellers who purchase large quantities over time but who do not wish to place large individual orders.
- **Seasonal discount** - based on the time that the purchase is made and designed to reduce seasonal variation in sales. For example, the travel industry offers much lower off-season rates. Such discounts do not have to be based on time of the year; they also can be based on day of the week or time of the day, such as pricing offered by long distance and wireless service providers.
- **Cash discount** - extended to customers who pay their bill before a specified date.
- **Trade discount** - a functional discount offered to channel members for performing their roles. For example, a trade discount may be offered to a small retailer who may not purchase in quantity but nonetheless performs the important retail function.
- **Promotional discount** - a short-term discounted price offered to stimulate sales (NetMBA Business Knowledge Center, 2014).



Self-test questions:

What is the price?

What factors affect the price?

What has the impact on pricing of goods market demand?

How is the price influenced by the competition?

List and describe the pricing objectives.

What psychological pricing methods do you know?

How can we set the price for new goods?

Describe skimming price strategy.

When is penetration pricing strategy used?

What factors do organisations consider when making price decisions?

How do a company's competitors affect the pricing decisions the firm will make?

What is the difference between fixed costs and variable costs?

Task No.1

Define penetration pricing and find an example of an organisation that has used it for one of its products.

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Task No.2

To what extent and why do you think that a marketing manager's pricing decisions should be influenced by the competition's pricing?

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Task No.3

Develop a checklist of five important points that you would like a sales representative to bear in mind when trying to achieve a favourable outcome from price negotiation with a potential customer.

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Task No.4

Choose a product or service. Research its prices in different countries and for different segments. Are the prices the same? Why they differ? Identify reasons for different pricing.

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Task No.5

Different authors identify various pricing methods. To set the specific price level that achieves their pricing objectives, managers may make use of several pricing methods. For instance:

- **Cost-plus pricing** - set the price at the production cost plus a certain profit margin.
- **Target return pricing** - set the price to achieve a target return-on-investment.
- **Value-based pricing** - base the price on the effective value to the customer relative to alternative products.
- **Psychological pricing** - base the price on factors such as signals of product quality, popular price points, and what the consumer perceives to be fair.

In addition to setting the price level, managers have the opportunity to design innovative pricing models that better meet the needs of both the firm and its customers. For example, software traditionally was purchased as a product in which customers made a one-time payment and then owned a perpetual license to the software. Many software suppliers have changed their pricing to a subscription model in which the customer subscribes for a set period of time, such as one year. Afterwards, the subscription must be renewed or the software no longer will function. This model offers stability to both the supplier and the customer since it reduces the large swings in software investment cycles.

Find in your market examples for each mentioned pricing methods. Choose an innovation and identify its pricing methods. Could there be a few methods combined together?

Chapter 8.

DISTRIBUTION CHANNELS, MARKETING LOGISTICS

The main aim of this chapter *is to introduce students to marketing mix element Place, distribution channels and the meaning of marketing logistics.*

Concepts

Marketing logistics involves planning, implementing, and controlling the physical flows of materials and final goods from points of origin to points of use to meet customer requirements at a profit.

Wholesaler – a person who buys goods in bulk from manufacturers and sells them to retailers.

Retailer – a person who runs a retail business, selling goods direct to the public.

Distribution channel – the route by which a product or service reaches a customer after it leaves the producer or supplier.

Distribution Channels refers to the means that are used to move commodities from the producer to the consumer. There are intermediaries in this channel, who include Merchant middlemen and Agent middlemen. Merchant middlemen are like wholesalers and retailers, while agent middlemen are individuals like brokers and sales agents.

Distribution channels are included in the analysis of place within the 4Ps business marketing mix. The distribution channels describe how products are delivered to target customers. Manufacturers can either use intermediaries to market and deliver products or independently manage the steps in the distribution process. Distribution channel examples include use of a direct sales force, wholesale relationships, distributor relationships or retailers (Chris, Graham, De Francesco, 2013).

Retail distribution is the most traditional form of distribution channel. The common model includes the manufacturer using an intermediary such as a wholesaler or distributor to deliver products directly to retailers, then ultimately to the consumer. This model delays delivery to the consumer and increases consumer cost as each participant in the distribution channel must take possession of the product and receives compensation for its individual role in distribution. Manufacturers may choose to eliminate wholesalers or distributors to decrease product delivery time and decrease the cost to the consumer.

Manufacturers may also employ **wholesale** operations that purchase products from manufacturers at a deeply discounted price. The wholesaler often uses a distributor or other smaller wholesaler as an intermediary to deliver products in bulk to retailers, or it may offer products directly to retailers or consumers. The scope of the manufacturer relationship with the wholesaler can have varying effects on product delivery time and price. If a wholesaler deals directly with the end consumer, a reduction in end consumer delivery time and price can result. In wholesale relationships the manufacturer's role in the marketing process is to choose quality wholesaler relationships and find the best fit with the company's strategic vision.

Distributors are links in the distribution channel chain that deliver products to retailers. Distributors may either be dedicated to one manufacturer as a captive representative or represent a number of manufacturers and wholesalers. Distributors are often used with high volume products such as beverages when retailers must be consistently supplied with product.

Manufacturers may use a **direct sales** force to deliver products to consumers. Manufacturers who choose this distribution channel often deliver higher priced products with lower sales volume. The use of wholesalers and distributors is less cost effective in this scenario as lower volume products carry higher holding costs, so intermediaries can be more costly. Manufacturers who remove these intermediaries can command higher profit margins as a result. Manufacturers using direct sales take on full responsibility for direct consumer communications and marketing (Honeycut, Ford, 2003).

A firm's distribution objectives will ultimately be highly related - some will enhance each other while others will compete. Cost has to be traded off against speed of delivery and intensity (it is much more expensive to have a product available in convenience stores than in supermarkets, for example).

The extent to which a firm should seek narrow (exclusive) vs. wide (intense) distribution depends on a number of factors. One issue is the consumer's likelihood of switching and willingness to search. For example, most consumers will switch soft drink brands rather than walking from a vending machine to a convenience store several blocks away, so intensity of distribution is essential here. However, for sewing machines, consumers will expect to travel at least to a department or discount store, and premium brands may have more credibility if they are carried only in full service specialty stores.

Retailers involved in a more exclusive distribution arrangement are likely to be more "loyal" they will tend to recommend the product to the customer and thus sell large quantities, carry larger inventories and selections and provide more services.

In view of the need for markets to be balanced, the same distribution strategy is unlikely to be successful for each firm. The question, then, is exactly which strategy should one use? It may not be obvious whether higher margins in a selective distribution setting will compensate for smaller unit sales. Here, various research tools are useful. In focus groups, it is possible to assess what consumers are looking for which attributes are more important. Scanner data, indicating how frequently various products are purchased and items whose sales correlate with each other may suggest the best placement strategies. It may also, to the extent ethically possible, be useful to observe consumers in the field using products and making purchase decisions. Here, one can observe factors such as:

1. how much time is devoted to selecting a product in a given category,

2. how many products are compared,

3. what different kinds of products are compared or are substitutes (e.g., frozen yogurt vs. cookies in a mall),

4. what are "complementing" products that may cue the purchase of others if placed nearby.

Channel members – both wholesalers and retailers – may have valuable information, but their comments should be viewed with suspicion as they have their own agendas and may distort information.

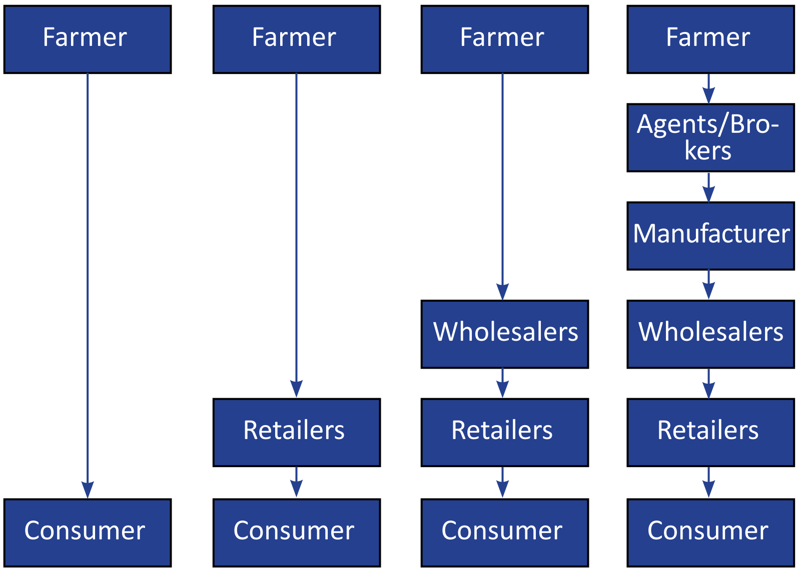

Figure 11. Channel structures

Criteria in selecting channel members. Typically, the most important consideration whether to include a potential channel member is the cost at which he or she can perform the required functions at the needed level of service.

"Piggy-backing". A special opportunity to gain distribution that a manufacturer would otherwise lack involves "piggy-backing". Here, a manufacturer enlists another manufacturer that already has a channel to a desired customer base, to pick up products into an existing channel.

Parallel Distribution. Most manufacturers find it useful to go through at least one wholesaler in order to reach the retailer. Thus, there is a "parallel" distribution network some retailers buy through a distributor and others do not. Note that it may also be tempted to add a direct channel - e.g., many clothing manufacturers have factory outlet stores. However, the full service retailers will likely object to being "undercut" in this manner and may decide to drop or give less emphasis to the brand. It may be possible to minimise this contract by precautions such as

1. having outlet stores located in vacation areas not within easy access of most people,

2. presenting the merchandise as being slightly irregular, and/or

3. emphasising discontinued brands and merchandise not sold in regular stores.

Evaluating Channel Performance. The performance of channel members should be periodically monitored - a channel member may have looked attractive earlier but may not, in practice be able to live up to promises. Thus, performance level (service outputs) and costs should be evaluated. Further, changes in technology or in the market place may make it worthwhile to shift certain functions to another channel member (e.g., a distributor has expanded its coverage into another region or may have gained or lost access to certain retail chains) (Martin, Peck, Oxon, 2011).

Vertical integration. Generically speaking, products may come and reach consumers through a chain somewhat like this:

Raw materials --> component parts --> product manufacturing --> product/brand marketing --> wholesaler --> retailer --> consumer

Money can be made at each stage in the chain and it may be tempting for firms to try to get into all aspects. For example, Henry Ford wanted to make all the components for his own cars, so Ford tried to run its own rubber plantation with limited success. The temptation to try to expand vertically can be especially strong when an industry faces limited growth and thus presents limited opportunities for reinvestment into traditional operations (e.g., if the auto industry is not growing as much as desired, one way to reinvest profits, rather than having to pay them back to stockholders who would then have to pay taxes on the dividends, might be to buy steel mills. The problems, however, is that the management is not used to running such businesses and that managerial time will be spread among more areas.

Business structures. A business can be squarely focused in just one area - e.g., Kentucky Fried Chicken is only in the fast food business and prides itself on this. On the other hand, certain businesses are part of an assortment of businesses that all have common, or at least overlapping, membership. Sometimes, these businesses can be related in some way - for example, Pepsi-co used to own several restaurant fast food chains, and Microsoft, in addition to being in the software business, used to own Expedia, the online travel service. Here, expertise and brand equity might be transferred from businesses to business. In other situations, however, these "empires" may consist of unrelated businesses that were bought not so much because they "fit" into management expertise, but rather because they were for sale when the conglomerate had money to invest. With the tobacco industry currently being relatively profitable but having a questionable future, a tobacco firm might invest in a software maker. Generally, such investments are risky because of problems with management oversight.

Motivations for outsourcing. While firms, as discussed above, often have certain motivations for trying to "gobble" up as many business opportunities as possible, there are also reasons for "outsourcing" or contracting out certain functions to others (University of Southern California, 2014).

Distribution Intensity Decisions

In general, a brand can expect lesser distribution in its early stages - fewer retailers are motivated to carry it. Similarly, when a product category is new, it will be available in fewer stores - in the early days, computer disks were available only in specialty stores, but now they can be found in supermarkets and convenience stores as well.

Brief review of distribution intensity issues:

- Full service retailers tend dislike intensive distribution.
- Low service channel members can "free ride" on full service sellers.

- Manufacturers may be tempted toward intensive distribution - appropriate only for some; may be profitable in the short run.
- Market balance suggests a need for diversity in product categories where intensive distribution is appropriate.
- Service requirements differ by product category.

Termination of brands. A retailer may terminate a brand when carrying it under existing terms no longer seems attractive. This can be done *overtly* - the channel member explicitly announces that the brand will no longer be carried - or more indirectly in the sense that inventory holdings are reduced and customers are recommended substitute brand and/or products.

Maintaining channel member performance. One way to motivate channel members to carry one's product is through a pull strategy. This involves establishing consumer demand, usually through advertising and/or a strong brand image. For example, most pharmacies need to carry the brand name Bayer aspirin to satisfy their customers. Note, however, that Bayer has invested a great deal of money in this. Alternatively, a firm may offer contract provisions making it attractive to be carried - prices may be guaranteed for some period of time. Geographical or target market exclusivity may also be offered - a retailer who knows that no one else in the area carries the Vengeful Visions gun line will be more motivated to aggressively push the brand. Stopping short of exclusivity, a firm may attempt to stop supplying channels that sell below a certain retail price "maintenance" level - Levi's may decide that they will sell to anyone who wants to carry their jeans so long at such retailers do not sell them below a certain price. Then, retailers can be assured that a certain margin can be achieved, and can invest in services.

"Simulating" exclusivity. When truly exclusive distribution proves undesirable, intra-brand competition can be reduced by offering slightly different, and thus, non-comparable versions to different retailers.

Making exclusivity attractive. Manufacturers can motivate channel members to emphasise their brands by creating *mutual dependence*. For example, Sony might agree to make a new line of high definition televisions for sale exclusively if the shop chain in return will invest heavily in repair facilities for this new product. If one retailer forsakes other brands in return for a large discount on high quantity orders, both sides may also save money through economies of scale. Finally, the retailer and manufacturer may develop a certain joint brand identity (University of Southern California, 2014).

There are two theoretical forms of retailing. The "High-Low" method involves selling products at high prices most of the time but occasionally having significant sales. In contrast, the "everyday low price" (EDLP) strategy involves lower prices all the time but no sales. In practice, there are few if any EDLP stores - most stores put a large amount of merchandise on sale much of the time. It has been found that offering lower everyday prices requires a very large increase in sales volume to be profitable.

There are 7 main types of retailers which can be defined by the sise of their business and the way they in which they sell their products. The 7 main types of retailers are:

1. Department Store – This type of retailer is often the most complex offering a wide range of products and can appear as a collection of smaller retail stores managed by one company. The department store retailers offer products at various pricing levels. This type of retailer adds high levels of customer service by adding convenience enabling a large variety of products to be purchased from one retailer.

2. Supermarkets – Generally this type of retailer concentrates in supplying a range of food and beverage products. However many have now diversified and supply products from the home, fashion and electrical products markets too. Supermarkets have significant buying power and therefore often retail goods at low prices.

3. Warehouse retailers – This type of retailer is usually situated in retail or Business Park and where premises rents are lower. This enables this type of retailer to stock, display and retail a large variety of good at very competitive prices.

4. Specialty Retailers – Specialising in specific industries or products, this type of retailer is able to offer the customer expert knowledge and a high level of service. They also add value by offering accessories and additional related products at the same outlet.

5. E-tailer – This type of retailer enables customers to shop on-line via the internet and buy products which are then delivered. This type of retailer is highly convenient and is able to supply a wider geographic customer base. E-tailers often have lower rent and overheads so offer very competitive pricing.

6. Convenience Retailer – Usually located in residential areas this type of retailer offers a limited range of products at premium prices due to the added value of convenience.

7. Discount Retailer – This type of retailer offers a variety of discounted products. They offer low prices on less fashionable branded products from a range of suppliers by re-selling end of line and returned goods at discounted prices.

Whether you want to sell online or from a retail store outlet, if you are not manufacturing products yourself, you have to get saleable products from a **wholesaler**, a business that buys large quantities of goods and resells them to other businesses.

The business model is based on the wholesaler being the go-between between a manufacturer of a product and other businesses who want to sell the product(s) the manufacturer produces.

The wholesaler makes money by being able to buy the product(s) from the manufacturer at a lower price than other businesses would have to pay for the same products from the same manufacturer – usually through discounts based on volume buying.

Wholesalers do not just sell products. Besides breaking products down in to smaller units which can then be sold more conveniently to different retailers, wholesalers may also assemble goods as part of the wholesaling process.

While the most common type of wholesaling is between manufacturers and retailers, an increasing number of wholesalers sell to other wholesalers. A wholesaler may also sell materials to make goods, buying them from one manufacturer and selling them to another.

Just because a manufacturer would sell the goods at this price to this wholesaler, does not mean he would sell them to consumer at that price. Manufacturers are often willing to give wholesalers better prices than they would give retailers because of the aforementioned volume sales. Also, a manufacturer may not be willing to sell to consumers direct at all.

Getting into the wholesale business requires a lot of capital and the contacts to be able to find and make the deals that will enable you to make money from serving as the middleman.

Marketing logistics involve planning, delivering, and controlling the flow of physical goods, marketing materials and information from the producer to a market as necessary to meet customer demands while still making a satisfactory profit. Maintaining an organisation's competitive edge means understanding and implementing an effective marketing logistics strategy regarding product, price, place and promotion. These four functions of marketing logistics help the organisation to reach the target customers and deliver the products or services sold by the organisation to these customers (Noordin, 2011).

One function of logistics marketing is finding out who your customer is and how to get the product or service to the customer. Each customer can have individualised needs so the logistical services provided may vary from customer to customer. Regardless of these differences, the customers expects 100 percent conformance and assured reliability at all times with every transaction. The goals of this aspect of marketing logistics include filling the order, on-time delivery, precise invoicing and zero damage.

An organisation bases pricing decisions on both internal and external factors. Marketing logistics must recognise price drivers. The profile of the customer, the product and the type of order are factors that drive the price. These changes are not typically controlled by marketing logistics. However, marketing logistics must react to these factors and understand how the factors affect customers' decisions. Discounts for quantities and the related logistical cost structure can impact the price the customer will ultimately pay for the product or service. Additional factors driving price include the shipping costs based on the size, weight and distance the organisation will ship the item. Further, the size of the manufacturing run, labour costs and the types, quantities and quality of the materials used in the manufacturing process can affect the price.

Promotion is another important aspect of an organisation's marketing logistics process. When bringing a product to market, the organisation must coordinate the logistics of the various marketing materials. For example, the art department might design the artwork for the product's box and an outside supplier might manufacture the boxes with the artwork. Marketing logistics can help to ensure that all of these entities work together and produce the marketing materials needed to sell the product (Kotler, Keller, 2006).

The function of place in marketing logistics allows the organisation to simplify the transactions between a logistics provider and the customer. The organisation must execute logistics in such a way that the customer is not aware of the complexities involved in the logistics process. For the customer, the output is always more important than the process. The organisation should, therefore, never expose the backroom processes involved with logistics delivery to the customer. Also the location of the factory, warehouse and customer can greatly impact the marketing logistics process by increasing or reducing costs.

Self-test questions:

What do you call the distribution of goods? Why is it important for marketing?

What does make influence on choosing distribution channels?

What distribution strategies do you know? Describe each of them.

Define marketing logistics. What does it cover?

What are the functions of the wholesale traders?

What is the difference between the wholesale and retail trade?

Task No.1

Choose a retailer and analyse what type is the store. What advantages and disadvantages does it have?

Task No.2

What kind of market coverage strategy might be appropriate for:

- a bar of chocolate?
- a toothbrush?
- a home computer?
- a marketing textbook?

Give a reason in each case.

Task No.3

Discuss how a power-dependency relationship might work between:

- A large brand manufacturer and a large supermarket chain;
- A small manufacturer and a large supermarket chain;
- A multinational manufacturer of hi-fi equipment and UK based electrical goods retailer;
- A multinational manufacturer of hi-fi equipment and LT/LV based electrical goods retailer;
- A small manufacturer of high-technology, specialised components and an export agent.

Task No.4

Discuss how internet can be used for distribution of goods or services?

Chapter 9.

PROMOTION

The main aim of this chapter *is to introduce students to promotion mix and the advantages of each component.*

Concepts

Pull strategy – an attempt by a producer to use heavy advertising to persuade final users to buy a product, so „pulling" the product through the distribution channel to the point of sale.

Push strategy – an attempt by manufacturer to push the product towards the customer.

Integrated marketing communication concept – the concept or principle that a company should link all its promotions, either of its own image or of the products and services it sells, in a consistent way on several different levels.

Promotion mix – is the act of combining promotional methods such as advertising, new media, direct mail marketing, selling, use of retail displays, and merchandising for the sale of products and services.

Public relations – building up and keeping good relations between an organisation and the public, or an organisation and its employees, so that people know and think well of what the organisation is doing.

Marketing communication is a fundamental and complex part of a company's marketing efforts. It can be described as all the messages and media you deploy to communicate with the market.

Marketing communication includes advertising, direct marketing, branding, packaging, your online presence, printed materials, PR activities, sales presentations, sponsorships, trade show appearances and more.

Marketing communication has **two objectives**. One is to create and sustain demand and preference for the product. The other is to shorten the sales cycle.

Creating preference is often a longer-term effort that aims at using communication tools to help position your product or company in the minds of the target customer.

Positioning and building a brand takes time and requires a certain consistency (not just in the communication efforts themselves, but also in regards to the core elements of product, pricing, and distribution) and therefore represents a significant commitment for the company.

Establishing preference by building a brand will impact market share, profitability and even your access to talent - and thus provides long-term value for the company.

Shortening the sales cycle means assisting your sales and channel partners in their efforts to identify, engage and deliver a customer. Understanding the customer's buying process brings critical insight into how one can shorten the sales cycle.

In the case of high-tech products, the sales cycle involves considerable amounts of customer education in the early stages of the process. Marketing communication must focus on creating, packaging and delivering relevant information to the buyer throughout the buying process in order to sales meet this education need. In general, the communication techniques employed to shorten the sales cycle are by nature more tactical than those used in building a brand.

Integrated marketing communication is a management concept that is designed to make all aspects of marketing communication such as advertising, sales promotion, public relations, and direct marketing work together as a unified force, rather than permitting each to work in isolation.

Integrated Marketing Communications is a simple concept. It ensures that all forms of communications and messages are carefully linked together (Belch, Belch, 2012).

At its most basic level, Integrated Marketing Communications, or IMC, as we will call it, means integrating all the promotional tools, so that they work together in harmony.

Promotion is one of the Ps in the marketing mix. Promotion has its own mix of communications tools.

All of these communications tools work better if they work together in harmony rather than in isolation. Their sum is greater than their parts - providing they speak consistently with one voice all the time, every time.

Although Integrated Marketing Communications requires a lot of effort it delivers many benefits. It can create competitive advantage, boost sales and profits, while saving money, time and stress.

IMC wraps communications around customers and helps them move through the various stages of the buying process. The organisation simultaneously consolidates its image, develops a dialogue and nurtures its relationship with customers.

This 'Relationship Marketing' cements a bond of loyalty with customers which can protect them from the inevitable onslaught of competition. The ability to keep a customer for life is a powerful competitive advantage.

IMC also increases profits through increased effectiveness. At its most basic level, a unified message has more impact than a disjointed myriad of messages. In a busy world, a consistent, consolidated and crystal clear message has a better chance of cutting through the 'noise' of over five hundred commercial messages which bombard customers each and every day.

Carefully linked messages also help buyers by giving timely reminders, updated information and special offers which, when presented in a planned sequence, help them move comfortably through the stages of their buying process... and this reduces their 'misery of choice' in a complex and busy world (Belch, Belch, 2012).

Un-integrated communications send disjointed messages which dilute the impact of the message. This may also confuse, frustrate and arouse anxiety in customers. On the other hand, integrated communications present a reassuring sense of order.

Finally, IMC saves money as it eliminates duplication in areas such as graphics and photography since they can be shared and used in say, advertising, exhibitions and sales literature. Agency fees are reduced by using a single agency for all communications and even if there are several agencies, time is saved when meetings bring all the agencies together - for briefings, creative sessions, tactical or strategic planning. This reduces workload and subsequent stress levels - one of the many benefits of IMC.

IMC can restrict creativity. No more wild and wacky sales promotions unless they fit into the overall marketing communications strategy. The joy of rampant creativity may be stifled, but the creative challenge may be greater and ultimately more satisfying when operating within a tighter, integrated, creative brief.

In reality, marketers have to select communications tools that are most suitable for the stage which the target audience has reached. For example, advertising may be very good at raising awareness or developing interest, while free samples and sales promotions may be the way to generate trial. This is just a glimpse into some of the theory. Serious marketers read a lot more.

Despite the many benefits of Integrated Marketing Communications (or IMC); there are also many barriers. Here is how you can ensure you become integrated and stay integrated - 10 Golden Rules of Integration.

(1) Get Senior Management Support for the initiative by ensuring they understand the benefits of IMC.

(2) Integrate at Different Levels of management. Put 'integration' on the agenda for various types of management meetings - whether annual reviews or creative sessions. Horizontally - ensure that all managers, not just marketing managers understand the importance of a consistent message - whether on delivery trucks or product quality. Also ensure that Advertising, PR, Sales Promotions staff are integrating their messages. To do this you must have carefully planned internal communications, that is, good internal marketing.

(3) Ensure the Design Manual or even a Brand Book is used to maintain common visual standards for the use of logos, type, faces, colours and so on.

(4) Focus on a clear marketing communication strategy. Have crystal clear communication objectives; clear positioning statements. Link core values into every communication. Ensure all communications add value to (instead of dilute) the brand or organisation. Exploit areas of sustainable competitive advantage.

(5) Start with a Zero Budget. Start from scratch. Build a new communications plan. Specify what you need to do in order to achieve your objectives. In reality, the budget you get is often less than you ideally need, so you may have to prioritise communications activities accordingly.

(6) Think Customers First. Wrap communications around the customer's buying process. Identify the stages they go through before, during and after a purchase. Select communication tools which are right for each stage. Develop a sequence of communications activities which help the customer to move easily through each stage.

(7) Build Relationships and Brand Values. All communications should help to develop stronger and stronger relationships with customers. Ask how each communication tool helps to do this. Remember: customer retention is as important as customer acquisition.

(8) Develop a Good Marketing Information System which defines who needs what information when. A customer database for example, can help the telesales, direct marketing and sales force. IMC can help to define, collect and share vital information.

(9) Share Artwork and Other Media. Consider how, say, advertising imagery can be used in mail shots, exhibition stands, Christmas cards, news releases and web sites.

(10) Be prepared to change it all. Learn from experience. Constantly search for the optimum communications mix. Test. Test. Test. Improve each year (MMC Learning, 2014).

Promotion Mix

1. Personal Selling

Basically personal selling is one-to-one communication between seller and prospective purchaser. It generates direct contact with prospects and customers. It is one of the most expensive forms of promotion. Examples: personal meetings, telemarketing, e-mails, and correspondence.

2. Advertising

Advertising is a form of non-personal promotion. It is when companies pay to promote ideas, goods, or services in a variety of media outlets. It can be found everywhere. With advertising, a company engages in a one-way communication to the prospect or customer. Examples: magazines, newspapers, television, websites, city buses, etc.

3. Direct Marketing

Direct marketing is a type of advertising directed to a targeted group of prospects and customers rather than to a mass audience. Two forms of direct marketing are printed by mail, or direct by e-mail. The goals of direct marketing are to generate sales or leads for sales representatives to pursue. Direct marketing allows a business to engage in one-way communication with is customers about product announcements, special promotions, bulletins, customer inquiries, and order confirmations. Examples: direct mail, e-mail.

4. Sales Promotion

Sales promotion basically represents all marketing activities other than personal selling, advertising, and public relations. Sales promotions are used to stimulate purchasing and sales and the objectives are to increase sales, inform potential customers about new products, and create a positive business or corporate image. Examples: coupons, product samples, point-of-purchase displays.

5. Public Relations

Public relations activities enable an organisation to influence a target audience. Most of the time, public relation campaigns try to create a favourable image for a company, its products, or its policies. Companies give news releases to announce newsworthy developments about a company's products or services, distribution channels, facilities, operations, partners, revenues and earnings, employees, and events. **Publicity** is one tactic that public relations professionals use. This means bringing newsworthy information to the public. Examples: a campaign to encourage businesses to donate computers to schools, donating to hospitals, donating to a cause (Kotler, Kartajaya, Setiawan, 2010).

What is advertising?

Advertising is a form of communication designed to persuade potential customers to choose your product or service over that of a competitor. Successful advertising involves making your products or services positively known by that section of the public most likely to purchase them.

It should be a planned, consistent activity that keeps the name of your business and the benefits of your products or services uppermost in the mind of the consumer.

Advertising aims to:

- make your business and product name familiar to the public;
- create goodwill and build a favourable image;
- educate and inform the public;
- offer specific products or services;
- attract customers to find out more about your product or service.

There are four rules to consider when planning any advertising activity:

Aim – What is the primary purpose of the advertisement? Is it to inform, sell, produce listings or improve the image of your business?

Target – Who is the target? From which sector of the public are you trying to achieve a response? For example is it male, female, adult, teenager, child, mother, father etc.

Media – Bearing the aim and target in mind, which of the media available to you is the most suitable - i.e.: TV, radio, press or Internet?

Competitors – What are your competitors doing? Which media channel do they use? Are they successful? Can you improve on their approach and beat them in competition?

Good advertising generally elicits the following four responses:

Attention – It catches the eye or ear and stands out amid the clutter of competing advertisements.

Interest – It arouses interest and delivers sufficient impact in the message or offering.

Desire – It creates a desire to learn more or crave ownership.

Action – It spurs an action which leads to achievement of the ad's original objective - i.e.: it prompts potential customers to purchase or use your product or service (Thorson, Duffy, 2012).

Commonly used media:

- Stationery – includes letterheads, envelopes and business cards, is a means by which your business image or "name identification" is projected. Good quality stationery, used with care and attention and with a high standard of presentation, is an everyday means of presenting your business image.
- Window display or office front – an attractive, well maintained exterior with clear, bold sign writing is an essential start.
- Press advertising - includes advertising in all press such as newspapers, magazines and journals. Press advertising is suitable for image building, information dissemination and sales campaigns. It is also a very affordable option for small businesses.
- Radio

- Television
- Direct mail
- Outdoor – static advertising such as billboards, backs of street benches and bus shelters or mobile advertising displayed on buses, trains, taxis or towed signage.
- Ambient – refers to any form of advertising that occurs in a non-standard medium outside the home, and usually where your consumers are likely to be. It is limited only by your imagination and includes things like advertising on the back of shopping receipts or toilet doors at the cinema, placing branded coasters at the local pub, projecting onto buildings, advertising inside lifts or distributing branded cups.
- Cinema
- Point of Sale
- Online – include advertising on your website, advertising on other websites, creating links to your website from other websites, publishing blogs, offering online product games, social networks and forums.
- Directory listings

What is Selling?

Depending on the circumstances, a sales transaction can include one, some or all of the following stages:

Prospecting and qualifying – identifying qualified prospects i.e.: those that are likely to want or need your product or service and can afford to pay for it.

Pre-approach – undertaking research about prospects to assist in the actual selling process.

Approach – making actual contact with the prospect in person, by phone or in writing.

Presentation and demonstration – presenting and demonstrating the features and benefits of your product or service in order to convince the prospect that their want or need can be satisfied (Allen, O'toole, McDonnell, 2002).

Handling objections – demonstrating the product or service value to overcome real or perceived objections or misunderstandings that are impeding the purchase decision.

Closing – bringing the selling process to a successful conclusion by either asking for the order or responding to a positive decision from the prospect.

Follow-up – proactive or reactive contact with the purchaser to establish their satisfaction level and to address any problems that may exist.

What is Sales Promotion?

Sales promotion relates to short term incentives or activities that encourage the purchase or sale of a product or service. Sales promotions initiatives are often referred to as "below the line" activities.

Sales promotion activities can be targeted toward final buyers (consumer promotions), business customers (business promotions), retailers and wholesalers (trade promotions) and members of the sales force (sales force promotions). Here are some typical sales promotion activities:

Consumer promotions

- Point of purchase display material
- In-store demonstrations, samplings and celebrity appearances
- Competitions, coupons, sweepstakes and games
- On-pack offers, multi-packs and bonuses
- Loyalty reward programs

Business promotions

- Seminars and workshops
- Conference presentations
- Trade show displays
- Telemarketing and direct mail campaigns
- Newsletters
- Event sponsorship
- Capability documents

Trade promotions

- Reward incentives linked to purchases or sales
- Reseller staff incentives
- Competitions
- Corporate entertainment
- Bonus stock

Sales Force Promotions

- Commissions
- Sales competitions with prizes or awards

4. Public Relations

The main public relations tools include:

- News creation and distribution (media releases)
- Special events such as news conferences, grand openings and product launches

- Speeches and presentations
- Educational programs
- Annual reports, brochures, newsletters, magazines and AV presentations
- Community activities and sponsorships (Kotler, Armstrong, 2012).

Here are seven steps that will get your campaign off to the right start.

Step 1: Assess Marketing Communication Opportunities. It is important in this first step to examine and understand the needs of your target market. Who is your message going out to? Current users, influencers among individuals, decision-makers, groups, or the general public?

Step 2: What Communication Channels Will You Use? In the first step of planning you should have defined the markets, products, and environments. This information will assist you in deciding which communication channels will be most beneficial. Will you use personal communication channels such as face to face meeting, telephone contact, or perhaps a personal sales presentation? Or will the non-personal communication such as newspapers, magazines, or direct mail work better?

Step 3: Determine Your Objectives. Keep in mind that your objectives in a promotional campaign are slightly different from your marketing campaign. Promotional objectives should be stated in terms of long or short-term behaviours by people who have been exposed to your promotional communication. These objectives must be clearly stated, measurable, and appropriate to the phase of market development.

Step 4: Determine Your Promotion Mix. This is where you will need to allocate resources among sales promotion, advertising, publicity, and of course personal selling. Do not skimp on either of these areas. You must create an awareness among your buyers in order for your promotional campaign to succeed. A well rounded promotion will use all these methods in some capacity.

Step 5: Develop Your Promotional Message. This is the time that you will need to sit down with your team and focus on the content, appeal, structure, format, and source of the message. Keep in mind in promotional campaigns appeal and execution always work together.

Step 6: Develop the Promotion Budget. This is the exciting part. You must now determine the total promotion budget. This involves determining cost breakdowns per territory and promotional mix elements. Take some time to break down allocations and determine the affordability, percent of sales, and competitive parity. By breaking down these costs you will get a better idea on gauging the success potential of your campaign.

Step 7: Determine Campaign Effectiveness After marketing communications are assigned, the promotional plan must be formal defined in a written document. In this document you should include situation analysis, copy platform, timetables for effective integration of promotional elements with elements in your marketing mix. You will also need to determine how you will measure the effectiveness once it is implement. How did the actual performance measure up to planned objectives. You will need to gather this information by asking your target market whether they recognised or recall specific advertising messages, what they remember about the message, how they felt about the message, and if their attitudes toward the company was affected by the message (Burnett, 2008).

Product promotion is one of the necessities for getting your brand in front of the public and attracting new customers. There are numerous ways to promote a product or service. Some companies use more than one method, while others may use different methods for different marketing purposes. Regardless of your company's product or service, a strong set of promotional strategies can help position your company in a favourable light with not only current customers but new ones as well.

Contests are a frequently used promotional strategy. Many contests do not even require a purchase. The idea is to promote your brand and put your logo and name in front of the public rather than make money through a hard-sell campaign. People like to win prizes. Sponsoring contests can bring attention to your product (Allen, 2013).

Social media websites such as Facebook and Google+ offer companies a way to promote products and services in a more relaxed environment. This is direct marketing at its best. Social networks connect with a world of potential customers that can view your company from a different perspective. Rather than seeing your company as "trying to sell" something, the social network can see a company that is in touch with people on a more personal level. This can help lessen the divide between the company and the buyer, which in turn presents a more appealing and familiar image of the company.

Mail Order Marketing. Customers who come into your business are not to be overlooked. These customers have already decided to purchase your product. What can be helpful is getting personal information from these customers. Offer a free product or service in exchange for the information. These are customers who are already familiar with your company and represent the target audience you want to market your new products to.

Product giveaways and allowing potential customers to sample a product are methods used often by companies to introduce new food and household products. Many of these companies sponsor in-store promotions, giving away product samples to entice the buying public into trying new products.

Point-of-sale and end-cap marketing are ways of selling product and promoting items in stores. The idea behind this promotional strategy is convenience and impulse. The end cap, which sits at the end of aisles in grocery stores, features products a store wants to promote or move quickly. This product is positioned so it is easily accessible to the customer. Point-of-sale is a way to promote new products or products a store needs to move. These items are placed near the checkout in the store and are often purchased by consumers on impulse as they wait to be checked out.

The customer referral incentive program is a way to encourage current customers to refer new customers to your store. Free products, big discounts and cash rewards are some of the incentives you can use. This is a promotional strategy that leverages your customer base as a sales force.

Causes and Charity. Promoting your products while supporting a cause can be an effective promotional strategy. Giving customers a sense of being a part of something larger simply by using products they might use anyway creates a win/win situation. You get the customers and the socially conscious image; customers get a product they can use and the sense of helping a cause. One way to do this is to give a percentage of product profit to the cause your company has committed to helping.

Giving away functional **branded gifts** can be a more effective promotional move than handing out simple business cards. Put your business card on a magnet, ink pen or key chain. These are gifts you can give your customers that they may use, which keeps your business in plain sight rather than in the trash or in a drawer with other business cards the customer may not look at (Kotler, Pfoertsch, 2006).

An in-store **customer appreciation event** with free refreshments and door prizes will draw customers into the store. Emphasis on the appreciation part of the event, with no purchase of anything necessary, is an effective way to draw not only current customers but also potential customers through the door. Pizza, hot dogs and soda are inexpensive food items that can be used to make the event more attractive. Setting up convenient product displays before the launch of the event will ensure the products you want to promote are highly visible when the customers arrive.

After-Sale Customer Surveys. Contacting customers by telephone or through the mail after a sale is a promotional strategy that puts the importance of customer satisfaction first while leaving the door open for a promotional opportunity. Skilled salespeople make survey calls to customers to gather information that can later be used for marketing by asking questions relating to the way the customers feel about the products and services purchased. This serves the dual purpose of promoting your company as one that cares what the customer thinks and one that is always striving to provide the best service and product.

Push and pull strategies are promotional strategies used to get the product to its target market (Christopher, Peck, 2011).

A **push strategy** places the product in front of the customer, via a form of advertisement, to make sure the consumer is aware of the existence of the product. This type of strategy works well for low value items and impulse buy items.

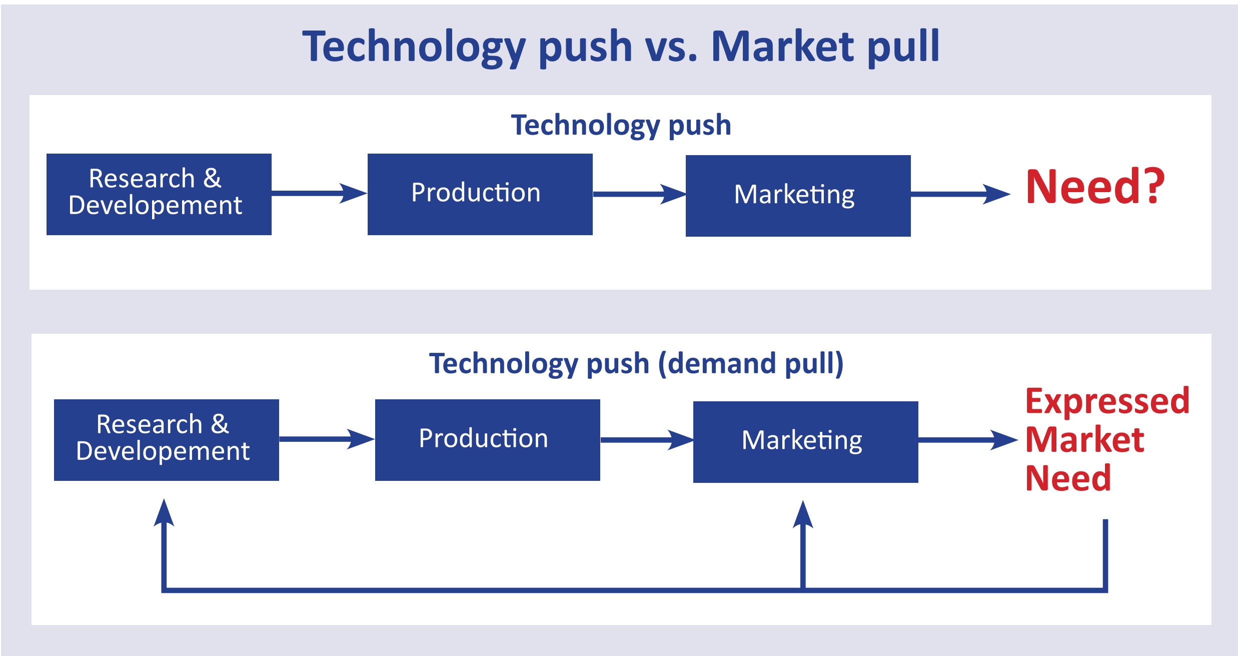

Figure 12. Push and Pull strategies (Christopher, Peck, 2011)

A **pull strategy** stimulates demand and motivates customers to actively seek out a specific product. It is aimed primarily at the end users. A strong and visible brand is needed to ensure the success of a pull strategy.

Using these strategies will create a demand for the product. With that demand, retailers will be encouraged to seek out the product and stock it on their shelves.

Self-test questions:

What is called integrated marketing communication?

What is the promotion mix?

How do you understand the sales promotion?

What is advertising and what is its purpose?

What is public relations?

Describe the personal selling process.

Task No.1

How and why might the balance of the promotional mix differ between:

- The sale of a car to a private individual; and
- The sale of a fleet of cars to an organisation for its sales representatives?

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Task No.2

For each of factor of the marketing environment, give three examples of influences on the promotional mix.

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Task No.3

What would you call the goof example of a print advertisement? Find a print advertisement and discuss the extent to which it conforms the quality and requirements.

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Task No.4

Find a current advertising campaign that uses both television and print media. Why do you think both media are being used? To what extent is each medium contributing something different to the overall message?

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Task No.5

Research a recent new product launch by a manufacturer in a consumer market. What role did sales promotions play in that launch?

Task No.6

To what extent are the sales promotion methods used in consumer markets equally applicable in B2B markets?

Task No.7

In what ways do you think a sales representative could make the sales presentation more relevant and interesting for the prospective customer?

Chapter 10.

STRATEGIC PLANNING AND MANAGEMENT OF MARKETING

The main aim of this chapter *is to introduce students to strategic planning process in marketing.*

Concepts

Marketing plan – a plan, usually annual, for a company's marketing activities, specifying expenditure and expected revenue and profits.

Marketing strategy – a strategy or long time plan for marketing activities.

Marketing is the process of developing and implementing a plan to identify, anticipate and satisfy consumer demand, in such a way as to make a profit. The two main elements of this plan are market research to identify and anticipate customer requirements and the planning of an appropriate marketing mix to meet these requirements. Market research involves gathering and recording information about consumers, market, product, and the competition in an organised way. The information is then analysed and used to inform marketing decisions.

Marketing planning can then be used:

1. to assess how well the organisation is doing in its markets;
2. to identify current strengths and weaknesses in these markets;
3. to establish marketing objectives to be achieved in these markets;
4. to establish a marketing mix for each market designed to achieve organisational objectives.

The Marketing Plan: everyone will tell you that you absolutely have to have one. Few of the people who say that, however, are able to tell you what exactly a marketing plan consists of. Creating a marketing plan for your small business should not take you a few hours. Ideally, it should take you at least a few days to do the research and have the necessary discussions — potentially even a few weeks depending on factors like the size of your market and the uniqueness of your product line(s) (Oxford Learning Lab, 2014).

Marketing planning steps:

The Executive Summary. A high-level summary of the marketing plan as a whole, and a paradox on paper: this is the last section that you should write, but the first section that should be in the finished report. It is best to keep the Executive Summary as short and sweet as possible - just a couple of sentences to sum everything up. While writing it, imagine that you are going to present this summary “elevator pitch” style. Once you have finished it, read it out loud. If it takes you longer than ten seconds to read it all, it probably needs to be simplified even further.

The Challenge. This section should contain a brief description of the product(s) and/or product line(s) that your company offers. With each description, include goals that you want to set for each product and product line (sales figures, strategic and company-wide goals, etc.). Keep the number and complexity of your goals at a maximum of three per product/product line, and remember that they need to be concise, measurable, and moderately easy to achieve (Palmer, 2011).

Situation Analysis. This section contains a snapshot of your company, your customer base, and your market at large. It should be divided into six subsections:

1. **Company Analysis:**
    - Long and Short-Term Company-wide goals.
    - The focus of your company (should fall directly in line with your mission and vision statements).
    - Analysis of the culture of your company (is your company a fast-paced shark tank, or a laid-back Ping-Pong table environment?).
    - Strengths of your company.
    - Weaknesses of your company.
    - Your company’s estimated market share.
2. **Customer Analysis:**
    - Estimate size of your customer base (i.e. how many people could potentially purchase any of your products. “Anyone” is not an answer).
    - Key Demographics of your customer base (age, social class, gender).
    - Value drivers (what about your products and/or services provides true value to your customer base?).
3. **Competitor Analysis:**
    - Market Position (are your competitors fully invested in the market, or do they only play in specific segments? Are they big or small?).
    - Strengths.
    - Weaknesses.
    - Market shares.

4. **Collaborators:** – People and companies that are key to continuing what you do.

   - Subsidiaries, joint ventures, distributors, suppliers, etc.

5. **Climate:** – “PEST” Analysis.

   - Political and legal environment (are there any specific regulations or laws governing your products?).
   - Economic environment.
   - Social and cultural environment.
   - Technological environment (are cutting-edge techs integral to your products? are there any projected updates?).

6. **SWOT Analysis:**

   - Your company’s internal strengths (what does your unique structure and/or unique employee team help you be the best at?).
   - Your company’s internal weaknesses (in what areas do your unique structure and/or unique employee team hold you back?).
   - External opportunities for your company (what is out there that you could easily take advantage of for your betterment?).
   - External threats to your company (what is out there that can potentially destroy your business if you are not careful?).

Market Segmentation. Each market has its own different segments. Understanding the relevant segments for your product(s) in your market is important, for they allow you to adjust your “marketing mix” (the “Four Ps” discussed lower) to better adapt to the different needs of each segment. Segments should be measurable, accessible, different from other segments in response to a marketing mix, durable (not constantly changing), substantially large enough to produce a profit, and homogeneous. Inside your marketing plan, listing your segments should follow a clear and predictable form, like the one listed below:

- Description.
- Percent of your overall sales this segment accounts for.
- What, exactly, this segment wants and needs.
- How this segment uses your product.
- What sort of support this segment needs.
- The best ways to advertise to and communicate with this segment.
- The price sensitivity of this segment (are they largely price elastic or price inelastic?).
- Repeat this until you feel that you have identified all of your major segments (Kotler, Keller, 2006).

Alternative Marketing Strategies: Write down details about any alternatives that you and your team considered before arriving at your current strategy. These may include eliminating a particular product or line, changing the price point of a product or line, etc.

Selected Marketing Strategy: Explain the strategy that you and your team have developed and agreed upon. Why did you choose this strategy? Why do you feel that it is the best possible strategy for the near future? Once that is on paper, put your "Four Ps" down for each product. Each product should have its own "Four Ps" – you can follow the format below:

- **Product (**Branding/Brand Name; Intended quality of the product; Scope of the product line; Warranty; Packaging)
- **Price (**List price; Discounts; Bundling; Payment terms; Leasing options (if applicable)).
- **Place** (Distribution) – (Distribution channels (do you sell this product yourself, ship it to retailers or warehouses, etc.); Channel Motivations (what sort of margins should your distributors expect, if applicable?); Criteria for evaluating your distributors; Locations; Logistics and Supply Chain)
- **Promotion (**Advertising (what types? how much of each type? what type of advertising channels - TV, print, internet, etc. – do you plan to use?); Public Relations; Promotional programs; Budget, including your break-even point; Projected results of this promotional program (impact to customer loyalty, new customer acquisition, etc.)).

Short and Long-Term Projections. This section should include forecasts of revenues and expenses, your break-even analysis, and any changes or adjustments that you predict you will need to make in the future.

The Conclusion - This is an expanded version of your Executive Summary. You should include all specific numbers (projected costs, revenues, profits, etc.).

A typical small business marketing plan might include a description of its competitors, the demand for the product or service, and the strengths and weaknesses from a market standpoint of both the business and its competitors.

Other elements usually contained in a marketing plan include:

- Description of the product or service, including special features
- Marketing budget, including the advertising and promotional plan
- Description of the business location, including advantages and disadvantages for marketing
- Pricing strategy
- Market segmentation (specialising in specific niche markets or, if mass marketing, how marketing strategy might differ between different segments, such as age groups).

Like a business plan, a marketing plan is an important document that needs to be updated on a regular basis. Even five year marketing plans should be revisited periodically - at least once each year - to address changes in market conditions, demand, pricing issues, etc.

The marketing function is an essential ingredient of corporate strategy, and this marketing focus should be communicated through marketing planning into all aspects of business activity.

In choosing a marketing strategy a frequent distinction that is made is between undifferentiated marketing and differentiated marketing.

Undifferentiated marketing is where a single marketing mix is offered to the total market. In contrast differentiated market is the process of attacking the market by tailoring separate product and marketing strategies to different segments of the market, for example, the spectacles market can be broken down into fashion segments and functional segments, high price and low price segments, and segments for individuals with different types of vision problems (Business Case Studies, 2014).

It is not uncommon for people to confuse the difference between a marketing strategy and a marketing plan. The easiest way to explain the difference is like this:

Marketing strategy - is an explanation of the goals you need to achieve with your marketing efforts. Your marketing strategy is shaped by your business goals. Your business goals and your marketing strategy should go hand-in-hand.

Marketing Plan - is how you are going to achieve those marketing goals. It is the application of your strategy a roadmap that will guide you from one point to another.

A successful formula that can be used to further explain the importance on marketing strategy and marketing planning looks like this:

Marketing Strategy --> Marketing Plan --> Implementation = Success

Marketing strategy consists of:

- The “what” has to be done.
- Inform consumers about the product or service being offered.
- Inform consumers of differentiation factors.

Marketing plan consists of:

- The “how” to do it.
- Construct marketing campaigns and promotions that will achieve the “what” in your strategy.

Implementation consists of taking action to achieve items identified in marketing strategy and marketing plan.

Components of Marketing Strategy

- External Marketing Message
- Internal Positioning Goal
- Short Term Goals and Objectives
- Long Term Goals and Objectives

Marketing control is the process of taking actions or steps to bring the desired results and actual result closer. Many times actual marketing results deviate from the expected results due to the change in the government regulation or change in competitors strategy and likewise. An efficient and effective marketing control system can help in detecting such deviations and take suitable and appropriate measures to control them.

Marketing control is the process of defining the action steps, priorities and schedules by which the marketing strategy will be implemented and making sure that the company is achieving the objectives that are stated in the marketing plan within the determined budget.

Marketing control refers to the process by which a company manipulates its marketing plans to reach its original goals. This process is achieved by setting up performance standards that will ideally be reached at each step of a marketing campaign. If these standards are not being met, corrective action needs to be taken. There are many methods of achieving marketing control, which can include, but are not limited to, market research, analysis of financial signposts like market share, sales, and cash flow, and customer relations information gathered from customer feedback and service levels.

Marketing control involves the analysis of where the original plans are falling short and the steps taken to correct those problems. The problems need to be identified before any action can be taken, lest more damage be done. Once the problems are identified, then the proper method of marketing control may be exerted in an effort to bring about the desired goals (Kortler, Armstrong, 2012).

Measurable such as sales reports or cash flow totals are a concrete way to determine what type of marketing control needs to take place. Marketing managers can use these numbers to figure out whether they are receiving the desired return on their marketing investment. If not, corrective action needs to take place. This may come in the form of pricing changes to the product or service in an attempt to boost sales or profit, additional promotional initiatives to increase the visibility of the product or service, or, if drastic action is necessary, a complete overhaul of the marketing campaign.

Self-test questions:

What is the scope of marketing strategic planning?

What marketing strategies do you know? Describe each of them.

What parts should a marketing plan contain?

What determines the marketing budget?

How it works and what is the typical marketing control?

Task No.1

To what extent do you think that market leadership is the best competitive position to aspire to?

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Task No.2

Define the main factors influencing organisation's marketing strategy.

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Task No.3

Use SWOT analysis of the chosen company. What are the implications of your analysis for the company's short and long term priorities?

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Task No.4

Discuss the importance of market and sales forecasting in the marketing planning process and outline the relative advantages and disadvantages of different forecasting methods.

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Task No.5

Discuss the role played by control and evaluation in both the planning and implementation of marketing strategies and programmes.

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Task No.6

What marketing strategy would you choose for innovations or technologies selling company? Why?

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Task No.7

What differences of B2C and B2B marketing plan can you think of? Comment your opinion.

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