NATIONAL 6

BUSINESS MANAGEMENT

MARKETING NOTES

Topic 1 - Marketing

What is a market?

A market can be defined as a meeting place for buyers (consumers) and sellers. Markets can be set up in a shop, restaurant, over the telephone/ internet, at a car boot sale, etc.

A market consists of the individuals or organisations who are actual or potential buyers of a product or service. Markets may be classified as consumer markets or industrial markets.

Consumer markets are made up of individuals who purchase goods or services for personal or domestic use. They make most of their purchases from retailers and buy a combination of consumable goods, such as food and durable goods such as cars, televisions, and clothes. Consumable goods are bought more frequently than durable goods.

Industrial markets are made up of organisations that purchase goods or services to use in the production of other goods and services. They buy a combination of consumable goods, such as raw materials and longer-lasting durable goods, such as machinery and equipment.

What is marketing?

Marketing Manager Required
Here is your chance to influence the spending habits of a discerning sector of the population and manage a world-famous cosmetics company. Reporting to Senior Management, you will develop and implement a marketing strategy for a range of brands. You will have responsibility for ***market research, promotion and advertising, direct mail*** activity and ***preparation of publicity material***. Additional responsibility will be for ***new product development*** and ***branding*** in order to expand our market base.

The marketing activities contained in the above job advertisement are italicised in the text.
The Chartered Institute of Marketing defines marketing as 'the process involved in identifying, anticipating and satisfying consumer requirements profitably'.

The role and importance of marketing in organisations

- **Identify**
- **Anticipate**
- **Satisfy**

1 To identify consumers' requirements

Businesses must identify what exactly a consumer wants from a product or service. There is little point in providing something that does not meet consumers' requirements – they simply will not buy it. Marketing departments aim to ensure that consumers buy products or services and that they continue to do so (that is, make repeat purchases).

Firms today face a lot of competition and consumers' expectations are increasing and becoming more sophisticated. Requirements change frequently and the marketing department must make sure the product or service is developed or altered to meet these requirements. The role of marketing is, therefore, an increasingly important one in today's business world.

Price and quality have always been important factors in whether or not a consumer will buy, but so too have prompt delivery, attractive packaging and after-sales service. Advertising and promotion play a big part in influencing consumers to buy.

2 To anticipate consumers' requirements

The role of the marketing department is to find out what consumers want today and will want in the future. Consumer trends must be considered in order to anticipate future needs. This is especially important in markets where trends and fashions change rapidly (e.g. clothing, toys), or where technological changes occur frequently (e.g. computers). It may be necessary to develop new products quickly to stay ahead of competitors.

3 To satisfy consumers' requirements

The consumer is the most important consideration for most businesses today – businesses are often said to be 'consumer (or customer) focused'. Without
consumers the business would fail. Good service and quality products that offer value for money are essential.

Prompt delivery and good after-sales service are also important, as are well presented and packaged goods. It is vital that the product is available at the right price and at the right time.
These three aims, for the majority of businesses, must be achieved profitably. There is little point in spending large amounts of money on marketing if costs are greater than revenue. However, organisations do exist where profitability is not an objective. Schools, hospitals and charities also use marketing techniques in order to become more effective in satisfying consumers' requirements.

Market Research

What is market research?

Marketing managers require information to make decisions. They need to know about the market in which the organisation is operating. Market research provides information about:

- consumers' needs and wants;
- competitors.

The cost of a wrong decision can be very high financially and in terms of missed markets. Without market research the organisation may not have enough information to come to the correct decision – they may charge a higher price than the consumer is willing to pay, or the promotion used may not appeal to the targeted market segment. Therefore, market research can provide information that allows the organisation to produce exactly what the customer wants and to produce a product which customers prefer to the competitors' products. As a result, it can increase the organisation's profits.

Two definitions of market research:

> *'Market research is the systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services.'*
>
> *'Market research is the means by which those who provide goods and services keep themselves in touch with the needs and wants of those who buy these goods and services.'*

The need for market research

An organisation will carry out market research in order to:

• Predict changes which will be required in its product or service	*A change in the customer's lifestyle or income may mean changes have to be made to a product, e.g. long-haul holidays.*
• Identify what is selling	*Which of the organisation's products are successful?*
• Identify the types of customers buying the product or service	*Who is buying the product or service?*
• Explain why things are happening in the market	*Why are people no longer buying a product? Why has the market segment changed?*

• Investigate possible courses of action	*Will people be interested in a new product?*
• Identify the size of the market	*Is the distribution effective? Is the product satisfying the consumer?*
• Discover what consumers think of the product	*Should it be modified? Is the competitor's product better?*
• Discover how much consumers are willing to pay	*Is the pricing of the product or service appropriate?*
• Discover if the promotion is appropriate	*Is the choice of promotion increasing sales?*
• Discover if the packaging is appropriate	*Is the packaging creating the correct image?*
• Identify what competition exists – now and in the future	*What action has to be taken to compete effectively?*

Methods of research

There are two main types of research:

- **Primary research**
  This is information collected by the organisation itself or by a paid market research agency.

- **Secondary research**
  This is information already collected for another purpose, e.g. government statistics.

Primary data

Primary data is gathered by **field research**. Field research is:

- gathered by observation or asking people questions
- up-to-date
- collected for the exact purpose required by the organisation
- not easily available to competitors
- time consuming to gather
- expensive to gather

The techniques of field research

Questionnaire

A questionnaire is a systematic list of questions designed to obtain information from respondents about their attitudes, values and beliefs. A questionnaire ensures that all respondents are asked the same questions in the same way.

Checklist for questionnaire design:

- write a clear, persuasive introduction, stating the purpose of the questionnaire and why the person should participate;
- assure confidentiality;
- keep questions clear, short, easy to understand and relevant;
- avoid jargon;
- don't ask questions which rely too much on the respondent's memory – people may give unreliable information as they cannot remember mundane matters, e.g. how many bottles of washing-up liquid they purchased last month;
- don't ask leading questions – where you strongly influence the answer given;
- start with easy questions and move on to more complicated ones later;
- keep sensitive questions until the end, e.g. age or income;
- group questions into topics and arrange them in a logical sequence;
- use a variety of question types to maintain interest;
- make sure instructions are clear;
- avoid terms such as 'regularly' or 'occasionally' as they mean different things to different people;
- use groupings for age or income as people are often reluctant to answer this question directly;
- close the interview with a 'filter question' – this allows you to place the respondent within a market segment according to age, income, job, etc.;
- test the questionnaire.

The following table, which contains examples of questions and their weaknesses, illustrates how difficult it is to design good questionnaires.

Question	**Faults**
1. Do you buy crisps regularly?	What type of crisps and what does regularly mean? To some people the word regularly may mean every day. To others it could mean once a week or twice a month.
2. How may times last month did you buy Tudor crisps?	This is relying too heavily on the respondent's memory and the answers are likely to be very approximate.
3. Do you think Tudor crisps are reasonably priced?	What is meant by a reasonable price? To some people it could be 20p, to others it may mean 35p.
4. Would you buy Tudor crisps if they were available in a wider range of flavours and in more colourful packaging?	The question involves two issues. First, the flavour; and second, the packaging. The answer to the first part might be 'yes' while the answer to the second might be 'no'. This question should be split into two questions.
5. Which flavours do you like best?	The question is ambiguous. One person might reply, 'cheese and onion', while another might reply, 'strong flavours'.
6. Do you think crisps are good for you?	The concept is too vague. Does the question relate to diet, nutrition or general enjoyment?
7. Do you eat crisps: Very often? Hardly ever? Frequently? Mainly at week-ends? Rarely? Never? Sometimes?	The categories of response appear in an illogical order. It would also be difficult for the respondent to distinguish easily between 'very often' and 'frequently'.
8. How much do you earn?	This is a personal question which may cause offence to many respondents.
9. Are your children allowed to eat more than one packet of crisps a day?	This is a question which may produce a negative reaction from the respondent who may feel that to answer 'yes' would convey an impression of being a parent who is unconcerned about the child's diet and nutritional requirements.

Personal interview

This is an interview in which information is obtained face to face.

Advantages	**Disadvantages**
Allows two-way communication between researcher and respondent	Interviews may be time consuming and it is difficult to find people to give up their time
Interviewer can encourage respondent to answer questions	Expensive – interviewers have to be trained and paid
Questions can be made clearer by interviewer if misunderstood	Takes time to find respondents who have the desired characteristics – age, sex, income bracket, occupation, etc.
Allows interviewees to give detailed responses if they wish and if it is appropriate to the research	Follow-up to answers given is possible

Personal interviews can vary enormously. A questionnaire in the street is less friendly and detailed than an interview in the home of the respondent and each will yield different results. A street interview will be brief and involve a broad sample group of consumers, whereas a home discussion can be exactly the opposite – detailed, personal and using a tightly defined sample group. The interviewer, rather than the interviewee, will fill out the questionnaire.

Telephone interview

This is an interview where questions are asked over the telephone.

Advantages	**Disadvantages**
Cheap	Many people find it an invasion of privacy and therefore negative or hostile responses are received
Immediate response	Only short questions may be asked – detailed questioning is impossible
Quicker than visiting people at home	
Wider geographical area can be covered	

Test marketing

This may involve selling a product in a small section of the market (e.g. a limited geographical area) to assess consumer reaction before the full launch.

Advantages	**Disadvantages**
Modifications can be made to the product before the full launch	The correct market for the product may not be chosen for the test

Assessment of customer requirements

There are a number of other market research techniques by which an organisation can assess the requirements of its customers.

Postal survey

Questionnaires can be sent out by post for people to complete themselves and return. Free gifts or entry to prize draws are often included to encourage people to reply.

Advantages	**Disadvantages**
No need for trained interviewer	Questionnaire cannot be as comprehensive as that used for a personal interview – the questions must be easy for people to understand as there is no interviewer to explain them
Cheap	Response rate is low (less than 10%)
Wide geographical area can be covered	
No interviewer bias	

Consumer panel

This is a group of people who are consulted on their reactions to a product over a period of time. For example, a panel of people using washing powder would typically consist of about 2,000 respondents recruited by personal interview. Each would be supplied with a diary in which they would be asked to keep a record of all their purchases of certain branded goods. At the end of the week (or month) the person would return the diary to the market researcher and receive a new one.

Sometimes the information is recorded electronically, e.g. a number of households throughout the country have the TV programmes they watch monitored electronically. This is fed into a central computer to provide viewing figures.

Advantages	**Disadvantages**
Can establish how consumer reaction changes over time	Difficult and expensive to choose and keep a panel for a long period of time – people get tired of filling in the diary
	Diary entries may be inaccurate or incomplete

Consumer panels are often run by large market research organisations such as Gallup to provide information for a group of product manufacturers.

Electronic surveys

One type of electronic survey is the **email survey**, which is contained within an email message or as an attached file. Respondents read the message, answer the questions and then reply to the researcher. From a business perspective these surveys are easy to develop and use as they do not require a high level of IT skills. Respondents need only basic IT skills to respond, making the collection of data straightforward.

A second type of electronic survey is the **web based survey**. Respondents are typically sent an email containing a link to the URL address for the survey. These surveys offer greater flexibility as a wide variety of response options can be used, for example check boxes and pull-down menus. Once the survey is completed the respondent simply clicks 'submit'. Statistical analysis software is used to scrutinise the data and present it as useful information, for example graphs and charts.

Electronic surveys have many advantages:

- emails can be sent 24/7 and read by the respondent when it is convenient – this eliminates the issue of time zones
- the respondent can choose to complete the survey at a time which suits them
- designing the survey is relatively easy and cost-effective
- the cost of sending the survey is low compared to mail, phone or personal survey methods
- they can be sent to a large amount of people.

Issues which may arise from using electronic surveys are:

- concerns over the privacy and anonymity of respondents' details included in the completed survey
- reluctance of respondents to transfer information over the internet
- response rate falls rapidly within 3–4 days of the survey being issued
- messages may be deleted by respondents before survey is completed
- compatibility with different operating systems and devices
- sample will contain bias as the population is unknown compared to traditional methods of selecting a sample, for example the majority of internet users are male, educated to degree level and have a higher than average income.

Secondary data

Secondary data is obtained by *desk research*, i.e. by reading through documents containing data collected for a different purpose and probably by someone else. It may therefore have to be adapted for an organisation's own purposes. Sometimes it may be insufficient on its own. However, it is much cheaper to collect than primary data.

Sources of secondary information can be split into *internal* and *external*.

Internal sources:

- Sales figures
- Stock figures
- Accounting records
- Customers' comments and complaints
- Sales representatives' reports
- Market research data gathered earlier.

External sources:

- Government and official publications – e.g. *Social and Economic Trends, Annual Abstract of Statistics,* National Income figures, Population Census figures;

- Competitors' information – e.g. *annual reports, promotional materials, price lists;*

- Trade directories and journals – e.g. *Kelly's Directory, The Grocer, Petroleum Review;*

- Market research organisations – e.g. Mintel;

- Newspapers, magazines, CD-ROMs;

- International publications – e.g. European Union, World Bank, IMF publications;

- Retail audits – e.g. Top 20 Single and Album Charts.

Information technology and market research

The way in which marketing information is collected has changed as a result of information technology. There are new sources of information available to organisations such as:

- *databases* compiled by market research agencies;

- *electronic point of sale (EPOS)* information is collected when customers make a purchase, e.g. a shop till can record how many of a particular product line are sold in a day and at what time. Bar coding has made this easier;

- *supermarket loyalty cards* can match the products being purchased against the information already held about the card holder – age, where they live, etc.

Increasingly, organisations are using computers to link stock records with consumer demand and purchasing habits. Software designed for stock control purposes can also be used to provide a great deal of information. Mail-order companies, for example, can have a complete breakdown of the purchase of their customers, what they bought, how much of it, the sizes, colours and qualities. This data can be analysed in terms of the area of the country, the age of the customers and, with other information, the income group to which they are selling. This enables organisations to determine more exactly the different segments of the market and plan their advertising and promotion accordingly.

Only as a last resort should an organisation undertake its own surveys or commission an agency to find out specific information. The cost of questionnaires and surveys is high and they take time to construct and carry out. The use of resources in this way is only justified if the information is important and cannot be obtained from any other source.

Sampling

It would be very costly and time consuming to interview *every* consumer. Therefore a representative group must be chosen, i.e. a sample of the population. It is assumed that the tastes, preferences and habits of a sample of the population represent those of the whole population. If the chosen sample is not representative, then the findings are likely to be invalid.

Sampling methods

Random sampling – The sample is selected at random, each person having an equal chance of being chosen. The main advantage of this is that no bias is involved in selection. However, it assumes that all members of the population have the same characteristics – which is clearly not the case and unless care is taken an un-representative sample will be selected.

Stratified random sampling – The sample is divided into segments based on previous knowledge about how the population is made up, e.g. income groups. A representative sample from each group could then be selected to participate in the research. This method of sampling makes the sample more representative of the population thus improving the accuracy of the research. However, it requires more administration, effort and time to carry out than simple random sampling.

Quota sampling – This method involves the population being segmented into groups which share specific characteristics. Interviewers are then given targets for the number of people out of each segment that they must interview. This method provides a more targeted method of sampling the population that may be interested in specific products or services.

Problems with market research

Market research does not *guarantee* success. For example, the research carried out before launching the new recipe for Coca-Cola (New Coke) indicated that the change would be welcomed by the public. This was not the case and the company returned to the original recipe. Likewise Levi's failed attempt to enter the market for men's suits was supported by positive feedback from research.

Market research is not always reliable. Unreliability may be due to:

- *Sampling bias*
  Results from a small group of people may turn out to be completely at variance with the reactions of the wider population.

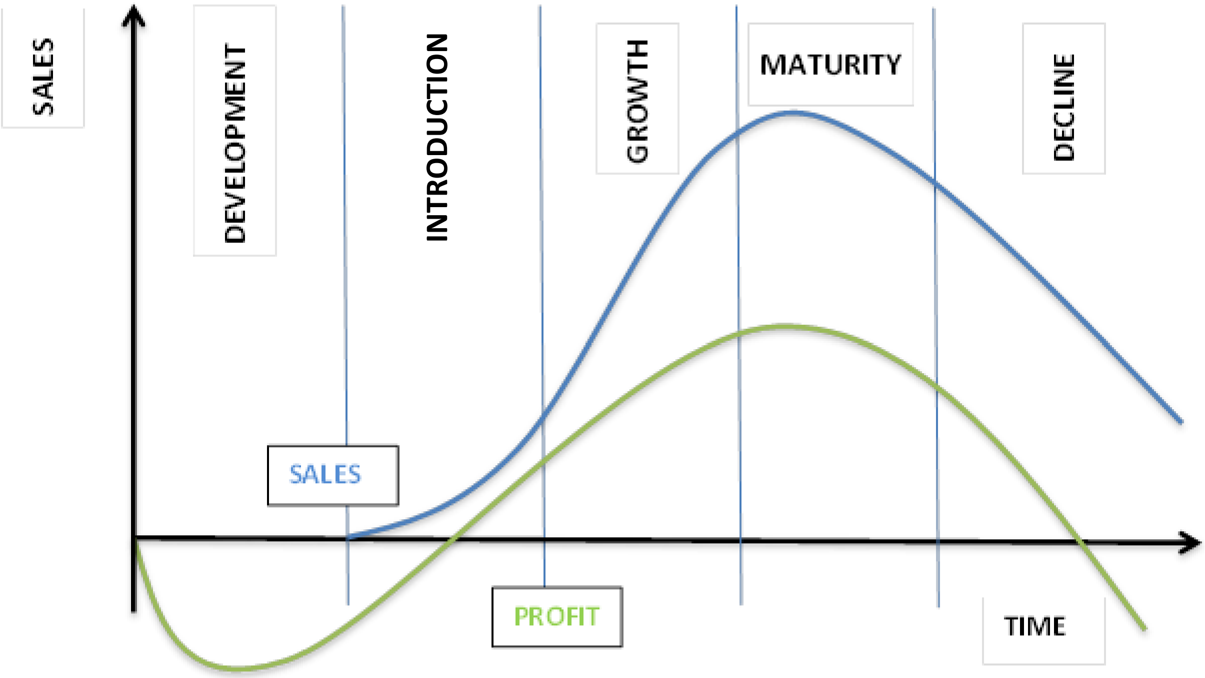
- *Human behaviour*
  While the responses of the sample may be correct at the time of the research, opinions can change.

- *Interviewer bias*
  The interviewer may have led the interviewee into saying what they think the interviewer wants them to say.

The larger the sample, the more reliable the information. Researchers do expect some deviation from the research and the figures may be adjusted (deviation formulae may be applied).

Market research data take a lot of time to gather and therefore can be very expensive. Information from secondary sources may be difficult to access and valuable time may be wasted.

Product Life Cycle



Stages of the product life cycle

Development: This stage is when the product starts its life. Many products will never progress beyond this stage as management will make the decision that they will not be profitable. During this stage a prototype of the product might be produced which can be used to gather essential market research and will assist management in deciding if the product should be launched in its current state or be modified before release into the market.

At this point the business is incurring costs to create and design the product and there will be no sales revenue, resulting in a loss.

Introduction: This is when the product is launched onto the market and the business must work hard to raise awareness and encourage consumers to choose the new product over brands or products they are currently loyal to.

At this point a loss will occur due to the high level of costs incurred to promote the product compared to relatively low sales revenue.

The length of time at this stage will depend on the product. For example, Dyson vacuum cleaners had a long introduction stage but are now the market leader as customers believe that the additional cost compared to a standard vacuum cleaner is justified.

Growth: The product becomes established and consumers are aware of it. Sales increase rapidly.

At this point the product will become profitable as sales revenue grows rapidly and the costs of promotion can be reduced.

Maturity: This is the point when sales have reached their maximum and will level off. Sales will not grow any further unless the business takes further action and at this point competitors may enter the market to take advantage of the profits available.

At this point the product will be most profitable as sales revenue is maximised and costs can be reduced as the product is well established.

Many products will remain at this stage for a long time, for example Dyson vacuum cleaners.

Decline: Most products will eventually reach the decline stage, where sales fall dramatically. This can be caused by a change in consumer tastes, advances in technology, introduction of competitors' products or the launch of an updated product.

At this point the product may remain profitable in the short term, but as sales decline rapidly a loss will be incurred.

The audience, market, sales and profit at each stage of the product life cycle are summarised below:

	Development	**Introduction**	**Growth**	**Maturity**	**Decline**
Audience	None	Early adopters	Mainstream	Late adopters	Laggards
Market	Test	Small	Growing	Large	Contracting
Sales	None	Low	High	Maximum	Decline
Profit	None	None	Growing	Maximised	Diminishing to a loss

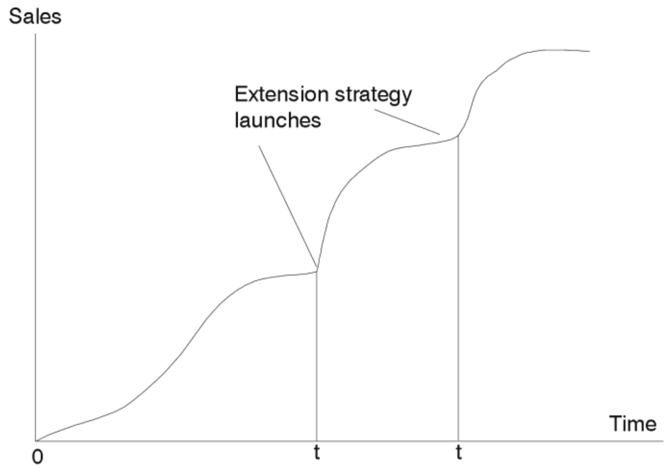
Extending the product life cycle

During the life cycle of a product the ingredients of the marketing mix may be altered in order to prolong its life. A readjustment of the mix might include:

- changing or modifying the product – possibly its shape, colour or formulation, e.g. diet drinks, Orange Kit-Kats, Pepsi Max cans;
- new variants, e.g. fun sized Mars Bars;
- altering the packaging to appeal to a different market segment;
- altering the channels of distribution;
- changing prices;
- altering the methods of promotion and advertising, e.g. special offers, free gifts and competitions.

There are many instances of 'new' or 'improved' versions of products launched on the market, usually with a great deal of publicity.

The effect of periodic injections of new life on the life cycle of a product can be illustrated as follows.



Lucozade – the rebirth of a product

Invented in 1927 by a Newcastle pharmacist, the bottle wrapped in yellow cellophane won considerable success in the convalescent drinks market, to such an extent that by 1938 it had been bought by Beechams.

The brand did well during the 1950s and 1960s, but as the nation became more health conscious during the 1970s, its high sugar content appealed less to consumers and sales declined. It had to be repositioned. Key to its rebirth was a new advertising campaign featuring decathlete Daley Thompson and more recently Liverpool footballer John Barnes. Lucozade came in smaller bottles with different flavours and was promoted as an all-round healthy solution for active, healthy lifestyles by replacing lost energy. Lucozade Light was born and more recently Lucozade Sport – the isotonic drink which promoted its constituent fluids as being perfectly in balance with body fluids.

Lucozade Sport with its innovative packaging has nearly 90% of the UK market for sports drinks and is worth £32 million a year.

Product line portfolio

A **product line** is a group of products that are closely related as they function in a similar manner and are sold to the same customer groups. For example, Heinz sells a range of tinned soups, including cream of tomato, lentil and vegetable, which form one product line.

(Images of product lines are available on the internet but cannot be shown here due to copyright.)

A **product item** is a distinct unit within the product line that is distinguishable by size, flavour, price, appearance or some other attribute. For example Heinz cream of tomato is a **product item** within the **product line** of soups.

A **product line portfolio (product mix)** is the sum of all the products a company has for sale and includes all product items and product lines. The Heinz product line portfolio includes soups (tinned and sachets), beans, pasta meals, sauces and baby foods. They have also teamed up with Weight Watchers to produce a range of ready meals.

(Again images of the various items mentioned can be found on the internet.)

Advantages of product line portfolio

- Risk is spread so if one product fails other products will remain profitable.
- The development stage of the product lifecycle is reduced as experience gained from existing products underpins new developments. Consequently products are introduced onto the market sooner, generating sales revenue more quickly.
- The chance of success of the new product is increased as existing loyal customers are more likely to try new products from a business with an established reputation.
- Increased customer satisfaction as a range of products will appeal to ever-changing customer needs and should increase sales revenue.
- Market share can be maintain and/or increased using market segmentation to attract customers with different preferences.
- New products can give a business a competitive edge over their rivals. If a product is the first of its type on the market a premium price can be charged.
- Profits from products that are at the growth and maturity stage can be used to fund the development of new products.

Disadvantages of product line portfolio

- Negative publicity for one product could damage the reputation of other products in the product line portfolio.
- Operations within the business can become complex as different machinery and processes may be required to produce a range of products.
- The research and development costs for a new product may outweigh the potential future sales revenue.
- Additional finance may be required to invest in new machinery and to train staff to produce new products.

Diversified product portfolio

Growth is often one of the primary objectives of marketing. Focusing on product line portfolios allows a business to grow internally by developing its core products and launching them into existing or new marketplaces. An alternative, and more risky, method of growth is to develop a **diversified product portfolio**, when a business sells a mix of different products.

A diversified product portfolio widens a business's activities to include new products and new market segments. Diversification is a high-risk strategy as the business is expanding to areas outside its core activities and experience and targeting different segments of the market. In addition, the business will incur potentially high costs to research and develop the new product.

One of the most successful businesses with a diversified product portfolio is Virgin. Below are the logos of some of the companies' successes.

Sir Richard Branson's reputation as the 'have a go' businessman has brought him considerable success and wealth, and his brand extends to more than 360 different companies worldwide. However, his risks have not always paid off. For example, in an attempt to complete with Coca-Cola and Pepsi he launched Virgin Cola in 1994 amid a blaze of publicity. He was confident that his brand would outsell Pepsi in the UK, but there were sceptics. An American publisher was quoted as saying: 'It would be easier to make a snowman in July in Florida than to take on Coke and Pepsi.' He was proved right in August 2009 when production of Virgin Cola ceased.

Benefits of a diversified product portfolio

- Increase sales/customers as you are appealing to new markets. This should result in higher profits.
- Can help to flatten peaks and troughs in cash flow, particularly for seasonal businesses. For example, a heating engineer will be busy in the winter months replacing boilers etc. By diversifying to installing air conditioning they will also be busy in the summer months.
- Risk is spread, ie if product A fails or is entering the decline stage of the product lifecycle, new products B and C at the introduction/growth stage should be profitable.
- Growth should give the business more financial stability therefore it will find it easier to raise finance from banks etc.

Costs of a diversified product portfolio

- Requires considerable additional expenditure to research and develop the new product.
- Cost of market research to identify new target market.
- Time-consuming as there will be a time lag between identifying the idea and launching the product onto the market. During this time costs are being incurred with no sales revenue to compensate.
- Success may take longer to achieve than growth through a product line portfolio.
- A bad reputation with one product may affect sales of existing products.

Before deciding on which strategy to follow a business must always weigh up the opportunity (benefit) presented with effort (cost) needed to turn the strategy into a success. This is known as a **cost–benefit analysis**.

Price

Price is only one of the factors that affect the purchasing decision. It is, however, an important indicator of quality and image and provides consumers with a way of making judgements about value for money, e.g. the conclusion that if one pair of training shoes costs more than another, the more expensive pair must be superior.

The importance of price

The importance of price in the marketing mix varies from one market to another. In the market for white emulsion paint, price is considered to be the most critical element in the purchasing decision. In the fashion clothing market, however, price can be one of the least relevant factors, being outweighed by style and design.

Decisions regarding price need to be made when:

- a price is to be set for the first time, e.g. when a new product is launched on the market;
- it becomes necessary to adjust the price of an existing product according to its stage in the product life cycle or what competitors are charging for a similar product.

Pricing strategies

The strategies and tactics adopted in pricing a product will generally depend on the objectives of the organisation at the time. An organisation that has an objective of profit maximisation may adopt a pricing strategy different to one that has an objective of sales maximisation. A publicly funded organisation may have different objectives from a private company and thus adopt a different pricing strategy.

Pricing strategies that organisations could consider include:

Low-price strategy

The price is set below that charged by competitors. Organisations tend to use low-price strategies when the competition in the market is strong and consumers respond very positively to small, downward changes in price, e.g. with washing powder.

Market-price strategy

There are situations when one or more of the following conditions exist:

- products are bought frequently by consumers;
- competitive products are very similar;
- a few large companies dominate supply in a specific industry.

The market for petrol is a good illustration of market-price strategy in operation.

Companies such as BP, Esso and Shell tend to set prices at an identical market level. Each is aware that they could quickly lose all their business if they set and held prices above the competition. Conversely, if they lower prices, their competitors are forced to follow suit for fear of losing their market share. There is very little to be gained from either lowering or raising the price of petrol and price is not a significant factor in the marketing mix. Consequently, the petrol companies attempt to gain market share by offering superior services at their petrol stations and by tempting drivers with free gifts and other special promotions.

High-price strategy

This can be either a long-term or a short-term policy. A long-term policy means the organisation seeks to sell a high-quality product to a select market. High prices are an essential feature of up-market products and the exclusive image is reflected in the price. Porsche cars, Timberland shoes and champagne are all examples of products whose manufacturers operate a long-term, high-price strategy.

A short-term policy is based on situations where the organisation has a temporary advantage over competitors gained, for example, by a patent. The Swiss pharmaceutical company Hoffman la Roche was able, for a number of years, to set the price of its tranquilliser drug Valium at a high level because, under international patent laws, no other organisation was permitted to manufacture these tranquillisers for a set period of time. The high price reflected the lack of competition and also the need for Roche to make substantial profits to recoup the high research and development expenditure associated with Valium.

Short-term pricing tactics

In order to gain a competitive edge, an organisation may employ a range of short-term pricing tactics which include the following:

Skimming pricing

This is a tactic used during the introductory phase of the product life cycle. At the launch of a new product, there will frequently be little competition in the market, so demand will be not be greatly affected by the price (i.e. it is relatively price inelastic). Skimming involves setting a high price for a new product. Once the first segment of consumers is saturated, the manufacturer will lower the price in order to tap fresh segments of the market. The process continues until a large section of the total market is catered for. By operating in this way the organisation avoids the risk of underpricing the product.

Penetration pricing

This is an appropriate tactic when the seller knows that the demand for a new product is likely to be affected by price (i.e. it is price elastic). A low price is set to attract customers to the product and to penetrate an existing market where there is likely to be strong competition. A policy that combines a low price with low sales may initially result in losses, but it may be the only way to overcome strong brand loyalty and persuade customers to switch to the new product.

A good example may be seen in the highly competitive market for breakfast cereals. In 1990 Nestlé launched a new product called Golden Grahams. In the knowledge that brand loyalty for breakfast cereals is strong, and that a wide range of similar products already competed in the market, Nestlé adopted a policy of penetration pricing, selling Golden Grahams at an initial price of 90p. As the product rapidly penetrated the market, sales and profitability increased and the price crept up. Within eighteen months, the price of Golden Grahams had reached £1.50, representing a price increase of 67%.

Destroyer pricing

This is a tactic employed to undermine competitors' sales. It involves reducing the price of an existing product to an artificially low level. While this may result in short-term losses, it is designed with a view to long-term market success. It is more likely to be successful when the organisation that initiates it has lower unit costs than its rivals and it is frequently used by established companies to prevent new companies or products entering the market. When the competition has been eroded or eliminated, the price is raised to previous or higher levels.
Destroyer pricing has been used by airlines such as British Airways and British Midland to prevent smaller airlines competing in the lucrative shuttle route market.

Promotional pricing

This is a tactic used to inject fresh life into an existing product or to create interest in a new product. Prices are lowered for a short period of time in the hope that consumers will purchase increased quantities of the product. In the DIY market, Texas Homecare regularly advertise periods where all the goods in their stores are reduced by 20% in an attempt to promote brand loyalty for Texas at the expense of competitors such as B&Q and Great Mills.

Another form of promotional pricing is the use of ***loss-leaders***. Supermarkets frequently use loss-leaders to boost sales. A loss-leader is a product whose price is substantially reduced by the supermarket so that it is probably contributing no profit at all. Only a small number of items sold by the supermarket are loss-leaders. The aim of selling them cheap is to give the impression that all items in the store are cheap. A shopper, seeing that Kit-Kats are 10p per packet cheaper in one supermarket, may wrongly expect all prices to be cheaper in that store.

Demand-oriented pricing

Some organisations charge different prices for a product at different times, depending on the level of demand. When demand is high, high prices are charged. Conversely, low prices are charged when demand is low. This is known as ***price discrimination***. BT, for example, charge a higher rate for telephone calls during peak periods of the working day. Holiday companies also vary the price of holidays according to the time of year.

Price and the marketing mix

Organisations may vary the prices of their products in the short run to achieve certain marketing objectives, but in the long run, pricing decisions are seldom taken in isolation from the other factors in the marketing mix. Alterations in price will frequently be accompanied by changes in promotion, advertising, packaging and product specification.

Use of price comparison websites

Price comparison websites are designed to do just what their name implies: compare the price of products and services from a range of providers, allowing the consumer to make an informed decision about which to choose in order to save money. The websites appeal to consumers as they can receive quotes from a variety of businesses in a single search. This is particularly beneficial for insurance products as it prevents the consumer having to complete multiple forms online to receive quotes from individual insurance companies.

Comparison websites exist for a range of products and services but the most well-known specialise in financial products such as insurance, mobile phone contracts, credit cards, personal loans and energy tariffs.

(Learners will know many of the companies from their television advertising campaigns. Staff may wish to show examples of these adverts, eg Compare the Market or Go Compare.)




Price comparison websites generate revenue from ‘click-throughs’ every time a potential customer views a business’s listing. They also receive commission for purchases made through their website.

Advantages to the business

- Wider exposure to the market than relying on their own website.
- A cost-effective way of promoting products/services to a large number of consumers.

Disadvantages to the business

- The cost of linking to the price comparison website.
- The business may suffer if the price comparison website makes mistakes or does not represent it favourably.

- Many consumers do not know how to use the websites effectively.
- If your cost is not one of the cheapest consumers will ignore it.
- Consumers are wary of sharing the personal data required despite protection under the Data Protection Act 1998.

Advantages to the consumer

- Save money by searching through products/services available. Consumer is empowered and can select the quote they see as best value for money for their requirements.
- Data have only to be entered once into the price comparison website, instead of entering it multiple times on each provider's website. This is convenient as more data can be gathered in a short space of time.
- There is a variety of price comparison websites to choose from therefore quotes can be validated.
- Less well-known businesses that the consumer was previously unaware of may be able to offer a better deal than high-profile companies.

Disadvantages to the consumer

- Not all companies use price comparison websites, so the consumer may miss out on getting a quote from one of the market leaders. For example, Direct Line doesn't use insurance comparison sites in order keep its prices low.
- Some companies may pay extra to have their results promoted to first position in the search results. Consumers need to have an awareness of how to understand the results of their search so they are not misled.
- It is not always clear what assumptions have been made when you compare insurance quotes. Many insurers use quotes for no-frills cover so that the company appears at the top of the results page. By the time all the extras have been added on the quote may no longer be competitive.

Place

The nature of the product or service will determine where a firm decides to sell. This is usually referred to as ***distribution***.

The channel of distribution is the route taken by a product as it passes from the producer to the consumer. The channel refers to the route taken by the ownership of the product, not the physical movement of the goods.

PRODUCER 1	**PRODUCER 2**	**PRODUCER 3**
↓	↓	↓
CONSUMER	**RETAILER**	**WHOLESALER**
	↓	↓
	CONSUMER	**RETAILER**
		↓
		CONSUMER

The above can be applied to the sale of potatoes:

1. Customer stops at a farm and buys bags of potatoes from farmer.

2. Customer visits local shop which has purchased bags of potatoes from the farmer; customer is now able to purchase as little or as much as he/she wants.

3. Customer visits supermarket and is able to buy potatoes in many sizes of bag, some pre-washed or chipped, and has a choice of many different types.

For some products or services, e.g. holidays, ***agents*** may be involved in the distribution process. Agents provide a link between the buyer and the seller in exchange for commission. Agents are often used by organisations trying to enter a foreign market: a local agent will have knowledge about the laws of the country and its trading practices.

Brokers too provide a link between buyers and sellers in such markets as insurance and share dealing. They are also involved in international commodity markets such as coffee and metals.

Direct marketing (where there are no agents, brokers or middlemen) is becoming increasingly common in the insurance market and in computers, e.g. Direct Line, Dell Computers.

The organisation must decide which channel or channels provide the most effective means of getting the product from the factory to the consumer. The method selected may have an important influence on public perception of the product. A company making soup intended for a wide market would not choose to sell it through exclusive department stores, while an expensive and exclusive perfume would not normally be distributed through a supermarket chain. How best to distribute products is not an easy decision, and failure to choose the most appropriate channel will damage sales of the product.

Physical distribution decisions

The organisation must decide on the most cost-effective method of physically moving the product in order to match the perceived needs of its customers. In this respect, the distribution management will need to take into account the projected level of demand for each of the organisation's products, and the geographical spread of that demand. Seasonal and other likely fluctuations will need to be anticipated. The optimum methods of stock control, warehousing and transportation will be considered and implemented. Organisations need to consider the relative costs and speed of the different methods of transport available to them. The nature of the product will influence this decision, e.g. if the product is one that will deteriorate quickly, it may well be cost-effective to use air transport instead of road.

New products present particular problems. If they are unlike anything that is on the market, there are no immediate guides to their distribution either from past experience or from competitors' methods. Products in the introductory stage of their life cycle are frequently distributed through specialist wholesalers and retailers. This helps to maintain greater control over the advertising and promotion that may be crucial to the initial success of the product and allow skimming pricing strategies to be implemented. During the growth and maturity stages, a greater number of intermediaries may be used in order to increase market penetration.

Factors affecting distribution

Type	**Channel**	**Example**	**Reason**
Large and dispersed	wholesalers, agents and retailers	CDs	to ensure wide distribution
Small and local	direct	farmer selling fresh eggs	dealing with small quantities, so not cost effective to have intermediaries
Segment	various	various	consider location and image of the targeted segment shop, also geographical influence here

The following also affect distribution:

- *Legal restrictions*

  Alcohol cannot be sold in UK petrol stations or to the under-18 age group. Certain drugs cannot be sold without a prescription.

- *Changes in buying habits and life style*

  Increased car ownership has meant people are willing to travel away from town centres to do their shopping.

  Increased ownership of freezers has led to the establishment of specialist frozen-food shops (e.g. Iceland).

- *Existing buying habits*

  If people tend to make most purchases of car wax in specialist hardware retailers rather than supermarkets, then the manufacturer will choose to distribute a new car shampoo primarily through specialist retailers, such as Halfords. Market research will also indicate changes taking place in consumer buying habits.

  Larger companies often set up their own distribution networks. They can afford to invest in their own lorries and warehouses.

The main channels of distribution

The wholesaler

The general function of the wholesaler is to buy goods from the manufacturer and then sell them on to the retailer. Manufacturers sell to wholesalers for the following reasons:

- The wholesaler buys in bulk which relieves the manufacturer of the cost of making a large number of small deliveries. This cuts the cost of transportation, the number of sales staff required and also the volume of paperwork – e.g. invoicing.

- The wholesaler bears the risk of holding large stocks. If it were not for the existence of the wholesaler, the manufacturer would need to tie up more capital in holding stocks of his product and would incur further costs through the need for greater storage space.

- The wholesaler breaks down the bulk supplies he receives and offers a wide variety of goods in relatively small quantities to the retailer. The wholesaler will sometimes finish off the packaging and labelling of goods.

- The wholesaler provides advice to the manufacturer. By being in the middle of the distribution process, wholesalers know what goods are selling well and they are well placed to advise retailers on what to buy and
  what not to buy, and manufacturers on what to produce and what not to produce.

Since distribution via the wholesaler would appear to offer such advantage, why is it that so many manufacturing organisations now cut out the wholesaler and prefer to sell direct to the retailer? The answer lies in a fundamental change that has taken place in the marketing of consumer goods. The development of product branding has been accompanied by a desire amongst manufacturers to maintain far greater control over the marketing of their products. By going direct to the retailer, a manufacturer is able to coordinate better the efforts of his sales force with advertising, promotion and in-store merchandising. The manufacturer no longer has to rely on the wholesaler to carry out this function.
In the food sector, for example, the gradual extinction of many small independent retailers and the growth of large supermarket chains, together with rapid improvements in long-distance road haulage, have made it easier for manufacturers to make deliveries direct from factory to retailer.

The retailer

The role of the retailer in the modern pattern of distribution is complex and varied but it is essentially that of a local supplier offering a direct service to the public. In general, retailers perform four distinct functions:

- The retailer breaks down bulk supplies of an assortment of goods and services from a range of suppliers and offers them for sale to the public.

- The retailer provides information to consumers through advertising, displays and signs, and trained sales personnel.

- The retailer stores goods, prepares them for sale, marks prices on them and displays them on the sales floor.

- The retailer physically sells these goods to consumers and offers a range of related services such as credit facilities, hire-purchase, after-sales guarantees and delivery.

The last twenty-five years have seen a revolution in the structure of the retail trade. The growth and dominance of the supermarket and the hypermarket during the 1970s and 1980s led to the extinction of a large number of independent traders. Increasingly, these powerful enterprises are moving away from the town centre to greenfield sites, where adequate car-parking facilities provide an additional customer service.

Some manufacturers can eliminate intermediaries by owning their own retail units, e.g. oil companies that own petrol stations. In practice, however, this type of channel is rare and most manufacturers rely heavily on Britain's wide shopping infrastructure to sell their products to consumers.

There are a number of different types of retailer:

- *Independent retailers*

  An independent retailer operates only one outlet and offers personal service, a convenient location, and close customer contact. Almost 80% of all retailers are independents, including many hairdressers, dry cleaners, furniture stores and corner shops. Groups of independent retailers might join together in order to benefit from bulk purchasing of stock or joint advertising. They are known as *voluntary chains*, e.g. Spar, Mace. They do so in an attempt to compete with the larger chains.

- *Multiple chains*

  A retailing company that operates more than ten branches is known as a multiple chain. Some multiples are classed as specialist stores – concentrating on a narrow range of items such as clothing (e.g. Top Shop, Dorothy Perkins and River Island). Others are variety chains that provide a range of goods, like Marks & Spencer, Dixons and Boots.

- *Supermarkets*

  A supermarket is defined as a store with at least 2,000 square feet of selling area and at least three check-out points. Supermarkets have been a key feature of shopping since the 1990s. They offer consumers a very wide range of food and other products at low prices, operating on the principle of low mark-up and rapid turnover.

Large supermarkets are known as hypermarkets or superstores and offer an even wider range of household goods at discount prices. In addition to food and clothing, they stock product lines as diverse as DIY equipment, motoring accessories, cosmetics, toys and gardening equipment. The aim of a hypermarket is to provide cheaply for all the basic shopping requirements of an average household under one roof.

- *Consumer co-operatives*

  These stores are owned by 'members' rather than shareholders and profits are distributed to customers in the form of dividends instead of being paid to shareholders.
- *Department stores*

  Department stores like Jenners in Edinburgh have a large number of different departments and employ more than twenty-five people. They tend to have an up-market image and charge higher prices for goods, many of which are exclusive and not intended for the mass market. This type of store has declined substantially in recent years.

- *Specialist stores*
  A number of specialist organisations, such as Comet, concentrate on selling large quantities of specialist products. Often these are consumer durables but they also include DIY products (e.g. B&Q) and furniture (e.g. IKEA). Such stores are typically located on the outskirts of town where overheads are low. The resulting economies together with their ability to buy in bulk ensure that these stores are able to attract consumers by offering lower prices than their city centre rivals.

- *Franchises*

  A franchise is a licence to market a product in a specified area. The person taking out the franchise puts up a sum of money as capital and is issued with equipment by the franchise company to sell or manufacture the product in which the company deals. Franchise agreements are very common in the fast-food business (e.g. McDonalds and Perfect Pizza) but there are plenty of examples in other areas of retailing (e.g. Benetton clothing shops; Dyno-Rod plumbing services; Body Shop; British School of Motoring).

  A manufacturer has some control over the quality of the product or service offered by the franchise. If standards are not maintained, the franchise may be withdrawn.

Direct selling

Direct selling is based on the principle that by cutting out the middle- men (wholesalers and retailers), organisations can sell their goods at competitive prices. Examples of direct selling are mail-order, direct response advertising, television selling. Increasingly, the Internet is becoming a method of selling direct to the consumer.

Mail-order

Mail-order companies sell goods through agents or through members of the public ordering from a free catalogue. They usually buy goods in bulk from the manufacturers and display them attractively in a glossy colour brochure. They range in size from giant organisations such as Great Universal Stores to small businesses, many of them run from private homes. Product lines are extremely varied and range from wines, tools and kitchen equipment to clothing, books and recorded music.

Direct-response advertising

A number of producers place advertisements in newspapers or magazines, describing the product being offered, together with an illustration. Consumers respond directly to such adverts and place orders by post or telephone. Products sold successfully in this way tend to be those that:

- are easily recognisable to the public;
- do not require lengthy description;
- have a unique selling proposition;
- have high profit margins to offset costly advertising;
- are easy to transport and unlikely to suffer damage in transit.

Telephone selling

This involves telephoning people at home and trying to sell them the product or service, e.g. double glazing or insurance. It has the advantage that the seller is dealing directly with the consumer but it also has the serious disadvantage that many consumers find it intrusive.

Television selling

Television selling is already big business in the USA, Australia and elsewhere. On a 24-hour television shopping channel, manufacturers present their products in an informative and entertaining way (usually about four minutes for each product). During this time, viewers can use a freephone telephone line to order something and pay by quoting their credit card number.

Promotional strategies

Promotion is any form of communication used in an attempt to draw attention to a product or service. An organisation may promote its product or service to gain new customers or to retain existing ones.
The three main aims of promotion are:

- *persuading* – to persuade consumers to purchase the product;
- *informing* – to tell consumers about the product;
- *reminding* – to remind consumers that an established product still exists.

There are two main types of promotion:

- *Above the line* – Use is made of independent media such as television and newspapers, enabling businesses to reach large audiences easily. Obviously there will be those who are not really interested in the product at all so, to a certain extent, the promotion can be said to be wasted.

- *Below the line* – This type of promotion is directly controlled by the business, e.g. sales promotions, direct mail, trade fairs and personal selling. It allows businesses to target the consumer they hope will be interested in their product more directly.

Advertising

Advertisements are messages sent via the media and intended to inform or influence the people who receive them. Advertising can be classified into two broad categories: informative and persuasive. Typically an advertisement contains elements of both.

Informative advertising

When a product is first launched, sales are low because very few people know that it exists. The role of advertising here may be to inform the public of the product's existence and its particular uses. The same applies when a product has been modified or improved. In other cases, e.g. car advertising, the nature of the product may be such that a large amount of technical information has to be given and advertising again may have to be informative. Advertising that informs and educates consumers gives them greater knowledge on which to base their choice of goods and services.

The government uses advertising to inform the public – e.g. health warnings, availability of job training schemes, notification of the need to complete tax forms, etc.

Persuasive advertising

Persuasive advertising is used to persuade consumers to buy a particular product. It is often based on qualitative information and may contain statements of opinion rather than fact, e.g. 'Carlsberg – probably the best lager in the world'. Persuasive advertising is normally associated with consumer products and is used heavily where differences between products are minor and demand is elastic.

Advertising decisions

An organisation has to make a number of important decisions in relation to advertising.

1. What effect does the advertising have on sales? It can influence a product's sales but it is difficult to measure the effect precisely.

2. Who is the organisation selling to? The advertiser needs to know who buys the product, why, where and when they buy it and for what purpose.

3. Why do consumers *not* buy the product or service?

4. Which medium or combination of media will work best?

Market research is the key to providing answers to these questions and determining how best to target consumers.

Advertising media can be categorised under three broad headings:

- Print media:
  newspapers, magazines, journals

- Broadcast media:
  television, radio, cinema

- Outdoor media:
  fixed posters, hoardings, on transport.

The effectiveness of advertising will often depend on selecting the most appropriate media to reach the target segment of the market.

MEDIUM	ADVANTAGES	DISADVANTAGES
Television	Exposure on a national scale	Expensive
	The advert reaches all socio-economic groups	There may not be a nationwide interest in the product, so TV advertising would not be appropriate
	Sound, vision, movement and colour can all be used	
Daily newspapers	Exposure on a national scale	Only read by particular groups
	People tend to believe what is in the papers	Can be expensive
	They have high attention value	
	Market segments closely identified with readership	
Sunday newspapers	Greater attention value since people have more time to read them	Expensive
	Large circulation	Difficult to define market segment of readership
	Advertising in colour supplements is attractive	
Local newspapers	Readers tend to scrutinise local papers more closely than they do the nationals	Local papers do not have the authority of national papers
	Greater density of readership on a local basis	Newsprint is sometimes of poor quality
Direct mail	Good for targeting market used with mailing lists	Poor strike rate if target if audience is not carefully selected
	Good for exclusive products and particular interest groups	Many consumers view it as an ‘invasion of privacy’
Independent radio	Less expensive than press and television	Relies on messages being communicated by voice – high ‘noise’ factor
	‘Captive’ audience	Difficult to target specific segments
		Listeners tend to ‘switch off’ when the adverts come on

Cinema	Messages can combine voice, image and colour	Limited market coverage
	Effective for targeting local markets and segments	Expensive to produce 'quality' adverts
Outdoor media	High visual impact	May go unnoticed – i.e. part of the scenery
	Frequently seen by passers by	High levels of environmental 'noise'
	Wide choice of locations	Can be expensive – e.g. hoardings in a football ground

The choice of advertising method will be affected by:

- cost
- the audience reached
- the advertising used by competitors
- the impact
- the law (restrictions on tobacco advertising)
- the marketing mix (may be used along with other promotions).

Controls on advertising

Advertising Standards Authority (ASA)

This is a voluntary body set up to monitor advertising in the UK. It is responsible for making sure advertisers conform to the British code of advertising and sales promotion practice. Advertisements must be legal, honest, truthful and not cause offence.

Independent Television Commission (ITC)

This is a body which controls advertising on television and radio. Some of their restrictions include current newsreaders not being allowed to endorse products, and actors not being used in commercial breaks during programmes in which they appear.

Pressure groups

Certain pressure groups seek to influence advertising, e.g. FOREST who aim to defend the rights of tobacco firms to advertise. Women's groups protest against advertisements they consider to be sexist.

Trades Descriptions Act 1968

This law states that the products must match the claims made about them in the advertising.

Other forms of promotion

Advertising alone does not sell goods and services. At best it can only stimulate interest. This interest must be converted into a buying decision by means of other marketing tools such as merchandising, distribution channels and packaging appeal.

Advertising is not even the only available promotional strategy. There are a number of others.

Sales promotion

Sales promotion describes techniques which are designed to encourage customers to make a purchase. They usually complement advertising campaigns but the essential feature of a sales promotion is that it is a short-term inducement to encourage customers to react quickly, whereas advertising is a much more long-term communication process designed to build brand image and loyalty.

There are two main types of sales promotion:

Into the pipeline
This is a promotion designed to enhance sales of a product to trade outlets and to help them sell the product to their customers. Examples include *point of sale* (POS) material, such as displays, posters, promotional videos, etc., and *sale or return* arrangements under which the supplier agrees to take back unsold stock.

Out of the pipeline
This is a promotion that helps trade outlets to persuade their customers to make a purchase. Examples include free trial packs, bonus packs and money-off coupons.

Personal selling

There are some situations where customer needs can only be satisfied by personal contact between buyer and seller, for example:

- where the customer needs special advice in the selection of the product, e.g. life insurance;

- where the customer needs special benefits not provided by the standard offering;
- where the price the seller wishes to charge and the price the buyer is prepared to pay are not in accord, and negotiation is required.

In these situations, advertising and promotion alone will not result in a sale. Where satisfying the individual needs of the customer is paramount, personal selling is essential.

Personal selling involves persuasive communication between a seller and a buyer and is designed to convince the consumer to purchase the products or services on offer. The objective of personal selling is, therefore, to *make the sale*, and it is the final piece in the jigsaw of marketing activities which have taken place beforehand.

Public relations

This is when an organisation tries to communicate with customers, shareholders, employees and the government – all of whom form the organisation's 'public'. The aim of public relations is to improve the image of its products and the image of the organisation itself.

PR activities might include:

- charitable donations;
- event sponsorship of sporting and cultural events, e.g. the Lombard RAC Rally.
- product endorsement, e.g. pop stars or sports personalities;
- press conferences and press releases.

Publicity

Public relations cost time and money. Publicity, on the other hand, does not always have to be paid for and can be generated outwith the organisation as well as from within.

For example, the mention of a company's name on a news broadcast or in a magazine article generates publicity. While this indirectly promotes the organisation and its products, the publicity may also present a threat: the media often find disasters (fires, scandals, product side- effects) more newsworthy than routine statements distributed by the organisation.

In summary, PR and publicity together can

- provide the public with information about the organisation;
- build confidence in the organisation and awareness of its products;
- develop goodwill in the community and present the organisation in a positive way;
- support and enhance other areas of the promotional mix such as advertising and selling.

Promotion

Ethical marketing

Ethics are **moral guidelines** that regulate good behaviour, therefore ethical marketing means making marketing decisions that are morally right.
Behaving ethically is not quite the same as behaving lawfully as:

- ethics is about what is right and what is wrong
- the law is about what is legal and what is illegal.

All business decision should be lawful **and** ethical. Behaving in this way is seen as good business practice and will help to build positive customer relationships and develop a reputation of being socially responsible. Fairtrade is an example of ethical marketing.

In marketing there are specific issues relating to ethics.

Market research

- Invasion of privacy – a business must collect and use data gathered appropriately, in accordance with the Data Protection Act 1998.
- Stereotyping – conclusions drawn from data collected may be unfair or inappropriate.

Advertising and promotion

- Truth and honesty – claims made by the business must be authentic and not exaggerated.
- Use of violence, sex and profanity – this is likely to offend many consumers therefore care needs to be taken to ensure it is only use at appropriate times, eg after the 9pm watershed on television.
- Controversial advertising – this type of advert aims to deliberately offend the audience by breaching the norms. Graphic images and blunt slogans are used to shock viewers and capture their attention.

Target market

- When vulnerable groups are being targeted, for example children and the elderly, they should not be exposed to high-pressure selling techniques.

Pricing

- Price fixing – this is where the price of products/services is set by agreement with competitors rather than allowing market forces to determine the price. Usually this means that prices are set artificially high to maximise profits for the business.

Most businesses follow an ethical marketing code as they believe it is what customers expect. Increasingly consumers make the conscious decision to only buy products or services from businesses that are seen to be ethical.

However, defining consumers' expectations is not easy as an individual's view of ethics will be influenced by factors such as culture, religion and upbringing. Ethical marketing should therefore aim to meet the expectations of the majority while not causing offence to the minority.

Extended marketing mix

These notes focus on the additional 3Ps (people, process and physical evidence) only.

People

The people employed by a business are integral to its success.

Employees and managers represent the business and have a substantial influence on their reputation – positive and negative. To achieve a competitive advantage it is essential that a business recruits people who are:

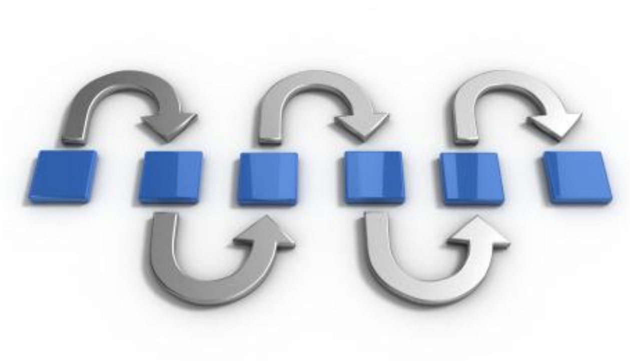
- appropriately qualified
- motivated
- committed to training and development
- able to fit into the culture of the business.

Many customers cannot separate the product or services received from the staff member who provides it, and make judgements on the business as a whole based on the people representing it. Customer service is therefore essential to achieving success and staff should have appropriate interpersonal skills, aptitude and excellent knowledge of the product or service to provide a high level of customer satisfaction.

Process

Processes ensure that all employees know what to do and how to do it. This will guarantee that the level of service and quality of products and services received by customers will be consistent.

For example, fast-food restaurants have well-defined processes in place so that all consumers will have the same experience irrespective of the individual restaurant they are dining in. This includes the sourcing and transportation of the raw materials, the storage and cooking of products, and the service received in the restaurant.



An efficient system avoids confusion, streamlines business practice and increases the chances of having satisfied customers who will become loyal, repeat customers. Customers are not interested in how the processes work – what matters to them is that they do work. If processes are inefficient or fail then customers are likely to take their custom elsewhere and share their negative experience with others, resulting in a negative image for the business.

Physical evidence

One element of physical evidence is how the products/services, people and the name of the business are represented in the market place, ie branding. A strong brand image will help a business stand out from its competitors and attract customers who have pre-existing expectations when they see, for example, the McDonalds golden arches or the Nike swoosh.

Physical evidence is very important when delivering a service as a customer cannot feel or experience the service before purchase. To overcome this a business can publish reviews from previous customers on its website, encourage positive comments on social media or become a member of recommendation websites, for example RatedPeople.com, Tripadvisor.co.uk.

This element of the marketing mix is used to distinguish a company from its competitors and can be used to justify charging a premium price. The basic service a hotel provides is a bed to sleep in. Premier Inn's position in this market is as a budget hotel providing value for money in a clean, basic environment, whereas Hilton Hotels & Resorts provide a more luxurious experience, often with extra facilities, such as pool and spa, and charge a premium price for this. The physical evidence is the condition of the room, the quality of the food, and the level and choice of service provided.

Market share

The percentage of total sales of a product or service achieved by one organisation is known as *market share*. It is often considered by businesses to be an indicator of their success – the larger the market share, the larger the profits. The advantages of having a large market share are:

- High market share companies have the power to buy their raw materials in bulk, which will reduce costs. This may be passed on to the consumer in the form of cheaper prices, thus edging smaller competitors out of the market. Otherwise, the firm will make higher profits.

- High market share companies may be able to make special components or ingredients for themselves, rather than buying them from other firms. This again will prove to be a saving in costs.

- If larger profits are made, more can be reinvested in the organisation. Additional research and development may give the company a competitive edge.

- Costs, such as marketing and transport, are spread over a larger output – making expenditure on advertising, etc. much more worthwhile.

Market growth

An organisation may be selling in a high- or low-growth market. Markets that are growing offer more potential for products to develop than declining or static markets do. High-growth markets are attractive to organisations that wish to increase their market share. It becomes very difficult to gain market share from established market leaders when market growth has slowed down.